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## **The moral legitimacy of entrepreneurs: An analysis of early-stage entrepreneurship across 26 countries**

### **Abstract**

This article will develop our socio-cultural understanding of entrepreneurship by examining the influence of the moral legitimacy of entrepreneurs in society on an individual's engagement in early-stage entrepreneurship. A multilevel analysis conducted across 26 countries shows that the higher the perceived degree of moral legitimacy, the more likely an individual is to think about starting a business compared to not thinking about it; to start preparing a business as against just considering it; or to found and run a business as compared to just engaging in preparation activities. We conclude that moral norms in society play an important role in early-stage entrepreneurship and that makes it important to legitimize the understanding of entrepreneurs as moral and beneficial for society as a whole.

### **Keywords**

Moral legitimacy, entrepreneurship, institutional theory, Europe, United States, Japan

## **Introduction**

Different countries exhibit different levels of entrepreneurship (Amorós and Bosma, 2014), and research suggests a relatively strong relationship between (nascent) entrepreneurial activity and economic development (Wennekers et al., 2005). As a consequence, international comparative research on entrepreneurship has increasingly begun to focus on the contextual drivers of early-stage entrepreneurship (Begley et al., 2005; Mueller and Thomas, 2000; Stenholm et al., 2013). Early-stage entrepreneurship comprises the steps from intention formation to nascent entrepreneurial activities and the ownership of young businesses (Amorós and Bosma, 2014; Van der Zwan et al., 2010). However, while a range of influencing factors, including economic, regulatory and demographic indicators have been identified (Blanchflower, 2000), there is still limited cross-country research on the socio-cultural embeddedness of early-stage entrepreneurial engagement (Freytag and Thurik, 2007; Thornton et al., 2011).

Moreover, the existing cross-cultural studies on entrepreneurship have mainly followed Hofstede's (2001) seminal work (Hayton et al., 2002) or an aggregated psychological trait approach (Freytag and Thurik, 2007), thus largely neglecting conceptualizations of the social legitimacy of entrepreneurship. This omission is surprising, as the legitimization of entrepreneurship has been discussed as a potential socio-cultural framework for entrepreneurship (Bruton et al., 2010; Freytag and Thurik, 2007)

suggesting that the greater the level of legitimacy in a society the greater the level of entrepreneurial activity should be (Etzioni, 1987; Shane, 2003; Wilken, 1979). In summary, little is yet known about the legitimacy of entrepreneurs from a cross-cultural perspective, and the influence of that level of legitimacy on early-stage entrepreneurial activity.

The present study addresses this research gap by providing new insight into the particular role the *moral legitimacy of entrepreneurs* in a society plays in an individual's engagement in early-stage entrepreneurship. The theoretical foundation is based on an institutional perspective (Scott, 1995; Scott and Davis, 2007) on entrepreneurship (Lang et al. 2014; Thornton et al., 2011), within which moral legitimacy of entrepreneurs reflects an evaluative (or normative) source of legitimacy (Überbacher, 2014). In the spirit of Suchman's (1995) legitimacy approach, moral legitimacy is defined as the social approval of the entrepreneurs' moral *values* and morally bound *actions* in society.

This study makes two principal contributions. First, it adds to the literature on culture and entrepreneurship (Freytag and Thurik, 2007; Krueger et al., 2013; Thurik and Dejardin, 2012) by addressing the under-researched role of moral legitimacy judgements (Überbacher, 2014). Here, the study provides new insight into the influence of the perceived moral legitimacy of entrepreneurs in society for an individual's engagement in early-stage entrepreneurship. Second, the moral legitimacy framework

and the multilevel, comparative research design of the study contribute to the challenge of theorizing and measuring informal institutional influences on entrepreneurship across nations (Thornton et al., 2011). Hence, the study also responds to the need to develop our contextual knowledge on the emergence of entrepreneurial behaviour (Welter, 2011).

## **Theoretical Framework**

### *Institutional Theory and Moral Legitimacy*

Institutional economic and sociological theories share the assumption that individual behaviour is shaped by, but also shapes, the rules and norms prevalent in the institutional environment (Hodgson, 2006; North, 1990; Scott, 1995). The present study's particular understanding of institutions follows the sociological work of Scott (1995: 33), which defines institutions as 'social structures that have attained a high degree of resilience. [They] are composed of [three institutional pillars:] cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life'. The cultural-cognitive pillar influences behaviour through the categories and unconscious assumptions actors use to interpret their world. The normative pillar guides action through the social norms of morality and acceptability, while the regulative pillar provides structure to behaviour through the application of formal rules and sanctions (Scott and Davis, 2007).

