Domains of entrepreneurial ecosystem and its impact on entrepreneurship

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Abstract

Entrepreneurship is the key determinant for economic growth because it maximizes wealth of the nation by creating new businesses based on innovation and disruptive ideas. The success of entrepreneurial venture relies on proper understanding of its ecosystem, i.e., various elements or factors associated with entrepreneurship. This paper has tried to uncover various elements of the entrepreneurial ecosystem based on the model developed by Isenberg in 2010 and how they impact on entrepreneurship. This is a literature based reflective article where various literatures are referred to link the connection between entrepreneurship and its mainly six domains: Policy, Finance, Culture, Support, Human Capital, and Markets. Literatures have shown the strong relation and impact of these domains on entrepreneurial activities but to clear the level of impact, further studies are necessary. Similarly, there is also an avenue to explore the connectivity between these domains itself.

Keywords: Entrepreneurship, Entrepreneurial Ecosystem, Domains of Entrepreneurship, Factors Affecting Entrepreneurship
Introduction

Entrepreneurship and its growth have become an important issue for the growth and development of developing countries. Business communities, scholars and policymakers are very much concerned with the growth and development of entrepreneurial mindsets especially in developing economies. Various researches have been conducted in the field of entrepreneurship and entrepreneurial ecosystems. Cavallo, Ghezzi, & Balocco, (2018) reviewed the extant research in this field and suggested some important study directions for upcoming research so that one can have better knowledge of the entrepreneurial ecosystem. Their review was based on different studies and publications in this field between 1970 to 2017. The research article has given insight on the entrepreneurial ecosystem through review of important concepts that appeared in the research and opened a platform for further studies to understand the entrepreneurial ecosystem and its connections.

Entrepreneurship as a subject used to be studied from a business management standpoint and the concept of innovation was not that much highlighted and entrepreneurial activities were considered to be happening in a known environment with proper prediction, but in today’s world, the term entrepreneurship reflects innovation, operating in extremely unknown environment which need various skills and knowledge (Linton, & Klinton, 2019). This statement has enhanced the value of understanding the entrepreneurial ecosystem in today’s dynamic business world where the success of business depends on having various skills and expertise based on proper environmental analysis.

Use of the word “ecosystem” in business and entrepreneurship has gained momentum after the publication of the research article “Predators and Pray: A New Ecology of Competition” by Moore (1993), where the business environment is termed as business ecosystem. There is lots of evidence which proves the replacement of the word entrepreneurial environment by entrepreneurial ecosystem which also indicates the instruments, organizations, networks, customs and traditions that facilitate entrepreneurship (Malecki, 2018). Most of the definitions referred by the author have highlighted the
entrepreneurial ecosystem as the integration of various components frequently between networks, having common cultural practices towards entrepreneurial activities (Malecki, 2018). Malecki (2018) further concluded that there is need for relative research in the field of entrepreneurial ecosystem at varying phases of development so that every part will benefit by developing communal grids and links, the variation in businesses and other elements, and rise in involvement of mentors and investors to help startups.

There is a growing interest in ecosystems as an approach for understanding the context of entrepreneurship at the macro level of an organizational community. It consists of all the interdependent actors and factors that enable and constrain entrepreneurship within a particular territory (Stam, & Ven, 2019, p. 809).

This research paper is intended to find the major domains of the entrepreneurial ecosystem and the impact of those elements on entrepreneurship. Most of the time entrepreneurs are not aware of the important elements of the ecosystem and could not connect their enterprise with the flow of business for higher growth.

Entrepreneurial ecosystems are a strategy that is designed to nurture economic development by promoting entrepreneurship, small business growth, and innovation. Ecosystems represent a new direction for entrepreneurship research that simultaneously increases knowledge of the complex contextual environments surrounding the entrepreneurship process, while at the same time providing useful contributions to policy debates around the role of high-growth entrepreneurship as a driver of regional economic development (Meshram, & Rawani, 2019, p. 103).

Understanding the crux of the ecosystem helps entrepreneurs to grow their business and eventually contribute to the national economy. This paper tends to look at the six domains of entrepreneurial ecosystem proposed by Isenberg in 2010: Policy, Finance, Culture, Supports, Human Capital, Markets.
Methodology

This study is purely based on literature review of secondary source. Various articles published in the area of entrepreneurship, factors affecting entrepreneurship, domains of entrepreneurial ecosystem etc. are explored and found out the different domains and their connectivity to the entrepreneurship. Further every single domain and its impact to entrepreneurship is explored individually and tried to get the connectivity in between them.

