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Wilfred Dolfsma & Francis de Lanoy

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Outside vs. Inside Entrepreneurs: When Institutions Bind and Favors Blind

Wilfred Dolfsma and Francis de Lanoy

Abstract: In some societies, entrepreneurs coming from outside of a community (i.e., outside entrepreneurs) are more active than entrepreneurs from within the community (i.e., inside entrepreneurs). Institutions and relationships that entrepreneurs entertain may hamper insiders from starting or succeeding. Institutional economics and anthropology suggest that, rather than outside entrepreneurs having more resources, the case may be that inside entrepreneurs could be hampered by existing institutions that blind and social relations that bind. Outsiders, however, may be less inclined to generate societal value in a community.

Keywords: entrepreneurship, gift-giving, inside entrepreneurs, institutions, outside entrepreneurs.

JEL Classification Codes: L26, O17, D02

The inclination to start a new business is widespread in most countries, with many entrepreneurs being motivated not just by profit, but also by concerns for social value in a local community and society. Since in developing and emerging economies entrepreneurship is wide-spread out of necessity, the expectation is that such economies would only need to rely on outsiders to start new businesses to a limited extent. Yet, in different parts of the world, (what we call) outside entrepreneurs appear to be more than proportionally active when compared to entrepreneurs that come from within the community (what we call inside entrepreneurs). Lebanese and Indians in large parts of Africa as well as Chinese in Asia are well documented examples (McCabe, Harlaftis and Minoglou 2005). Their individual entrepreneurial spirit and community structure are much heralded. As much as the spirit and sense of community of outside entrepreneurial networks may be an explanation for the success of outside entrepreneurs, we think that a neglected reason is the institutional fabric of

Wilfred Dolfsma is a professor of innovation and entrepreneurship at Loughborough University (London, UK) and director at the Glendonbrook Institute for Enterprise Development (London, UK). Francis de Lanoy is a rector of the University of Curaçao (Curaçao). The authors are grateful to Sulmahine Kwidama and Marletti Regina for collecting relevant data and information.

the host community. In Curaçao, for instance – a country in the South Caribbean – entrepreneurs, who are not community insiders, are especially prevalent in industrial sectors one would not expect them to be.

Drawing on institutional economics and anthropology, which emphasize the role of informal institutions in society, we discuss factors that shape the impact of inside and outside entrepreneurs on society. Outside entrepreneurs may be less embedded in local communities, thereby be less supportive of creating social value. While inside entrepreneurs may place greater emphasis on creating social value in their home community, they are also heavily impacted by the norms and expectations of their host environment. Among these is the expectation that the proceeds of an enterprise would be shared with a wider circle, such as an extended family. If inside social entrepreneurs cannot escape the ties and claims informally entailed by their community, they find themselves confined by (lack of) resources, which prevents them from starting a business, growing it, and ensuring its long-term viability. Outside entrepreneurs, on the other hand, do not face communal institutions that bind them and inside favors that blind them.

Opportunity-Recognizing vs. Need-Driven Entrepreneurship

The literature on entrepreneurship has been booming in the last several years. This literature has spawned a number of theories explaining the emergence of entrepreneurs and their impact on society. A major source of conceptual insight is William J. Baumol's (1990) ideas about entrepreneurship being both productive and unproductive, as well as having some darker aspects to it. These aspects, however, are yet to be fully explored.

Entrepreneurs tend to be seen as individuals who spot an opportunity and exploit it – an opportunity that others do not recognize or dare to pursue (Eckhardt and Shane 2003). Opportunity recognition may require the use of skills, including cognitive skills, which non-entrepreneurs do not usually possess. Many governments seek to motivate individuals to be more entrepreneurial, as they believe that entrepreneurship would positively influence the country's economy.

