

A Study of the Relationship between Institutions and Entrepreneur Behaviors

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Abstract: This paper examines the impact and mechanisms of influence of the current institutional composition (formal and informal institutions) on entrepreneurial actions in terms of the relationship between institutions and entrepreneurial behavior, and then explores the factors associated with the impact of different institutions on the same entrepreneurial behavior and the impact of the same institution on different entrepreneurial behaviors from an uncertainty management perspective. The results of the study demonstrated that entrepreneur behaviors can be viewed as their output in response to this uncertainty, and therefore, the institutional environment can have a significant impact on entrepreneurial behavior, especially for start-up entrepreneurs. However, at the same time, the study also demonstrates that in the process of the institutional environment influencing entrepreneurial behavior, entrepreneurs are also taking the initiative to actively influence the system, in addition, they may initiate more entrepreneurial activities in their region, or they may exit their institutional region and look for a regional institution that is more suitable for their business development. As a result, the author hopes that this paper can provide some inspiration to entrepreneurs that they should more accurately assess the institutional environment of the region where entrepreneurial activities can be carried out, find the optimal institutional region to carry out entrepreneurial activities, and then actively utilize the institutional environment to carry out entrepreneurial activities and obtain higher economic benefits.

1. Introduction

Entrepreneurship, to be frank, has an important role in promoting economic and social development, both for the country and for the development of the region. Therefore, for every country that strives for development, entrepreneurship proves a hot topic in society and an important factor for the country's livelihood. Entrepreneurship not only stimulates national enthusiasm for work, but also boosts domestic demand and promotes the creation of more jobs, thus effectively alleviating the employment problem. Currently, it has been increasingly illustrated that the more active the entrepreneurial factor in a region, the more significant the economic growth, especially in the later stages of development. At the same time, for entrepreneurship, institutional factors play an extraordinary role and their indispensability cannot be overstated. Institutions, in essence, proves social rules of the game that guide people's perceptions and influence their patterns of thinking and behavior. There are two main types of institutions, formal and informal (as illustrated in Figure 1), both of them play an important role in guiding and disciplining society. Moreover, both types of institutions also play a prominent role in the field of entrepreneurship, with their influence on entrepreneurs and stakeholders. Specifically, entrepreneurs are more likely to have access to the resources they need to be more active when their actions are supported by the relevant institutions. For most entrepreneurs, most of the early entrepreneurial activities are carried out within the framework of the existing institutions, but as the entrepreneurial activities progress, the entrepreneurs' behaviors will react to the institutions and even influence the setting and development of the institutions more. Therefore, the author believes that analyzing the relationship between the system and entrepreneurial behavior, understanding the mechanism of the system's influence on entrepreneurial behavior, and exploring how entrepreneurial behavior reacts to the system will not only be contribute to optimize and adjust the system later, but also help entrepreneurs better carry out

relevant entrepreneurial activities.

2. Uncertainty and Entrepreneurial Behaviors

Currently, both foreign and domestic researchers have conducted in-depth analyses and studies on the relationship between the national legal institutional environment and entrepreneurial behavior, but their research in this area has focused more on the impact of institutions, entrepreneurial behaviors and the reasons behind it. However, few scholars have studied in depth and detail how institutions influence entrepreneurial decisions and thinking in the process of entrepreneurial activities, therefore, this paper will focus on analyzing the influence of institutional environment on entrepreneurial behaviors and the internal relationship between them [1].

Furthermore, institutions can have a large impact on entrepreneurial behaviors, and there are not only positive effects, but also negative effects. In addition, different institutions have different effects on entrepreneurs' behaviors, it not only manifests on the impact of the different degree, but also on the impact of the different behaviors of individual entrepreneurs towards the same institution. In order to truly analyze and study the relationship between institutions and the underlying causes of their influence on entrepreneurial behavior, it is important to focus on how entrepreneurs respond to the institutional environment.

2.1 Entrepreneurial Uncertainty

For entrepreneurs, starting a business is a process of capturing market opportunities, setting up a new business and managing the business. Currently, entrepreneurs can be broadly classified into three types, as demonstrated in Figure 1.

