Socio-Economic Review (2010) ***8****, 735–746*
Advance Access publication June 5, 2010

doi:10.1093/ser/mwq012

REVIEW ESSAY

Against the Schumpeterian mainstream: a review of institutional approaches to entrepreneurship

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Keywords: firm strategy, innovation, institutionalism, globalization
JEL classification: L26 entrepreneurship

An institutionalist scholar, familiar with the numerous impacts of institutions, is likely to be puzzled by most entrepreneurship studies that have been published in leading economics, business and management journals over the past decades. Surely, these studies are far from agreeing on one homogeneous line of research. Disagreement concerns most fundamentally the question whether entrepreneurial 'traits' or 'founding processes' are the defining entrepreneurial characteristics to be studied. On the one hand, 'trait researchers' assume that entrepreneurs distinguish themselves most notably by their personal characteristics—such as their educational background, age or financial endowments—which are usually identified through synchronic quantitative analyses of international datasets. On the other hand, 'process researchers' assume that entrepreneurs are best understood when their different approaches to company foundation are analysed, which is typically done through diachronic quantitative analyses of national datasets. Despite such discrepancies, mainstream economics, business and management studies of entrepreneurs have one fundamental, and often implicit, assumption in common: entrepreneurs are free and not conditioned in their choices. In line with Schumpeter's view of entrepreneurs as creative innovators, entrepreneurship is perceived as an individualistic act, driven by a few inspired visionaries.

For an institutionalist scholar, this assumption seems questionable. Given the vast literatures that manifest the impact of institutions on various economic actors, it seems more plausible that entrepreneurs do not act in isolation but are institutionally embedded as well. Although there is an increasing awareness among entrepreneurship researchers that 'institutions matter', it is noteworthy how little research has, thus far, been conducted on the links between institutions and entrepreneurship. The four books discussed in the following constitute exceptions to this rule. Interestingly, all authors agree that institutions influence whether and how potential entrepreneurs open a business. Furthermore, all four contributions highlight the importance of institutionalized interactions between (potential) entrepreneurs and business associations, venture capital providers, consumer associations, scientific organizations and even competitors, because systematic exchange delivers information, advice and role models. Contrary to the 'mainstream' entrepreneurship research, the following contributions thus describe entrepreneurship as a collective process: new firms are founded due to the cooperation of many economic actors. Evidence for Schumpeterian entrepreneurship, where individual innovators set-up firms in isolation and out of their own steam, is rare.

However, how do institutions matter for entrepreneurship? The answer to this question is intimately linked to the ways in which the various authors conceptualize institutions. To begin with the least contemporary book by Schoonhoven and Romanelli (2001) *The Entrepreneurship Dynamic*, this edited volume has the particular charm and weakness that the contributors do not agree on one homogeneous concept of institutions. Rather, each author studies the role of institutions from her own disciplinary perspective—often without providing clear-cut conceptualizations. As it is frequently the case for inter-disciplinary volumes, the conceptual heterogeneity ensures that the reader gains numerous individual and highly valuable insights, while an overarching argument is hard to discern throughout the book.

The book has its origins in the Balboa Bay Conference where more than 30 sociologists, business and management scholars met in 1998 'to discuss the future and development of entrepreneurship theory and studies' (p. xiii). Opposing the trait-research paradigm of the past decades, these scholars convincingly argue that entrepreneurship is to be understood from a dynamic perspective. Consequently, the authors identify two broad dynamics that are explored throughout the book. First, 'what are the origins of new organizations? Especially, what are the conditions in industries, economies and societies that generate large numbers of new organizations being founded in particular times and places?' (p. 1). Second, 'how do new organizations affect the development and evolution of industries and the creation of new organizational populations?' (p. 405). The book is organized along these lines and accordingly divided into two parts. Part I (comprising Chapters 2–7) researches into the origins of entrepreneurial activity, whereas Part II (comprising Chapters 8–13) studies entrepreneurship in the evolution of industries.