This positive connection between entrepreneurship and economic development does not necessarily hold in all circumstances (Van Stel, Carree and Thurik 2005). A country can have too many entrepreneurs for its own economic good. This is especially true for a country that does not have a social security system, since entrepreneurship can be need-driven as individuals seek (often desperately) to provide for themselves. There is no reason to assume, between otherwise similar countries, that opportunity-recognizing or need-driven entrepreneurship will differ substantially. Within any particular economy, it is reasonable to assume that need-driven entrepreneurship will be present more in industries that have low entry and exit barriers, particularly in terms of capital investment, have low scale economies, and offer relatively stable products or services. Need-driven entrepreneurship would also be expected to focus on the local market that inside entrepreneurs generally know well. However, it is remarkable to realize how this expectation – drawing on existing

entrepreneurship literature – is in need of rectification. A lack of understanding of the way entrepreneurs are embedded in a society is the reason for this erroneous expectation.

Entrepreneurs in Curaçao Society

Curaçao is a newly founded country in the South Caribbean. It is a former Dutch colony, whose economy is now catering to the financial and tourism sectors, increasingly feeling the impact of the global economy (Goede 2008). Relative to neighboring countries, with 140,000 inhabitants, Curaçao is an open and relatively wealthy economy of approximately \$15,000 GDP per capita. Wealth, however, is unequally distributed and many people in Curaçao are poor. The family structure is such that family bonds are strong not only within the immediate family nucleus, but also between the members of the extended family and even non-family. At the same time, however, many children are born out of wedlock and single-parent households are common (Abraham-van der Mark 1983, 2003; Stutterheim et al. 2013).

Need-driven entrepreneurship is relatively prevalent in Curaçao, where poverty is high due to the unequal distribution of income and the unemployment rate reaches a staggering 13 percent (CBS 2014). While the majority of these need-driven entrepreneurs operate in the formal economy, a small number of them are in the informal economy. The social security system is not well developed due to the lack of resources. Because of the open nature of its economy and the strong focus on services, competition in many local markets is tough. Recognizing and successfully utilizing opportunities in Curaçao is difficult because any opportunities that exist are either easily replicable as they tend to be in the service industry, or they are not readily exploitable at sufficient scale due to the small size of the native market. Also, local markets are highly regulated by the government.

As part of the transition process of Curaçao toward autonomous statehood from the Netherlands, a socio-economic initiative (SEI) was implemented in 2010. Its purpose was to improve the economic structure and social sectors of Curaçao society. One of the areas identified as priority was restructuring the economy in terms of (a) research in support of long term economic development, (b) improving the investment climate, (c) promoting entrepreneurship, and (d) investing in the economic infrastructure (DEZ 2010). The SEI primarily focuses on stimulating inside entrepreneurs by assisting them in startup projects and businesses, and in exploring new opportunities in general. However, in consideration of the urgency of Curaçao to strengthen its economy, the government also encourages outside entrepreneurs – mainly opportunity-driven ones.

In line with Curaçao's open economy, many businesses are owned by outside entrepreneurs. In some sectors, however, outside ownership is much more prevalent, as Table 1 shows. Paradoxically, these are sectors in the economy that would usually be dominated by need-driven insider entrepreneurs. Such sectors are commerce and hospitality, including small restaurants, bars, and supermarkets, in which outside entrepreneurs are more frequently present than one would expect. Manufacturing

and fisheries have almost equal numbers of outside and inside entrepreneurs since self-production is incentivized by the government in order to save foreign currency and to diversify the supply of goods. In the next section, we examine the wide-ranging degrees to which firms in certain industries are operated by outside entrepreneurs.

Table 1. Inside and Outside Entrepreneurs in Curaçao, 2014

Sectors		Native (inside) entrepreneurs	Non-native (outside) entrepreneurs	Total entrepreneurs	Inside entrepreneurs (%)
ISIC4	Agriculture and fisheries	20	19	39	51.3
	Mining	1	1	2	50
	Manufacturing	156	115	271	57.6
	Electricity production	1	0	1	100
	Water production	12	4	16	75
	Construction	147	92	239	61.5
	Commerce	650	817	1467	44.3
	Horeca	312	473	785	39.7
	Transport and storage	91	52	143	63.6
	ICT	81	57	138	58.7
	Finance and insurance	120	108	228	52.6
	Immobile property	122	94	216	56.5
	Specific profession	238	203	441	54
	Other business services	189	107	296	63.9
	Education	63	40	103	61.2
	Healthcare	313	118	431	72.6
	Other services	102	77	179	57
	Culture, sports, and recreation	222	202	424	52.4
Total		2840	2579	5419	52.4

Source: CBS (2014).