Reflecting Scott's (1995) framework, institutional scholars have emphasized the cognitive and normative constructs of legitimacy (see Bitektine, 2011 and Überbacher, 2014 for an overview), acknowledging a strong cultural dimension in their analysis of legitimating processes (Deephouse and Suchman, 2008). Social legitimacy, in this context, is seen as an informal institutional source, reflecting 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate' (Suchman, 1995: 574). In line with this perspective, individuals are viewed as social actors who care about their informal relationships with and loyalty to others. As such, individuals are embedded in normative systems, and surrounded by implicit rules of what is perceived as appropriate behaviour in society (Scott, 2008). Following this institutional logic, we use Suchman's (1995) specific conceptualization of the pragmatic, the moral, and the cognitive dimensions of social legitimacy, and particularly address the *moral legitimacy* as an evaluative (or normative) source of legitimation (Überbacher, 2014).

Moral legitimacy refers to the approval of what is morally 'good' and what is morally 'bad' in society, reflecting 'a moral framework for the conduct of social life. [Thus] Unlike externally enforced rules and laws, [moral] norms are internalized by participants; behaviour is guided by a sense of what is appropriate, by one's social obligations to others, by a commitment to common values' (Scott and Davis, 2007: 260). Within this framework, this study understands an individual's evaluation of

morality in a way similar to Suchman's (1995) action and essence attributions of moral legitimacy. While the specific action attribute is concerned with the approval of morally bound *actions*, the essence attribution captures the judgement of whether someone's moral *values* are acceptable (Bitektine, 2011; Suchman, 1995). The focus on the *essence-action* construct of moral legitimacy is reasoned on the moral imperative in entrepreneurship in the theoretical work of Anderson and Smith (2007). They argue that the moral legitimation of entrepreneurs is the result of a congruent interplay between evaluations of values and actions in light of the public domain.

#### *An Institutional Approach to Entrepreneurship and the Moral Legitimacy of Entrepreneurs*

Scholars increasingly argue that an institutional approach shows great promise for analysing entrepreneurship, suggesting that institutions can enable and/or constrain entrepreneurial beliefs and behaviour (Lang et al., 2014; Thornton et al. 2011; Welter and Smallbone 2011). Welter and Smallbone (2008) specify that formal institutional forces tend to condition the actual entrepreneurial opportunity level, while it is informal (normative and cultural-cognitive) institutions that determine the common and individual beliefs held on enterprising activity. Shane (2003: 160) adds that the informal institutional environment particularly co-determines the exploitation of entrepreneurial opportunities in society by 'influencing the degree to which entrepreneurial activity is considered desirable' and 'through specific cultural beliefs that encourage or discourage entrepreneurial activity'.

Against this backdrop, scholars have indirectly discussed the concept of the social legitimacy of entrepreneurship as just such an informal institution by suggesting that higher levels of approval increase the supply of, and demand for, entrepreneurship. For instance, Wilken's (1979) pioneering historical study of the industrial development of six societies (England, France, Prussia-Germany, Japan, the USA, and Russia) during the eighteenth and nineteenth centuries revealed how the greater the social acceptance accorded to entrepreneurship in a society the higher the subsequent level of enterprising activity. Busenitz et al.'s (2000) cross-country research suggests that social normative frameworks approving of entrepreneurship encourage individuals to engage in new venture creation. Welter and Smallbone (2011) find that the more entrepreneurship is socially approved of as being an essential part of people's well-being, the more it is culturally embedded, and contributes to an environment with fewer informal sanctioning mechanisms targeting the individual engaging in early-stage entrepreneurship.

Drawing upon these insights, this study focuses particularly on the moral legitimacy of entrepreneurs as a critical – evaluative – source of the legitimacy of entrepreneurship in society (Suchman, 1995; Überbacher, 2014), which, in turn, is part of the broader informal institutional environment. According to the preceding argumentation, the moral legitimacy of entrepreneurs is seen to derive from the social approval of



entrepreneurs as morally good and especially of what entrepreneurs do (*action*) and what values they represent (*essence*) on a moral level.

### *Moral Legitimacy of Entrepreneurs and Early-Stage Entrepreneurship*

The extant research emphasizes that moral institutional frameworks are central to understanding the development of an individual's self-awareness, motivation and behaviour (Kaiser, 2006; Treviño et al., 2006; Weaver, 2006). Following this reasoning, the current study proposes that how an individual evaluates the moral values and morally bound actions of entrepreneurs in society influences whether that individual starts to identify him/herself as an entrepreneur and actively engages in early-stage entrepreneurial behaviour. In particular, we believe that the more strongly an individual views entrepreneurs as morally legitimate, the more likely that person is to engage in early-stage enterprising activity.