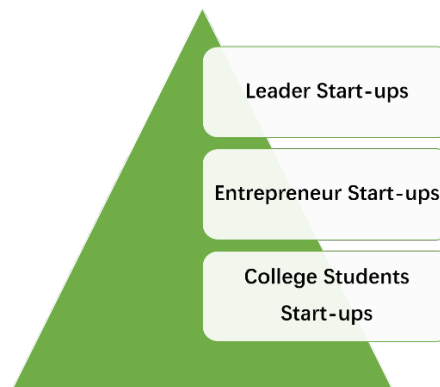


Figure 1 Types of Entrepreneurs.

At the same time, to ensure the steady growth of a new business, entrepreneurs usually invest more money in Research and Development department to improve existing products and services, but research and development activities are inherently risky and contain a high degree of uncertainty, so the success in research and development seems directly related to the survival of a new business, which can also discourage many groups with entrepreneurial ideas. At the same time, entrepreneurs also associate action points with processes and outputs and anticipate the expected benefits of the business activity, which directly determines whether the entrepreneur will be able to carry out the entrepreneurial action. These uncertainties influence the entrepreneur's thinking and actions before the start of the venture, and not only after the start of the venture, but also have a striking impact on the success of the venture [2].

Obviously, for entrepreneurs, especially in the early stage of their business, uncertainty can bring them a good supply of stress and even give a rise to an anxious and depressed state of mind, affecting their mental outlook and even having a series of negative effects on their judgment, cognition and decision making. What's worse, if entrepreneurs have difficulties in coping with the negative effects caused by uncertainty in an effective and scientific manner, they are likely to take inappropriate or even illegal actions to profit. Only by minimizing institutional uncertainty will entrepreneurs be able to improve their ability to act and thus increase their likelihood of success. In addition, besides relying

on the security brought by the system, entrepreneurs can also take proactive actions to reduce the uncertainty of commercialization, such as using big data to understand customer preferences, which allows not only entrepreneurs to adjust and optimize their current business model according to the needs of their customer base, but also entrepreneurs to better understand their industry and market demand, thus they can easily access to higher economic benefits.

In addition, the uncertainty of entrepreneurs may also be caused by their lack of up-to-date information, knowledge base and network resources. Specifically, when there remains a lack of information and knowledge, it is exceedingly difficult for entrepreneurs to understand the current market trends and market demand, and to make correct judgments, or some entrepreneurs may lack confidence in their own judgments, and thus they is likely to find it difficult to continue their entrepreneurial activities. The lack of networking resources can also make entrepreneurs feel lonely in the process of starting a business, and even constantly doubt their own decisions, which makes it difficult for them to continue their entrepreneurial activities.

To put it in a nutshell, the entrepreneur's tolerance for uncertainty consists of three main dimensions, namely, the psychological dimension, the ability dimension and the resource dimension.