Policy

The policy is the set of ideas or plans that has been commonly agreed to apply by the group of people, institutions, or by the government. Despite the dynamism and success of entrepreneurs depending on their traits, skills, and capabilities, their activities are
affected by the policy of the government in one way or the other (Akinyemi, & Adejumo, 2018). The prevailing tax and tariff policy, monetary and fiscal policy have direct impact on the activities of an enterprise. Economic growth is the priority of every national government because it increases the employment opportunity and spending capacity of people. Economic growth can only be achieved through the growth and development of entrepreneurship in the particular country. Favorable government policies towards business, taxation, legislation, education etc. will help foster entrepreneurship in the country. Ribeiro-Soriano, & Galindo-Martín, (2012) have said “Good governance is a necessary prerequisite to support and to stimulate entrepreneurship activity that would have positive effects on economic growth”. (p. 862) Similarly, Kshetri, & Dholakia, (2011) said “Different theoretical contributions and various empirical studies have led to the accepted view that the government can attack barriers to entrepreneurship related to skills, information, market, and infrastructures by legal and non-legal influences”. (p. 117)

Government can implement either general or specific kinds of policies to support entrepreneurship in its country. General policies encompass policies affecting all the industries and commerce such as tax policy, labor law, market policy etc. which maintain the proper entrepreneurial environment. Specific policies are the policies developed by a particular institution for a specific organization for specific purposes (Akinyemi, & Adejumo, 2018). “Entrepreneurship is one instrument that policy makers can use to promote economic growth” (Ribeiro-Soriano, & Galindo-Martín, 2012, p. 862). Change and upgradation in economic development policies helps build entrepreneurship and enterprises which eventually help in developing economies of the country (Carland, & Carland, 2004).

**Finance**

Finance is the key to initiation and growth of entrepreneurship. Ideas can only be executed, opportunities can only be grabbed, when there is sufficient money to invest. Very frequently entrepreneurs have to rely on external financing which is the kind of business funding acquired from outside the company either in the form of bank loan, or investments
from individual or investment firms, or selling equity, or receiving grants. Kozmetsky, Gill & Smilor, (1985) suggested multiple stages of financing by venture capital for entrepreneurship i.e., Seed Financing, Start-up Financing, and First, Second, Third and Fourth stage financing. Seed financing is to prove the concept, Start-up financing is to develop the product and initial marketing, and remaining other stages of financing are for commercialization of the project, managing working capital, expansion of the project and eventually investing in the companies going public soon.

“The role of finance is very important in the development of entrepreneurship and Micro, Small and Medium Scale Enterprises (MSMEs)” (Somoye, 2013, p. 21). Based on time series data of 30 years to find the relationship between entrepreneurship and finance, Somoye (2013) concludes that for the growth of entrepreneurship in a country one should have access to finance and there is a strong relationship between the growth of enterprises and access to finance. “There is sufficient evidence in the literature which indicates that financing of entrepreneurship may lead to high growth in employment, productivity and consequently have positive impact on economic growth” (Somoye, 2013, p. 22).

King, & Levine, (1993) have discussed mechanisms where long-term growth of the economy is affected by the financial systems. In their design, entrepreneurship enhancing productivity is influenced by the financial systems in four ways. 1) Financial systems assess potential entrepreneurs for funding optimistic ventures. 2) It utilizes its necessary means to fund such projects. 3) It encourages investors to mitigate risk through innovations and 4) It disclose the promising benefits for coming up with innovation rather than unceasing the same old offerings. King, & Levine, (1993) further suggested, “Better financial systems improve the probability of successful innovation and thereby accelerate economic growth”. (p. 513) Though finance is the life blood for any entrepreneurial venture, it is solely not the life of entrepreneurship. There are other factors that should be considered for the development and growth of entrepreneurship in a particular country. “Access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development” (Onakoya, Fasanya, Abdulrahman, 2013, p. 135).
Culture

The effect of culture in entrepreneurship has been quite of interest in the research field. Many scholars have linked the relationship between culture and entrepreneurship in various literatures. Culture can be termed as customs, norms, values, arts and social interactions which are commonly shared as behavior in a particular nation, region, or in society. Culture is even organization specific where a particular type of behavior is followed by all the members of the organization and is termed as corporate culture.