More specifically, the initial phase of early-stage entrepreneurship is theorized as the individual's identification process that potentially leads to the formation of an aspiration to start a business (Rotefoss and Kolvereid, 2005). Based on the assumption that 'morality is central to a person's self-understanding' (Treviño et al., 2006: 962), we argue that institutional normative frameworks affect entrepreneurial cognitions (Lim et al., 2010) and that the initial entrepreneurial identification is thus shaped by an individual's awareness of, and reference to, the moral norms attached to entrepreneurship (Treviño et al., 2006; Weaver, 2006). This enables individuals to

evaluate their own concept of entrepreneurship in the context of common normative understandings, helping them to value entrepreneurship and judge whether becoming an entrepreneur is a suitable and legitimate career choice for them. In other words, as a person reflects on starting a business they are making an initial interpretation of the common moral principles relevant to entrepreneurial activity, which in turn is central to the formation of individual entrepreneurial aspirations (Treviño et al., 2006).

Supporting such a moral approach to the initial engagement in early-stage entrepreneurship, Anderson and Smith (2007) and Zafirovski (1999) emphasize the role of moral concerns in the formation of entrepreneurial beliefs, while Kaiser (2006) demonstrates that moral norms influence an individual's initial consideration of performing certain behaviours. Here, in line with recent studies that contextualize entrepreneurial cognitions (Kautonen et al., 2011; Lim et al., 2010), the perceived moral institutional framework may particularly affect an individual's beliefs about what is desirable and feasible, which in turn influence their initial entrepreneurial identification and formation of entrepreneurial aspirations. Following this rationale, the present study assumes that if an individual perceives entrepreneurship to be a morally legitimate activity, they are more likely to perceive entrepreneurship to be a desirable and feasible career path and thus to identify themselves as (potential) entrepreneurs.

The later phases of early-stage entrepreneurship are theorized as an individual engaging in concrete start-up preparation activities or actually starting and running a young

business (van der Zwan et al., 2010). In the spirit of Treviño et al. (2006), we assume that these early-stage entrepreneurial activities are influenced by reference to prevalent moral norms and ideals, instead of (solely) self-interest and rational calculations. Applying the logic of Blasi (2005), we particularly argue that moral desire is a central driver of an individual's behavioural motivation, which once strongly developed with reference to normative frameworks, increases the likelihood of an individual turning their aspiration into action. Subsequently, once individuals have begun to think about becoming entrepreneurs, they have arguably developed a stronger sense of the moral legitimacy of entrepreneurs in society. This, in turn, may support individuals identifying themselves as entrepreneurs. Moreover, if an individual has already nurtured their entrepreneurial identification through actually preparing their business, their favourable evaluations of the morality of entrepreneurs in society may further augment the move towards actual business ownership. Accordingly, we argue that if an individual has already begun to identify her/himself as a potential entrepreneur, the approval of the moral values and morally bound actions of entrepreneurs should make it more likely that the individual actually embarks on further phases of early-stage entrepreneurship.

In summary, the current study's main proposition for empirical analysis is that the perceived moral legitimacy of entrepreneurs in society is positively related to an individual's engagement in early-stage entrepreneurship.

## **Data and Variables**

This study uses data from the 2009 Flash Eurobarometer Survey on Entrepreneurship (European Commission, 2009) for the individual-level variables, and statistics from Eurostat, the Global Entrepreneurship Monitor (GEM) and the World Bank for the country-level covariates. The Eurobarometer data were collected in 2009 through a telephone survey. The national sample sizes vary from 500–1017 and are representative of the population aged 15 and over in each country. Since the aim of this study is to examine early-stage entrepreneurship rather than long-term business ownership, respondents who had been running a business for more than three years were excluded from the analysis. Hence, the final sample for this analysis totals 10,783 individuals from 24 European countries as well as Japan and the United States.

*Dependent variable.* The dependent variable consists of different levels of early-stage entrepreneurial engagement (Van der Zwan et al., 2010). Respondents were offered the following four response options to describe their engagement in entrepreneurship: 1) ‘It has never entered your mind to start up a business’, 2) ‘You are thinking about starting up a business’, 3) ‘You are currently taking steps to start a new business’, and 4) ‘You have started or taken over a business in the last three years which is still active today’. The remainder of this article abbreviates these stage labels and refers to ‘Never thought’, ‘Thinking’, ‘Taking steps’, and ‘Running a young business’. The different levels of entrepreneurial engagement allow us to examine the robustness of the

relationship between the moral legitimacy of entrepreneurs and early-stage entrepreneurship by comparing different thresholds: 1) between never thought and thinking, 2) thinking and taking steps and 3) taking steps and running a young business.

*Explanatory variable.* The explanatory variable captures the perceived level of the moral legitimacy of entrepreneurs. Based on the applied social legitimacy approach, with its essence and action attributions of morality (Suchman, 1995), this analysis examines perceived moral legitimacy with an index computed as the average of the following two statements (rated by the respondents on a 4-point scale anchored with *strongly disagree* and *strongly agree*): ‘Entrepreneurs think only about their own wallet’ (essence) and ‘Entrepreneurs exploit other people’s work’ (action). The Cronbach’s alpha coefficient for the resulting index is 0.70. In order to account for potentially different within (individual-level) and between (country-level) effects, the regression models include two moral legitimacy variables: 1) a country mean computed as the average of all individual responses belonging to that country and 2) the difference between the individual respondent’s rating and the respective country mean.