Inside-Entrepreneurial Disadvantage: Institutions That Bind and Gifts That Blind

One reason for the pervasiveness of outside entrepreneurs may be because societies, and the economies that support them, have the kind of institutional “furniture,” cumulatively developed over time (Veblen [1909] 1961) and differing in the extent to which it provides opportunities for entrepreneurs to prosper. Entrepreneurs in any industry are part of both the larger economy and society (Dolfsma, Finch and McMaster 2005). These relationships differ from one community to another, both in nature and strength. In some societies, the links between entrepreneurs and the members of that society are strong. The members of a community can be family members, friends, or neighbors. In some societies, the relevant societal group with which entrepreneurs tend to link is large. Families may be large, especially extended families. Friends and neighbors, even relatively distant ones, may need to be treated – depending on the given society’s social institutions – in a welcoming and inclusive

manner, and the largely informal institutional furniture of society (Veblen [1909] 1961) may prescribe as much.

These connections can help provide support for entrepreneurs in the form of business advice, other assistance, and occasional funding. Requests for assistance and support that come from members of the community, however, can be difficult to ignore. Often, people may not even need to explicitly make a request for help as entrepreneurs feel obliged to volunteer assistance. Perhaps these entrepreneurs do so because they are acting upon the social institutions of the society to which they belong, or perhaps because they fear a loss of reputation in the community if they refuse to help.

Requests for assistance, support, or “gifts” generally would be especially explicit and prevalent when the resources or products that entrepreneurs have at their disposal are visible and small or divisible. Asaf Darr (2003) claims that gift exchanges and market transactions of that nature are “inextricably intertwined” in contemporary markets (cf. Dolfsma, Finch and McMaster 2005; Granovetter 1985). Entrepreneurs cannot refuse to give without jeopardizing their position in a society, and hence undermining the potential for future business. Thus, the possibility of having to give cannot be ignored. However, while a few items gifted will not in themselves put an entrepreneur’s business at risk, the disbursement of numerous gifts to different members of a society could potentially bankrupt an enterprise.

The anthropologist Marcel Mauss ([1954] 2000) persuasively argued that all who aspire to become members of a group should expect to give, receive, and reciprocate with gifts. What constitutes an appropriate gift and how large that gift needs to be depends on the position of an individual in a society and on the existing institutions of that society in general (Dolfsma, van der Eijk and Jolink 2009). Givers and givees feel socially and morally obliged to act according to the institutions of a given society about what is an appropriate gift-giving behavior (cf. Schein 1965). Refusing to give to a community member may mean excluding this person from the community. Alternatively, to refuse a gift extended to you could be taken as a refusal to form a social relationship and to accept a role in that relationship (Ferrary 2003; Mauss [1954] 2000). The institutions that stipulate what an appropriate gift-giving behavior is are largely informal (Dolfsma, van der Eijk and Jolink 2009; Hemetsberger and Reinhardt 2009). In Curaçao, an inside entrepreneur’s refusing to offer a “special” price for an item to “family” or “friends” (in official Curaçao national language, Papiamentu requested by asking: “Dunami e na prijs di familia” or “Dunami e na prijs di amigu”) could mean excluding the people to whom such offer is not made. Moreover, as we explain below, this could also amount to an entrepreneur’s own exclusion from the family/community for failing to extend help.