Hayton, George, & Zahra (2002) reviewed the relationship between culture and entrepreneurship through empirical study of various literatures published in different journals publishing entrepreneurial content and cultural behavior and tried to highlight the knowledge of influence of culture to entrepreneurship. Hayton, George, & Zahra (2002) have summarized six issues for further exploration to enhance understanding between culture and entrepreneurship which covers: giving high attention among the relationship between cultural aspect and its impact on overall entrepreneurship; developing separate course of cultural aspect pertinent to entrepreneurship; considering big sample size and advanced multidimensional analyses for upcoming studies; knowledgeable and well developed mindset towards culture and entrepreneurship; developing complete theoretical design of the connection between culture and entrepreneurial outcome; and examining the relationship between national level and organizational level cultures and their impact on intrapreneurship.

Policymakers while developing policies for entrepreneurship should consider the cultural aspect of that society too. “Policy effectiveness may be limited partially by cultural factors beyond the control of policy makers. Alternatively, policies to stimulate entrepreneurship in the long run may be customized towards the cultural biases present in a particular society” (Thurik, & Dejardin, 2011, p. 59). The government should take initiative for developing business friendly and supportive national and regional level cultures so that it can enhance the entrepreneurship and entrepreneurial mindset in the country. “Culture, it appears, may condition potential for entrepreneurship, generating differences across
national and regional boundaries. One tentative conclusion is that a “supportive” national culture will, ceteris paribus, increase the entrepreneurial potential of a country” (Mueller, & Thomas, 2001, p. 52).

The orientation and motivation of an individual towards entrepreneurship is influenced by culture. “Some cultures, particularly cultures which are low uncertainty avoidance and individualistic appear to be more supportive of entrepreneurs than are other cultural configurations” (Mueller, & Thomas, 2001, p. 67). People having internal locus of control found to be more involved in entrepreneurship than that of external locus of control. There are still lots of avenues to explore the influence of culture in entrepreneurship for further research. “We believe that substantial components and manifestations of culture and its contingent influence on entrepreneurial outcomes are yet unexplored, providing new opportunities for scholarly inquiry” (George, & Zahra, 2002, p. 5).

**Supports**

Chowdhury, Audretsch, & Belitski, (2018) suggests the support of institutions is quite important for fostering entrepreneurship in the country. Empirical evidence from their research paper has suggested the changes in the quality of institutions have a higher impact on entrepreneurial quality and quantity in developing countries. Here the term “support” encompasses conferences, infrastructures, business associations, business development centers, experts, etc. Many scholars have studied the role of support systems in fostering entrepreneurship. Higher the support, higher will be the growth and development of entrepreneurship. Jansen, & Weber, (2009) stated the success of entrepreneurship whether it is coming up with innovation or survival or growth of the enterprise is dependent on what kind of support systems received. Aidis, Estrin, & Mickiewicz, (2008) also suggested that poor institutional support has contributed less growth of entrepreneurship especially in the socialist countries.

Kshetri, & Dholakia, (2011) indicated that entrepreneurship in developing countries is facing different environments and institutional mechanisms which are remarkably contrasting to developed countries. It means there is less support and conducive
environment to entrepreneurship in emerging economies. “The development of entrepreneurship-friendly institutions indicates evidence of catching-up processes in the Chinese economy” (Kshetri, & Dholakia, 2011, p. 127). China has outperformed India in entrepreneurial context because of higher institutional support for entrepreneurship. The availability of different support factors fosters entrepreneurship and boosts the morale of entrepreneurs especially in developing countries, Khan, Khan, & Alam, (2005) have contextualized the case of Bangladesh.

The socio-economic factors such as uniform commercial law and limited regulations, corruption, encouragement and support from society and family, good banking with available credit, social integration, social status, meaningful democracy, and free trade with limited tariffs, enterprise zone, available technology, and strong telecommunication and distribution networks are also important for creating entrepreneurs. (Khan, et. al. 2005, p. 33)

“Large enterprises in developing countries achieve productivity increases to a great extent simply by borrowing from the shelf of technologies available in the world” (Berry, Rodriguez, & Sandee, 2002, p. 141), though it is not evident for the SMEs but somehow those technological supports have geared enterprising activities particularly for large enterprises.