*Individual-level control variables.* This analysis includes the respondent’s sex (dummy with female = 1), age (years, linear and squared terms included to account for curvilinear effects), education (a dummy with 1 indicating that the subject ceased fulltime education aged 20 or over), the existence of a self-employed parent (a dummy where 1 means that either or both parents have been self-employed), and income as

control variables at the individual-level. Income is measured by four response categories referring to the person's feelings about their current income, so that they either 1) live comfortably (base category), 2) get by, 3) find it difficult to manage, or 4) find it very hard to manage.

*Country-level control variables.* Drawing upon Hofstede (2001) and a large number of cultural studies on entrepreneurship (Hayton et al., 2002), the first country-level covariate controls for individualistic (vs. collectivistic) cultural attributes of a society. The values of the measure range from 0 to 100, with the value 100 reflecting the highest level of the individualistic dimension, defined as a cultural framework in which individuals are assumed only to care for themselves and their immediate families (Hofstede, 2013). The second covariate captures the aggregate relation of new firm formation rates and wealth in a country, in order to adjust the moral legitimacy model with an 'objective' indication of whether entrepreneurship levels relate to a country's economic growth. This variable 'entrepreneurship and economic growth' is developed by correlating two country measures: the average new business owner growth rate (GEM reports 2005–2009) and the average growth rate of the real GDP per capita (European Commission, 2013), both in the period 2005–2009. It denotes each country's correlation coefficient between these two measures and consists of values between -1 and +1. In order to control for the labour market situation and potential 'refugee' effects (Thurik et al., 2008), a third variable is included that captures the unemployment level

in 2009 (European Commission, 2013). Finally, in line with previous entrepreneurship research on regulative barriers in a country (Klapper et al., 2009), two covariates are entered into the model that control for the total number of days required to register a firm, and the costs involved when starting a business as a percentage of the country's income level per capita (World Bank, 2009).

The descriptive statistics are provided in the appendix. In order to examine potential multicollinearity, we scrutinized the correlations between the individual-level independent variables and computed the variance inflation factor (VIF) scores for these variables. The correlations between the individual-level independent variables are modest (the highest Pearson coefficient is 0.17) and the highest VIF score is 1.6. Therefore, multicollinearity does not appear to be a problem in this analysis.

## **Analysis**

### *Main Results*

The analysis by Van der Zwan et al. (2013) demonstrates that different covariates have varying effects at different stages of entrepreneurial engagement. Therefore, in order to examine the robustness of the relationship between the moral legitimacy of entrepreneurs and early-stage entrepreneurial activity, the following analysis estimates a separate binary regression model for each threshold between the four engagement

levels. In so doing, the models examine the impact of the moral legitimacy of entrepreneurs on the likelihood of being beyond a certain stage of entrepreneurial engagement in relation to being at that stage. In other words, the respondents who are at a particular stage of entrepreneurial engagement (e.g., thinking) are compared with all individuals at higher stages (e.g., taking steps and running a young business). Since the response variables are binary and the data are clustered at the country level, we estimate a series of random-intercept logit models using the maximum-likelihood estimator with numerical integration (30 quadrature points) to test the research proposition. The analysis strategy follows the recommendations in Hox (2010) and estimates each threshold in six steps. The relevant test statistics for each threshold are summarized in Table 1.

Before testing the actual research proposition, we estimated intercept-only models (1) to examine whether there was significant variance at the country level to justify a multilevel analysis, and models including only the individual-level control variables (2) in order to see whether their inclusion added to the model fit. The results indicate that a multilevel specification is required and that the individual-level control variables add significantly to the fit of each model.

INSERT TABLE 1 ABOUT HERE



We begin the examination of the research proposition with a likelihood-ratio test that compares specifications including the individual-level explanatory variable (3) with the previous specifications (including the control variables). Since the model fit improves significantly in all three models, our research proposition of a positive relationship between the moral legitimacy of entrepreneurs and early-stage entrepreneurship receives support. Adding a random slope (4) to the individual-level moral legitimacy effect does not improve the fit of the model in any threshold, suggesting that the coefficient of moral legitimacy does not vary significantly across the 26 countries included in the analysis. Therefore, the remaining model specifications omit the random coefficient in the interest of estimation efficiency and parsimony. Similarly, adding the country-level moral legitimacy variable (5) in order to distinguish between the individual and country-level effects of moral legitimacy does not add significantly to model fit in any of the three models. This indicates that an individual's perception of the moral legitimacy of entrepreneurs is what matters, rather than the country-level effect. The final model specification (6) includes the country-level covariates as well as the country means of the individual-level covariates as a further control measure. The details of the final model specification for each of the three thresholds are reported in Table 2.