By contrast, outside entrepreneurs are not (or are less) socially obliged to participate in gift-giving in the society they have settled into. Thus, informal institutions, obligating inside entrepreneurs to provide gifts to community members in certain societies, puts these entrepreneurs at a disadvantage in relation to outside entrepreneurs. Outside entrepreneurs thus tend to dominate industries in which what can be given is visible and relatively small. Thus, they do not bear the social burden of

possibly excessive gift-giving. Table 1 indicates this state of affairs by comparing the percentage of inside and outside entrepreneurs in Curaçao by economic sector. Sectors, for which entrepreneurship theory would predict to be dominated by inside entrepreneurs, are rather dominated by outside entrepreneurs. In light of this, we argue that the extent to which gifts are expected (or even demanded) by members of the community can explain the differences in sector prevalence. The smaller the potential gift, the more difficult it is for entrepreneurs to ignore the expectation of a givee for a gift, and the more frequent the requests for gifts.

This discussion enables us to make two observations about Curaçao (and similar societies) and the role of outside entrepreneurs in this society. The first observation is that, according to the literature on gift-exchange, gift-giving is out of balance at any given time, with one party always having an outstanding “debt” to repay. If one is perceived as a “gift debtor,” one’s status or reputation within a community may suffer, all else being equal (Flynn 2003). If, over time, a gift balance between any two individuals in a community is maintained, inside entrepreneurs would not be disadvantaged because any gift an inside entrepreneur gives is reciprocated. What the anthropological literature on gift-exchange also claims is that a gift balance may deteriorate over time. Imbalances may persist in a more subjective sense, too. For example, those who are generally perceived as powerful in society, usually receive more than they give. As George C. Homans (1950) puts it, “the higher a man’s social rank, the larger will be the number of persons that originate interaction for him” (cf. Darr 2003). Y. Michal Bodemann (1988) point out that powerful individuals – those who are in a position to confer benefits to others – receive more gifts than less powerful individuals do (cf. Simmel ([1908] 1950). What well-placed and influential individuals reciprocate with, however, can in subjective terms be perceived as highly valuable. A society in which outside entrepreneurs are privileged and inside entrepreneurs are not, due to the different gift-giving expectations, creates a perception of entrepreneurs as less respectable than other members of that society. Indeed, in Curaçao, entrepreneurs appear to not be as widely respected as in other societies.

Our second observation pertains to outside entrepreneurs. The relevant literature praises them as individuals, particularly their ability to become imbedded in close-knit communities (McCabe, Harlaftis and Minoglou 2005). We argue that outside entrepreneurs can be successful in a host community they enter precisely because that community is characterized by an inclusive, close-knit culture with extensive, informal support structures and gift-giving practices. The related behaviors and expectations are deeply inculcated in all members of such a society, and these behaviors and expectations are very visible in the (informal) institutional furniture of that society.

Conclusion

Entrepreneurship is generally seen as beneficial to both the economy and society. Some research has also addressed the problematic *consequences* of entrepreneurship for

society (Baumol 1990). Here we focused on a “darker side” of entrepreneurship relating to entrepreneurs’ role in a society and the informal “license” extended by that society to entrepreneurs. Drawing on social exchange theory in general and gift-exchange theory of anthropology in particular, we analyzed why in some societies (and in certain industries) there are many more outside entrepreneurs than entrepreneurship theory would predict. Entrepreneurship, opportunity- or need-driven, can largely be assumed to be equal across societies. However, in some societies, the expectations of community members toward entrepreneurs from the same community to provide assistance and gifts can be onerous to inside entrepreneurs. By contrast, this provides more opportunities for outside entrepreneurs to be successful in such a society because outsiders are not expected to engage in gift-giving or helping. As we established for Curaçao, due to the existing institutions in this society, industries where one would expect to see the mostly need-driven, local entrepreneurs, are largely dominated by outside entrepreneurs.

From a theoretical point of view, we submit that, in societies where sharing and gift-giving is expected from the members of the same society (e.g., due to extended family structures), outside entrepreneurship will be more common. Institutional economics can greatly contribute to entrepreneurship literature toward promoting a better understanding of entrepreneurship.

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