Education also equally supports entrepreneurship, if academics provides practical oriented entrepreneurial education to students so that they will get motivated towards entrepreneurship, will foster entrepreneurship in a country.

Universities have a crucial role in enhancing entrepreneurial education in order to encourage the students to become self-employed once they graduate from university. Therefore, the purpose of higher education institutions is not only to produce graduates to become job seekers, but also job creators. (Sahban, Ramalu, & Syahputra, 2016, p. 33)

While advocating to upgrade technological base for micro and small enterprises, Mutai, (2011) stated that access to finance, proper regulatory framework, infrastructural services,
all basic utilities facilities etc. will foster the micro and small enterprise sector and thus help realize sustainable economic growth.

**Human Capital**

“Human capital represents the collection of knowledge and skills – derived from education or experience – that an entrepreneur possesses and can put to use in the context of particular venturing efforts” (Dimov, 2017, p. 223). Oxford dictionary defines human capital as “the skills, knowledge, and experience possessed by an individual or population, viewed in terms of their value or cost to an organization or country.” Goldin, (2016, p.25) defined human capital as “the stock of productive skills, talents, health and expertise of the labor force, just as physical capital is the stock of plant, equipment, machines, and tools.” All these definitions indicate the importance of human capital in an entrepreneurial context since the success of enterprise largely depends on the availability of skilled human resources. Baron, (2000) has stated the success of entrepreneurs relies on their ability to think differently and their social competence. “Human capital has been widely and consistently used to predict outcomes such as engaging in venturing efforts, venturing progress, and venture emergence, performance, and survival” (Dimov, 2017, p. 222).

Obisi, & Anyim, (2012) concluded the growth and sustainability of entrepreneurship is only possible when there is proper training and development of human capital. Hence, we can say initiation, performance, continuity, and growth of entrepreneurial ventures relies on human capital. We should not think of human capital from entrepreneurs’ perspective only because human capital encompasses both entrepreneurs and professionals and they complement each other.

An economy's human-capital stock is determined by both entrepreneurs and professionals. Entrepreneurs provide the economy with new ideas, products, and ways of doing things, while professionals utilize their accumulated knowledge to facilitate economic transactions. Both skills are necessary for a healthy economy. (Iyigun, & Owen,1998, p. 454)
Entrepreneurship and entrepreneurial education also affect the development of human capital who are skilled and motivated towards entrepreneurship. For example, Martin, McNally, & Kay, (2013) have given quantitative evaluation of entrepreneurship education and training literature and shown its useful and important connection with many entrepreneurial human capital and entrepreneurial results. Further Martin, McNally, & Kay, (2013) concluded that “our results were supportive of the notion that entrepreneurship specific human capital formation can be influenced by entrepreneurship-specific education” (p. 222). “Human capital is upgraded through training and experience, success stories inspire new generations and make society more tolerant of risk and failure and wealth creation, and entrepreneurial ventures become successful and become venture-friendly customers” (Isenberg, 2011, p. 5).

There is immense importance of human capital for entrepreneurship, but very few researches have been conducted in this field. Marvel, Davis, & Sproul, (2016) stated that “despite the rich history of human capital within the economics literature, very few studies within this stream have integrated human capital, entrepreneurship, and additional economic theories” (p. 611). Marvel, et al., (2016) further concluded that their “systematic review of the human capital entrepreneurship research stream identifies the progress to date, promising research gaps, and a path for future exploration” (p. 620). These indicated the need for lots more exploration in the field of human capital and entrepreneurship.