INSERT TABLE 2 ABOUT HERE

In summary, the estimations show that the individual's perception of the moral legitimacy of entrepreneurs is positively related to the odds of the individual being at advanced stages of entrepreneurial engagement. This finding supports the research proposition of a positive relationship between the moral legitimacy of entrepreneurs and early-stage entrepreneurial activity.

#### *Sensitivity Analysis*

In order to ascertain the robustness of the results supporting our research proposition, we estimated a number of further specifications of each of the three binary regression models reported in Table 2. A verbal summary of these tests is provided in Table 3.

INSERT TABLE 3 ABOUT HERE

First, we estimated the models with country fixed effects instead of the random intercept specification in Table 2 (all country-level covariates were removed from these models). The differences in the odds ratio and standard error estimates to the random-intercept models are marginal.

Second, we estimated the threshold 1 and 2 models by excluding respondents who were already running a young business. The rationale was that people who have already started a business are likely to have a higher than average perception of the moral legitimacy of their own activity, which could cause endogeneity and bias the estimates in thresholds 1 and 2. The odds ratio and standard error estimates show that the effects of moral legitimacy in these models are somewhat weaker than in Table 2, but nevertheless positive, substantial and statistically significant (threshold 1: OR=1.38,  $z=8.11$ ; threshold 2: OR=1.23,  $z=2.69$ ). Therefore, the inclusion of individuals who run a young business does not unduly bias the effect of moral legitimacy in thresholds 1 and 2 in Table 2.

Third, we estimated interactions between moral legitimacy and the individual-level covariates, and cross-level interactions between moral legitimacy and the country-level covariates, for each of the three binary models in Table 2. The rationale was to ensure that we took into account not only confounding, but also potential conditioning effects of the covariates when evaluating the main outcome of the analysis. We estimated each interaction separately and used the likelihood-ratio (chi-squared) test to determine whether the addition of the interaction improves model fit. In addition, we investigated the significant interactions by computing the average marginal effect of moral legitimacy across the range of values of the interacting variable (Ai and Norton, 2003). Significant improvements to model fit were found with regard to having a self-

employed parent in threshold 1 ( $\chi^2_{1df}=4.66, p<0.05$ ) and concerning the number of days required to register a business in the respondent's country of residence in thresholds 2 ( $\chi^2_{1df}=4.82, p<0.05$ ) and 3 ( $\chi^2_{1df}=6.36, p<0.05$ ). In the former case, the effect of moral legitimacy is somewhat stronger if one or both of the respondent's parents were self-employed. In the latter case, the effect of moral legitimacy becomes stronger as the number of days required to register a business increases. No other interaction introduced to the random-intercept model specifications significantly improved the fit of the respective model.

Fourth, even though the variance component for the coefficient of moral legitimacy was not significant (Table 1), suggesting that the effect of moral legitimacy does not vary significantly between the 26 countries in the analysis, we nevertheless estimated a model where we interacted moral legitimacy with the country dummies. The addition of the interaction terms did not significantly improve the fit of the model in any threshold.

## **Discussion and Conclusions**

This article conceptualized and analysed the moral legitimacy of entrepreneurs in society and its influence on an individual's engagement in early-stage entrepreneurship. Embedded in an institutional perspective of entrepreneurial behaviour and a social legitimacy approach, moral legitimacy is defined as the social approval of the

entrepreneurs' values and actions as being morally good. A multilevel analysis based on data drawn from 26 countries shows that the perceived moral legitimacy of entrepreneurs is positively related to an individual engaging in early-stage entrepreneurial behaviour, even when controlling for individual and country-level factors identified in the previous literature.

### *Implications for Research*

The present study contributes to the literature on contextualizing entrepreneurship (Welter, 2011), particularly the stream of research aimed at conceptualizing and measuring socio-cultural influences on new venture creation (Freytag and Thurik, 2007; Krueger et al., 2013; Thornton et al., 2011). Entrepreneurship researchers have suggested that the institutional approach provides a fruitful framework for the development of our contextual understanding of entrepreneurship (Lang et al. 2014; Welter, 2011), and our study of the moral legitimacy of entrepreneurs as part of the informal institutional environment supports that view.

More specifically, our research suggests that an individual's evaluation of the moral values and morally bound actions of entrepreneurs influences whether the individual begins to identify themselves as an entrepreneur and actively engage in early-stage entrepreneurship. Thus, in the spirit of Treviño et al. (2006) and Weaver (2006), we suggest that morality is central to an entrepreneur's self-understanding, and that the initial entrepreneurial identification is influenced by the individual's awareness of, and

reference to, the moral norms they attach to entrepreneurship. The perceived moral norms, in turn, are a central driver of an individual's behavioural motivation. A positive perception of these norms increases the likelihood of an individual developing entrepreneurial aspirations and turning them into action. Accordingly, we argue that in order to further develop our knowledge of the institutional embeddedness of early-stage entrepreneurship, future research needs to address the moral dimension in the normative institutional environment.

