

# Chapter 1

## Entrepreneurship and National Culture: How Cultural Differences among Countries Explain Entrepreneurial Activity

**José Guilherme Leitão Dantas**  
*Polytechnic Institute of Leiria, Portugal*

**António Carrizo Moreira**  
*University of Aveiro, Portugal*

**Fernando Manuel Valente**  
*Polytechnic Institute of Setúbal, Portugal*

### ABSTRACT

*The direct relationship between national cultural practice and entrepreneurship activities is analyzed in this chapter, based on the analysis of 44 countries. Datasets from 2012 and 2013 Global Entrepreneurship Monitor (GEM) report are used to characterize three types of entrepreneurship: early-stage entrepreneurial activity (TEA); necessity-driven entrepreneurship (NDE) and opportunity-driven (ODE) entrepreneurship. Data sets on national cultural values are used to analyze five dimensions of Hofstede's work on cultural values (power distance, individualism/collectivism, masculinity/femininity, long/short term orientation, and uncertainty avoidance). For that, the authors use the Values Survey Module 2013, which has been adapted from Hofstede's previous work from 2010 and 2008. The main conclusion is that the three types of entrepreneurship analyzed in this chapter are differently explained by the cultural and expanded models. If the country of origin and the type of economy are useful to explain TEA, they are of no added value to explain necessity-driven or opportunity-driven entrepreneurship.*

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## INTRODUCTION

Although the importance of entrepreneurship has been clearly recognized since the mid-1980s the economic and financial crisis that has been affecting particularly most of the developed European countries since 2007 has brought this issue to the fore, further encouraging research pertaining the reasons that can foster entrepreneurship.

As a matter of fact, entrepreneurship has a large potential in terms of economic growth, job creation, and regional and national competitiveness, i.e. it contributes to improve human wellbeing (Audretsch, 2007; European Commission, 2013).

The relationships between national culture and entrepreneurial activity are well established, as national culture permeates all human business activity: the individual propensity to get involved in new ventures (McGrath, MacMillan, Yang, & Tsai, 1992; Shane, 1993); the way organizations they work for address entrepreneurship; and even the behavior of organizations whose endeavor is to support entrepreneurial activity (Hofstede, 1984). There is a significant body of research relating national culture and entrepreneurship, as we will see.

However there are too many unanswered questions, i.e. extant literature does not provide an unequivocal answer: does and how the type of (national, regional, industrial or individual) culture play a role in what concerns to entrepreneurship?; does national culture influence entrepreneurial orientation, entrepreneurial activity or the creation of contextual conditions fostering or hindering entrepreneurship?; should culture be considered as a dependent variable, an independent variable or a moderator variable? Although this is only a small sample, it enables us to conclude that there are more questions than answers on this issue. Moreover, research is still unclear on how to *measure* entrepreneurship (Gartner & Shane, 1995).

Building on the traditional four Hofstede's (1980) cultural dimensions as well as on the fifth dimension proposed by Hofstede and Bond (1988),

on one hand, and on the 2012 and 2013 Global Entrepreneurship Monitor Report (GEM), on the other hand, we aim to find out:

1. The relationship between each of the five cultural dimensions and Total Entrepreneurial Activity (TEA);
2. The relationship between each of the five cultural dimension and the two main motivations (necessity and opportunity) to undertake a new venture;
3. If there is any kind of relationship between the region of origin (countries were aggregated in four clusters) and TEA and necessity-driven and opportunity-driven entrepreneurial activity;
4. Finally, if there is any kind of relationship between the country level of development and entrepreneurial activity measured by TEA and necessity-driven and opportunity-driven new ventures.

The chapter is organized as follows. In the first section we present the literature regarding the concept of entrepreneurship, the role of GEM project, and national culture, highlighting Hofstede's approach. These crucial concepts are the bedrocks from which our hypotheses arise and our empirical study is build.

After presenting the literature review, we address methodological issues. Data is based on secondary data from 2012 and 2013 GEM reports as well as from the Hofstede's dimensions. Data is based on 44 countries, from 4 geographical regions and 2 levels of economic development. From the literature review it was possible to deploy a set of 15 hypotheses (3 for each cultural dimension) which will be analyzed under two distinct scenarios: a basic model, in which only cultural values are used to analyze entrepreneurship rates and an expanded model that incorporates the region of origin as the type of economy, beyond the five cultural dimensions. We finish this section with the presentation of the results we have got. After this

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