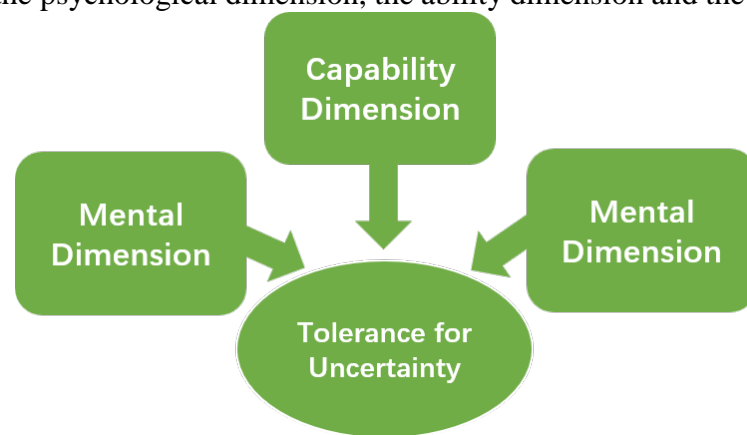


Figure 2 Entrepreneurs' tolerance for Uncertainty

2.2 Entrepreneurial Behaviors as Uncertain Management Output

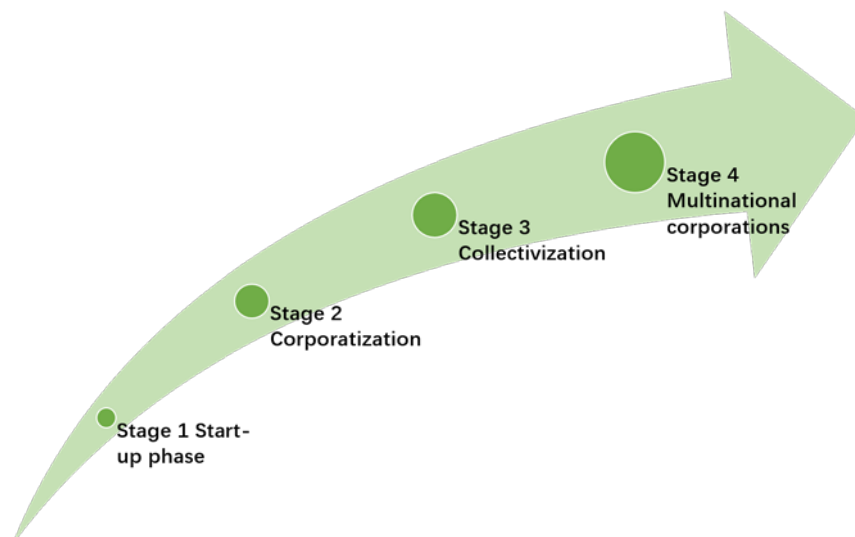


Figure 3 Three stages of entrepreneurship

For entrepreneurs, their behavior not only represents the risk and uncertainty they are willing to tolerate, but also indicates their proactive response to the uncertainty of the system. The level of uncertainty that entrepreneurs can tolerate mainly depends on the level of uncertainty they perceive and their motivation to start a business. In other words, if entrepreneurs feel lower uncertainty and their entrepreneurial motivation level is higher, then the institutional uncertainty which they can

withstand can be stronger, and they are going to be more proactive in carrying out risky and highly uncertain entrepreneurial activities. Moreover, during the process of entrepreneurship, there exist both the level of uncertainty perception and the level of entrepreneurial motivation of entrepreneurs change [3]. Thus, even though entrepreneurs have a low level of entrepreneurial motivation and a high level of perceived uncertainty, they are likely to continuously reduce this level of perceived uncertainty and increase their level of entrepreneurial motivation during the entrepreneurial process, and thus have more confidence to start a business and engage in more sustainable entrepreneurial activities. Furthermore, the level of uncertainty perceived by entrepreneurs varies across the three stages of entrepreneurship (e.g., Figure 3).

3. The Difference of Entrepreneur's Strategy and Effects with the Help of Uncertain System Management

3.1 Overview

In contemporary society, formal and informal institutions together make up the current environment which entrepreneurs behave, and this also helps them manage uncertainty. Among them, formal institutions refer to the formal composition of institutions, for example, formal social infrastructures such as laws and regulations, it adopts the official text to promulgate relevant laws and regulations, and is enforced by statutory bodies. In contrast, informal institutions are formed by informal factors such as customs, practices, norms, values and beliefs, and so on. In an entrepreneurial environment that is composed of both formal and informal systems, entrepreneurs need to comply with not only formal systems but also informal systems. Moreover, the different strengths and weaknesses of formal and informal institutions have different effects on entrepreneurial behavior. Specifically, when formal and informal systems are compatible, they have complementary effects, informal systems promote entrepreneurial compliance with formal systems, and then reinforcement motivation of individuals and organizations by formal systems, which can make up for its shortcomings

3.2 The benefits of System for Reduce Uncertainty

Entrepreneurs are able to use the uncertainty of the system to reduce the uncertainty triggered by factors such as lack of information, knowledge and resources. The presence of institutions, which remains better for entrepreneurs to analyze current market and industry development prospects facilitates entrepreneurs to better analyze current market trends and industry development prospects, which equally reduces the uncertainty of entrepreneurs.

Specifically, when entrepreneurs' behaviors are supported by the institutions in their region, entrepreneurs are more determined to carry out entrepreneurial activities and are more likely to receive more entrepreneurial resources and economic benefits. In addition, the presence of institutions helps to guide entrepreneurs in their entrepreneurial planning and analysis of their entrepreneurial prospects; therefore, smoothly functioning institutions help entrepreneurs be proactive in their entrepreneurial activities [4].