Moreover, this study adds to the debate on the different approaches applied in cross-country studies of socio-cultural influences on entrepreneurship (Hayton et al., 2002; Thurik and Dejardin, 2012). By demonstrating how moral legitimacy is related to early-stage entrepreneurship, this research suggests further theoretical development and empirical research based on the social legitimacy or moral approval approach (Etzioni, 1987; Suchmann, 1995). An interesting avenue for future research would be to compare the merits and demerits of the present study's approach, and to analyse where it complements the dominant cultural approaches in entrepreneurship research, such as Hofstede's (2001) seminal work and the aggregated psychological trait approach (Freytag and Thurik, 2007).

Cross-country studies illuminating the push and pull explanations of entrepreneurial behaviour, could also apply both the moral legitimacy concept and the more recently discussed dissatisfaction approach (Noorderhaven et al., 2004). While the legitimacy

approach generally suggests that the entrepreneurial choice of an individual is the outcome of their expected social appraisal of being an entrepreneur (the pull factor), the dissatisfaction approach assumes the opposite, particularly that the conflicting values and expectations between the population and potential entrepreneurs drive the latter group into entrepreneurship (the push factor) (Thurik and Dejardin, 2012).

Our results further add to the work of Tornikoski and Newbert (2007) and Garud et al. (2014). Investigating the transition from a nascent venture to a new firm, Tornikoski and Newbert (2007) conclude that gaining practical legitimacy depends on a nascent venture's capability to convince resource gatekeepers that it is operational and beneficial. More recently, Garud et al. (2014) identified managing practical and cognitive legitimacy to meet stakeholder expectations as a particular challenge for emerging ventures. While practical legitimation is based on the calculation of a venture's plausibility and utility (Suchmann, 1995), cognitive legitimation reflects a stakeholder's evaluation of a nascent venture's anticipated future characteristics in light of its markets and technologies (Garud et al., 2014). Our analysis suggests that also the perceived moral norms embedded in the broader socio-cultural environment influence the emergence of new ventures. Consequently, if we seek to add to our knowledge of the relationship between legitimacy and early-stage entrepreneurship, we should seek to understand the influence of societal norms and values in addition to the stakeholders' pragmatic and cognitive expectations.

### *Limitations*

As with most studies, this article is not without limitations. This section identifies four recommendations for researchers wishing to develop the themes introduced here. First, this analysis focuses solely on moral legitimacy and thus neglects other dimensions of social legitimacy that could potentially shape organizational emergence. In order to develop our understanding of moral legitimacy and new venture creation, future cross-cultural studies should seek to investigate further dimensions of social legitimacy, for example by including all three of Suchman's (1995) dimensions (practical, moral and cognitive legitimacy) in a single research design. Due to the contrasts between the three legitimacy dimensions and the extent to which they are interrelated, a simultaneous analysis of all three could further develop our understanding of early-stage entrepreneurship as a socially embedded phenomenon.

Second, the measure of moral legitimacy was limited to two items by the limitations of the available dataset. While the applied measure of moral legitimacy is valid in light of the theory, and the opportunity to analyse its impact across 26 countries has significant merit, future studies should seek to develop and test more elaborate measures in order to validate the conclusions reached in this article.

Third, while being able to generate a broad socio-cultural understanding across large populations and different countries, the present quantitative study clearly overlooks nuanced qualitative interpretations of the individual entrepreneurs' constructions of



morally legitimate entrepreneurial practices. As such, we argue that in-depth qualitative research applying insights, for instance, from a social constructivist and sense-making perspective to entrepreneurship (e.g., Anderson et al., 2009; Cornelisson et al., 2012; Holt and Macpherson, 2010) is needed to further develop our understanding of the various meanings attached to morality and how they affect entrepreneurship.

Fourth, we suggest that our applied institutional perspective of moral legitimacy should be complemented with in-depth research based on a cultural entrepreneurship and impression management approach to venture legitimacy (see Überbacher, 2014 for an overview). Such an approach would make it possible to generate a more (inter)action-based knowledge base. The most valuable knowledge would relate to how potential entrepreneurs make use of different moral frameworks, and manage and shape their audiences' moral values and judgements to bolster the legitimacy of their emerging venture.

#### *Implications for Practice*

Both public policymakers and enterprise support communities have expressed their interest in the environmental drivers of entrepreneurship (Thornton et al., 2011), and international organizations, such as the Organization for Economic Cooperation and Development (OECD) and the European Union (EU), have specifically referred to the importance of social and cultural indicators in their publications (European Commission, 2006; OECD, 2000). Conceptualizing and measuring socio-cultural

factors is proving a challenge for entrepreneurship research, and so it is no surprise that it is even more difficult to draw practical conclusions on their effect. Despite this difficulty, the present research does have one practical implication to offer.