**Markets**

Here the term market encompasses mainly reference customers, distribution channels, and local business networks. “Entrepreneurs need early customers to talk to in order to define products and levels of service and serve as references, not to mention that money from a profitable customer is the sweetest form of finance for the entrepreneur” (Isenberg, 2011, p. 7). For any business to succeed we need supportive customers, particularly in entrepreneurship there is new offering which will be easily dispersed in the market only when pioneer customers make good reference about it. “The first successful reference usually means further business” (Ruokolainen & Igel, 2004, p. 673). They are the
pioneers and they form opinions about the new product. If they are satisfied with a new product, they refer it to others which is very important for start-ups. Customer referencing has played quite a significant role in industrial marketing as Jalkala, & Salminen, (2010) concluded

that customer references are critical marketing assets for industrial suppliers, not only because they serve as means of increasing the supplier's market credibility through several functions, but also because they incorporate several internal functions that contribute to organizational learning and efficiency. (p. 983)

Distribution is considered as the other half of marketing as Dent, (2011) has said around half of the money that we pay for the product is associated with distribution. Distribution avails the products from point of manufacturing to point of consumption, and for this the role of distribution channel is quite significant. Consumer behavior these days has been changing because of the emergence of digital marketing, especially for digital products like books, newspapers and magazines, movies, music, graphically designed contents etc., the distribution channels and mechanisms have been completely on another level. Because of innovation, increased sophistication in technology and other various environmental changes, the market and distribution mechanism have become more complex, as Musso, (2010) said “private labels, online marketplaces and the organizing of multiples are three aspects where the roles of manufacturers, wholesalers, retailers and consumers are becoming more blurred” (p. 36). Musso (2010) further concluded

fast developing technologies are opening new views to great changes in regards to the habits and modality of consumption, of purchasing activities, of the interaction between companies, and of time management. These changes will require companies to search for new organizational models, new management of channel relationships, as well as new models of communication. (p. 37)

To evident it further, Bizhanova, et. al. (2019) highlighted the impacts of digital marketing in businesses as tremendous increase in scope and periphery of target customers;
significant increment in sales; changes in nature and scope of competition; and reduced requirement of material and cost.

Local business networking is equally important specially for new ventures since they don’t have sufficient knowledge and experience in that particular territory and to succeed one has to be in relationship with existing networks. In this context La Rocca, & Perna, (2014) say “the process of embedding in the existing network takes place through the development of business relationships with different partners in the network” (p. 65). Smooth operation of new business relies on the acceptance of the market in that particular place, “Operating with others for a new business implies first of all being recognized and accepted by some of the parties in the network” (p. 65). The authors further concluded that “becoming a new node in the relevant network requires that key business relationships are developed, that the new company is accepted as a partner in the relationships and acquires an identity and status in the relevant business network” (p. 71).

Aaboen, Dubois, & Lind, (2011) also concluded that those new ventures which can be able to build good networks can have multiple benefits like: can use combined resources which substantially lower the cost; can gain access to additional prospective customers; can have associates who act as advocates to refer their new product or services; the initial customers can be source of finance which somehow can reduce the dependency of venture towards other sources of finance. Zcan, (1995), has given introductory statement in his research paper that studies have prioritized the entrepreneurship’s need for business network, where he says the networks make small firms mobility and competing capacity strong and by being little extrovert firms can gain access to business connections and long-term associations at the same time specialize in local content. Similarly, Elfring, & Hulsink, (2003) said, “A network is one of the most powerful assets that anybody can possess: it provides access to power, information, knowledge and capital as well as other networks” (p. 409).
**Conclusion**

Isenberg, (2011) has summarized entrepreneurship as a profit-oriented motive which if realized will contribute to the economy and country. Isenberg, (2011) further concluded that the growth of an economy is not dependent on a country's innovation system, competitiveness, knowledge base, economic clusters, or foreign investment; rather it depends on a conducive and supportive environment for entrepreneurship and proper understanding of the ecosystem. “The shortest path to economic growth is through the deliberate and informed cultivation of an entrepreneurship ecosystem” (Isenberg, 2011, p. 13).

Entrepreneurship does not happen in vacuum, the growth and development of entrepreneurial activities in a country largely depends on the surrounding factors. This article hence tried to reflect the linkage between entrepreneurship and its growth with that of various domains of the entrepreneurial ecosystem based on the model given by Isenberg, 2010. There are various literatures available which support the connection between the growth and success of entrepreneurship and elements of the entrepreneurial ecosystem but still they lack sufficient information about the intensity of their connectivity. There is also sufficient room for further research to explore the relation between various domains because all these domains of the entrepreneurial ecosystem itself are connected and interrelated with each other, though, again there is no clear directions and intensity of their connectivity for e.g., how and in what ways culture impact the human capital, or how policy avails the access to finance etc. but it paves the path for future research direction.

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