3.3 Entrepreneurs' Tolerance for Uncertainty

At the same time, entrepreneurs are able to improve their tolerance for uncertainty by institutions. The existence of a system does not only guide and regulate the behavior of entrepreneurs, but also give strong material and moral support to entrepreneurs. When the institutional environment is compatible with the entrepreneur's motivation, the entrepreneur's mobility will increase significantly and more willing to tolerate the uncertainty of entrepreneurship. At the same time, when institutions strongly be in favor of innovation, entrepreneurs have a stronger incentive to withstand the associated uncertainty and also invest more money in the Research and Development sector. Therefore, the existence of institutions can extraordinarily influence the level of uncertainty that entrepreneurs tolerate, it is benefit for the institutional environment of entrepreneurship and will motivate more entrepreneurs to put their entrepreneurial ideas into actions.

3.4 The Influencing Factors of the Difference in Effect

As these researches above, different systems can produce large differences in the behavior of both the same entrepreneur and different entrepreneurs, and here the differences produced by the same system on the behavior of different entrepreneurs will be analyzed. For entrepreneurs, the difference in the effectiveness of institutions in managing uncertainty is mainly related to two factors: one is the strength of the system itself and the degree of its action system on the current entrepreneurs, and the other is whether the entrepreneur's strategy of resorting to the system is reasonable and appropriate. In addition, differences in the strengths and weaknesses of different institutions, as well as differences in how well different institutions support particular entrepreneurial actions, can have different effects on entrepreneurial behavior. Compared to traditional regions, most of the current high-tech parks have built strong formal institutions, such as tax incentives, investment and financing policies, financial subsidies, etc., as well as informal institutions that are conducive to entrepreneurship and innovation, such as innovative entrepreneurial climate and informal finance, which can effectively support the development of science and technology innovation activities in emerging industries [5].

Therefore, there exists not only a difference in the strength of the system in different regions, but also a difference in the level of support for entrepreneurial behavior, besides, they all can affect entrepreneurial behaviors. As a result, entrepreneurs are supposed to choose the right region according to their entrepreneurial activities so as to ensure the smooth running of their entrepreneurial activities. On one hand, in the process of entrepreneurship, there remains big differences between individual entrepreneurs, which are mainly reflected in the differences in their knowledge base, entrepreneurial ability, the latest market information, human resources, self-control, etc. On the other hand, the system is not static, both formal and informal systems are constantly changing and evolving, so even if entrepreneurs choose the right system area at the beginning, they may still face the risks and challenges brought by system changes later on, which is a great test of their observation and ability to deal with risks.

4. Conclusions and Revelations

4.1 Conclusion

In summary, the interrelationship between social and economic factors, formal and informal institutions together reduce uncertainty, which is the fundamental reason why institutions influence entrepreneurial behavior. At the same time, in order to seize market opportunities, there is a high degree of uncertainty in entrepreneurial actions such as conducting market research and commercializing the analysis results, which makes entrepreneurs with entrepreneurial passion suffer from this uncertainty. However, the existence of the system outstandingly reduces the uncertainty of entrepreneurial behavior and provides a strong psychological guarantee for entrepreneurs, which will extraordinarily stimulate the entrepreneurial spirit of entrepreneurs, so that they can put their entrepreneurial ideas into practice. Therefore, for entrepreneurs, the existence of the system proves more than necessary and indispensable, which can make more people with entrepreneurial ideas really engaged in entrepreneurial activities.

4.2 Revelation

Based on the above studies and findings, this paper draws the following three insights from three perspectives: research scholars, entrepreneurs, and policy makers, respectively.

First of all, in the study of the relationship between entrepreneur behavior and system, researchers can also explore the impact of entrepreneur behavior on the system and how they can obtain more economic benefits through the system from the perspective of uncertain management.

Moreover, in the process of carrying out entrepreneurial activities, entrepreneurs should fully integrate their own situation and action style, and choose to start their business in a more suitable institutional area, which can improve the success rate of entrepreneurship with the help of uncertainty of institutional management. In addition, entrepreneurs can proactively switch between different institutional zones in order to conduct entrepreneurial activities in the most favorable institutional

environment.

Last but not least, for decision makers, we can study the possible results of entrepreneurship under different institutional environments from the perspective of uncertain management, and explore how to maximize the utilization of a reasonable institutional environment to obtain higher benefits.

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