This analysis demonstrates that the perceived moral legitimacy ascribed to entrepreneurs in a society is positively related to the aspirations of individuals to become an entrepreneur and take steps to start a business. However, establishing new bases for moral legitimacy at the societal level is challenging, and will often only be possible if a group of powerful actors and organizations exert intense pressure on the moral order (Suchman, 1995). Potential entrepreneurs themselves are often unable to influence and change their socio-cultural environment, and so rely on external support initiatives. Therefore, if the policy aim is to increase the potential of a country's individuals to engage in entrepreneurial activities, national policy, and enterprise support organizations should (jointly) seek to create a socio-cultural environment that fosters social approval of the morality of entrepreneurial values and action. Any initiative to create such an environment would find it necessary to co-create a common awareness of entrepreneurship as a morally accepted activity of benefit to the economy and society as a whole.

## Appendix: descriptive statistics

	Never thought	Thinking	Taking steps	Running a young business	Total	EEG	IND	UER	DRB	SC
Moral legitimacy	2.35 (0.74)	2.51 (0.76)	2.65 (0.75)	2.81 (0.72)	2.41 (0.75)					
Age	49.66 (15.75)	37.50 (14.91)	38.69 (14.09)	43.18 (12.48)	47.02 (16.13)					
Female	0.66	0.53	0.48	0.43	0.62					
Self-employed parent	0.24	0.26	0.28	0.35	0.25					
Left fulltime education aged 20+ years	0.36	0.40	0.47	0.54	0.38					
Income										
Comfortable	0.24	0.24	0.28	0.33	0.25					
Get by	0.47	0.44	0.42	0.47	0.47					
Difficult	0.19	0.21	0.20	0.14	0.19					
Very hard	0.09	0.11	0.09	0.07	0.09					
Countries										
Austria	0.82	0.11	0.04	0.03	0.02	-0.0091	55	4.8	28	5.1
Belgium	0.92	0.05	0.01	0.03	0.05	-0.0094	75	7.8	4	5.2
Croatia	0.82	0.11	0.05	0.03	0.03	-0.0052	33	9.1	40	11.5
Czech Republic	0.77	0.15	0.04	0.04	0.05	-0.1011	58	6.7	15	9.5
Denmark	0.68	0.27	0.01	0.04	0.03	0.0040	74	6.0	6	0.0
Finland	0.77	0.05	0.08	0.10	0.02	0.0011	63	8.2	14	1.0
France	0.77	0.17	0.03	0.03	0.06	-0.0030	71	9.5	7	1.0
Germany	0.77	0.13	0.06	0.04	0.05	-0.0012	67	7.8	18	5.6
Greece	0.60	0.28	0.05	0.08	0.04	0.0002	35	9.5	19	10.2
Hungary	0.76	0.18	0.02	0.04	0.06	0.0014	80	10.0	5	8.4
Iceland	0.56	0.24	0.09	0.11	0.02	-0.0139	75	8.1	5	2.6
Ireland	0.69	0.20	0.06	0.06	0.02	-0.0403	70	11.9	13	0.3
Italy	0.81	0.08	0.06	0.06	0.05	0.0174	67	7.8	10	18.5
Japan	0.88	0.06	0.03	0.03	0.05	0.0043	46	5.1	23	7.5
Latvia	0.66	0.28	0.03	0.03	0.03	0.0073	60	17.1	16	2.3
Netherlands	0.79	0.09	0.05	0.06	0.05	0.0000	80	3.7	10	5.9
Norway	0.75	0.13	0.06	0.06	0.02	-0.0247	69	3.1	10	2.1
Portugal	0.85	0.05	0.04	0.05	0.05	-0.0086	27	9.6	6	2.9
Romania	0.63	0.23	0.08	0.06	0.03	-0.0329	30	5.9	10	3.6
Slovenia	0.79	0.15	0.05	0.01	0.03	-0.0165	27	5.9	19	0.1
Spain	0.82	0.11	0.03	0.04	0.06	-0.0190	51	18.0	47	17.9
Sweden	0.61	0.25	0.09	0.05	0.03	0.0043	71	8.3	15	0.6
Switzerland	0.69	0.23	0.04	0.04	0.03	-0.0037	68	3.7	20	2.1
Turkey	0.59	0.21	0.14	0.06	0.03	0.0021	37	14.0	6	14.6
United Kingdom	0.81	0.12	0.04	0.04	0.05	-0.0015	89	4.6	13	0.8
United States	0.58	0.19	0.14	0.09	0.03	-0.0286	91	9.3	6	0.7
Total	0.76	0.15	0.05	0.05	1.00	-0.0034	67	7.95	13	3.25

*Notes:* Means and (standard deviations) for the continuous variables; column percentages (add up to 1.0 in the column) for the individual-level covariates; row percentages (add up to 1.0 in the row) for the countries (the Total column indicates the share of respondents from a particular country in the total sample). EEG = entrepreneurship and economic growth; IND = individualism; UER = unemployment rate 2009; DRB = days to register a business; SC = Start-up costs. The Total row reports the median values of the country-level covariates across the 26 countries.

