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Academy of Management Conference – 2016

Student Entrepreneurship in Emerging Markets: Can Family Help Overcome the Institutional Voids?

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Research has been conducted with financial support from Russian Science Foundation grant (project No.14-18-01093)

Research motivation

- As of 2012, more than half of the world's population was under 30 years of age, and 89.7% of the global population below age 30 lived in emerging and developing economies [Euromonitor, 2012]
- The absence of specialized intermediaries, regulatory systems and contract-enforcing mechanisms, more commonly known as **institutional voids**, plagues emerging markets [Khanna and Palepu, 1997]
- Institutional voids are particularly harmful to young aspiring entrepreneurs who have little, if any, business knowledge, few social relations, unproven track record, and little experience in how to make sense of the entrepreneurial process [Nielsen and Lassen, 2012]

Research goal

- In this paper, we explore the institutional challenges for student entrepreneurship in emerging markets
- *Specifically:*
 - *Two types of institutional voids*, the underdeveloped capital markets and the deficiencies in the legal system
 - The compensatory role of instrumental support in the form of *two types of family resources*, financial and social

Institutional voids and entrepreneurial activity

- Entrepreneurial start-up activities are the events and behaviors of individuals who are engaged in the process of starting a new venture [Gartner et al., 2004]
- Entrepreneurial activity is embedded in an institutional context. Firms are more likely to pursue business in a country with strong institutions and low uncertainty, as this reduces their overall risk of doing business [Wan and Hoskisson, 2003]
- Emerging economies **share certain characteristics** that are not conducive for entrepreneurial activity
- University students are more vulnerable to legal and financial restrictions because of the lack of professional experience or the safety cushion of personal wealth

Research hypotheses (1)

- Low levels of disposable income
- Access to financial capital is impeded by institutional constraints
- Limited access to alternative sources of financing

H1a: *The larger the voids in the capital market of emerging economies, the narrower the scope of start-up activities undertaken by young nascent entrepreneurs*

- Restrictive regulatory regimes
- Weak property-rights protection
- Emergence of a vast 'informal' economy

H1b: *The larger the voids in the legal system of emerging economies, the narrower the scope of start-up activities undertaken by young nascent entrepreneurs*

Research hypotheses (2)

- Families are the most common financial sources for young entrepreneurs
- They can facilitate financial transactions and keep a strategic control over the venture within the family
- Social networks provided by the family are theorized to supplement the effects of experience and financial capital
- Substituting personal relationships for established rules of law enables participants to fill existing institutional voids [Peng, 2002, 2003]

H2a: *The stronger the family financial support, the weaker the effect of capital market voids on the scope of start-up activities undertaken by young nascent entrepreneurs in emerging markets*

H2b: *The stronger the family social support, the weaker the effect of legal voids on the scope of start-up activities undertaken by young nascent entrepreneurs in emerging markets*

Method

Sample & Descriptive Statistics

- Data from the 2011 Global University Entrepreneurial Spirit Students' Survey (GUESSS), a biannual online survey of students
- 9,710 students (nascent entrepreneurs) from 8 emerging economies
- Students were on average 24 years old, 49% of them were female, 59.42% were from entrepreneurial families

Statistical Procedure

- *DV* is a count of start-up activities
- *IVs*: capital market voids (GCR), legal system voids (IPRI) (reverse-coded items)
- *Moderators*: family financial capital (3 items, factor score), family social capital (2 items, factor score)
- *Hierarchical Poisson Regression (STATA)*

Results (Abridged)

Variable	Model I	Model II	Model III	Model IV	Model V	Model VI
Capital market voids		-1.273*** (0.218)	-1.088*** (0.210)	-1.138*** (0.217)	-1.061*** (0.214)	-1.108*** (0.231)
Legal system voids		0.610*** (0.102)	0.531*** (0.100)	0.559*** (0.104)	0.523*** (0.100)	0.547*** (0.108)
Family financial capital			-0.032*** (0.004)	-0.035*** (0.002)	-0.032*** (0.004)	-0.034*** (0.003)
Family social capital			0.033*** (0.006)	0.033*** (0.006)	0.024* (0.010)	0.026** (0.011)
Capital market voids x family financial capital				0.015*** (0.004)		0.011* (0.007)
Legal system voids x family social capital					0.006 (0.005)	0.005 (0.006)
Pseudo R2	0.0484	0.0484	0.0507	0.0507	0.0507	0.0508

Notes: N=9,710; dummies for 15 industries included in all specifications. Poisson regression coefficients are reported (standard errors in parentheses). Prob>chi2=0.000 for all models, all models are statistically significant; ***p<0.001, **p<0.01, *p<0.05.

Controls: age, gender, bachelor, field of study, family background, previous experience, level of commitment, number of partners, industry, university, GDP (log), NEA.

Our results are mixed

- Voids in the capital market impedes the start-up process of students **[H1a – supported]**
- Voids in the legal system had a statistically significant but positive relationship with the scope of start-up activities of young nascent entrepreneurs **[H1b – rejected]**
- *Family financial capital* had a statistically significant but negative relationship with the scope of start-up activities while *family social capital* had a statistically significant and positive relationship with the scope of start-up activities
 - *The multipliative effect of the voids in the capital markets and family financial capital was positive* **[H2a – supported]**
 - *The multiplicative effect of the voids in the legal system and family social capital was positive but insignificant* **[H2b – not supported]**

The effect of institutional voids

- *The strong, and bidirectional effect of institutional voids on the scope of student start-up activities*
- **Institutional voids in financial credit availability** blocks the access to credit and negatively influences the entrepreneurship development (acts as *an entry barrier*)
- The positive effect of **voids in the regulatory system** may be due to:
 - *Overregulation in emerging markets, or*
 - *The gap between legislation and law enforcement*

The effect of family

The importance of family financial support in overcoming capital market voids in emerging economies

- Greater levels of family financial support help the young entrepreneur to overcome capital market voids in emerging economies and leads to a greater scope of start-up activities.

Is family social capital waning in importance?

- The stronger the family social support, the more start-up activities undertaken by the young nascent entrepreneur
- However, family social capital can't help student entrepreneurs overcome legal voids
 - **Alternatively, since legal voids do not appear to derail the start-up initiative, perhaps there is no need to supplant them using family connections**

Limitations & implications

- **Limitations**

- Only two indices to measure institutional voids
- The role of family support is considered only through the prism of two types of capital
- Cross-sectional study

- **Implications**

- *for scholars*: to explore the links between institutional voids in emerging markets, family capital and student entrepreneurship
- *for public policy*: to be aware of the effects of overregulation as these can create barriers to youth entrepreneurship



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