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**Table 1** Likelihood-ratio-test statistics (chi-squared) for the six steps of estimating the random-coefficient logit regression models for the different thresholds in early-stage entrepreneurship

Estimation step	Levels of entrepreneurial engagement		
	Threshold 1 Never thought → Thinking and beyond	Threshold 2 Thinking → Taking steps and beyond	Threshold 3 Taking steps → Running a young business
(1) Random intercept only	434.74***	126.75***	7.06**
(2) Individual-level controls added	1193.98***	119.06***	71.73***
(3) Moral legitimacy: individual difference from country mean added	135.84***	41.33***	13.24***
(4) Random coefficient added	.88	0.00	0.17
(5) Moral legitimacy: country mean added	2.56	0.00	0.06
(6) Country-level covariates and the cluster means of the individual- level covariates added	35.99***	19.47	14.28

Notes: \*  $p < 0.05$ . \*\*  $p < 0.01$ . \*\*\*  $p < 0.001$ . Note that the test statistic for model specification (5) refers to the difference between models (5) and (3) because the random coefficient for the individual-level moral legitimacy variable is not included in any model specification other than (4).

**Table 2** Random-intercept logit regression estimates

	Levels of entrepreneurial engagement		
	Threshold 1	Threshold 2	Threshold 3
	Never thought → Thinking and beyond	Thinking → Taking steps and beyond	Taking steps → Running a young business
	OR (z)	OR (z)	OR (z)
Moral legitimacy of entrepreneurs			
Individual difference from country mean	1.52** (11.53)	1.49** (6.34)	1.42** (3.62)
Country mean	1.73 (1.21)	0.63 (0.61)	1.74 (0.78)
Individual-level control variables <sup>a</sup>			
Female	0.49** (14.17)	0.70** (4.13)	0.73* (2.40)
Self-employed parent	1.27** (4.12)	1.28** (2.51)	1.36* (2.11)
Left fulltime education aged 20+ years	1.32** (5.10)	1.15 (1.52)	1.01 (0.09)
Age	1.03** (3.50)	1.12** (6.40)	1.16** (4.69)
Age squared	1.00** (8.13)	0.99** (5.42)	0.99** (3.87)
Income: get by	1.01 (0.12)	0.77* (2.43)	0.90 (0.67)
Income: difficult	1.22* (2.49)	0.69** (2.73)	0.54** (2.95)
Income: very hard	1.44** (3.66)	0.57** (3.25)	0.54* (2.28)
Country-level control variables			
Entrepreneurship & economic growth	5.72 (0.65)	0.00 (1.27)	1.13 (0.03)
Individualism	1.02** (2.94)	0.99 (1.47)	1.00 (0.05)
Unemployment rate	0.97 (1.07)	1.05 (1.22)	1.02 (0.60)
Days to register a business	1.01 (1.79)	0.96** (2.79)	1.00 (0.36)
Start-up cost	0.96** (2.74)	1.07* (2.47)	1.04 (1.66)
Observations	10,783	2632	1044
Intraclass correlation <sup>b</sup>	0.08	0.09	0.03
SD of intercept (SE)	0.22 (0.04)	0.36 (0.07)	0.14 (0.13)
Log likelihood	-5091.06	-1614.43	-670.23
Wald chi <sup>2</sup> (23 df)	1111.52	170.63	85.93

Notes: \*  $p < 0.05$ . \*\*  $p < 0.01$  (two-tailed test). OR = odds ratio ( $\exp(\beta)$ ); z = absolute value of the z-statistic ( $\beta/SE$ ). <sup>a</sup> The OR of the individual-level control variables denote the within-effects. The between-effects (country means) are included in all three models but their coefficients are not reported in the table. <sup>b</sup> Based on the intercept-only model.

**Table 3** Summary of the sensitivity analysis

Test	Result
Country fixed effects instead of a random intercept and country-level covariates	Differences in the substantive results (odds-ratio and standard error estimates) are marginal
Threshold 1 and 2 models (Table 2) without respondents who run a young business	The effects of moral legitimacy in thresholds 1 and 2 are weaker in this model than in the ones reported in Table 2, but the effects are nevertheless positive, substantial and statistically significant
Interactions between moral legitimacy and the individual-level control variables	One significant interaction: the effect of moral legitimacy in threshold 1 is somewhat stronger if one or both of the respondent's parents were self-employed
Cross-level interactions between moral legitimacy and the country-level control variables	One significant interaction: the effect of moral legitimacy in thresholds 2 and 3 becomes stronger as the number of days required to register a business increases
Country fixed effects interacted with moral legitimacy	No improvement in model fit in any threshold