From a theoretical perspective, the most noteworthy contribution consists in the extraordinary variety of theories that are used to shed light on the link between institutions and entrepreneurship. As Schoonhoven and Romanelli note in their conclusion: 'in this volume, scholars have relied on neo-institutional theory, social movement theory, organizational ecology arguments, social cognition arguments, population-level learning processes, organization evolution arguments, and community ecology theory to frame their inquiries and to interpret their research findings' (p. 407). To mention just some particularly remarkable examples, Swaminathan and Wade (Chapter 11) combine insights of social movement theory and empirical evidence from the brewing industry to 'develop a diverse set of theoretical propositions (...) [on] the evolution of new organizational forms' (p. 287). Aldrich and Baker build on their previous evolutionary model of legitimation of new populations and demonstrate at the example of *e*-commerce development how processes of learning and legitimation influence whether a new industry can develop out of the pioneering efforts of some early start-up organizations, or whether it falls apart (Chapter 8). Suchman, Steward and Westfall (Chapter 13), in turn, combine theories of organizational ecology with neo-institutional insights in order to reveal how the legal environment impacts on the founding of new firms as well as on the institutionalization of new organizational forms in Silicon Valley.

In addition to its theoretical diversity, Schoonhoven and Romanelli's book also fascinates due to its methodological variety, which exemplifies the uselessness of the *Methodenstreit* in the social sciences—this equally persistent and fruitless debate about whether quantitative or qualitative methods are the 'better' tools for data analysis. As manifested by the various contributions, one methodological perspective is not useful *per se*; rather, the respective research question points to the method that delivers the most insightful answer. For example, Ginsberg, Larsen and Lomi (Chapter 12) use quantitative, game-theoretic approaches and model how the development of regional clusters is influenced by the decision of individual entrepreneurs to locate their organization inside or outside a determined region. Burton (Chapter 2) relies on multinomial logistic regression analyses of 173 high-tech firms in Silicon Valley to show that the types of employment models chosen by start-up firms is influenced by their founders' experience in previous organizations. At the qualitative end of the methodological spectrum, Miner *et al.* (Chapter 5) conduct meta-analyses of the existing studies to shed light on three shared beliefs on how university spin-offs are generated, how they foster economic development and how they contribute to solving social problems within their regions. Also Rindova and Fombrun (Chapter 9) resort to qualitative analyses and conduct an in-depth case study of the specialty coffee niche in the 1980s and 1990s to illustrate that the development of this market was not driven by the visionary Schumpeterian entrepreneur who seeks to exploit a business opportunity on his own. Instead, so the authors, the establishment of the specialty coffee niche was a collective process to which all industry participants contributed.

Owing to the heterogeneity of analytical, theoretical, empirical and methodological approaches, it is often difficult to identify a common thread running throughout the book. Many chapters seem to be stand-alone articles rather than systematic contributions to one overarching research theme. However, thanks to the concise introduction and conclusion in which the editors bring these individual arguments together, the book nevertheless succeeds in its intention to put an end to two myths. First, the individual contributions evidence that entrepreneurship is not an isolated process, driven by a heroic Schumpeterian individual in pursuit of a temporary monopoly. Entrepreneurship rather is a collective activity. Second, a business opportunity alone is not sufficient for triggering entrepreneurship. Only when the surrounding institutions are supportive can inventions translate into innovation and, hence, entrepreneurship.

A further book that portrays entrepreneurship as an institutionally embedded process that has little in common with the individualistic act described by Schumpeter is the monograph by Kalantaridis (2004) *Understanding the Entrepreneur: An Institutionalist Perspective*. In contrast to the volume of Schoonhoven and Romanelli, Kalantaridis' work is mostly theoretical rather than empirical in its intention to decipher how institutions influence entrepreneurial behaviour. The special added value of this book is thus found in the author's sophisticated theorizing throughout the book.

This theoretical contribution comes in two forms: first, in the form of a comprehensive, inter-disciplinary review of the most influential entrepreneurship studies of economists (Chapter 2), as well as sociologists and psychologists (Chapter 3). Distinguishing between different schools of economic writings, Kalantaridis highlights how economists, ever since the seminal work of Hawley, Knight and Schumpeter, has perceived entrepreneurs as non-contextual individuals who set-up new businesses on their own. Sociologists and psychologists, on the other hand, acknowledge the importance of an individual's social context: ranging from the protestant work ethic described by Weber to the professional aspirations of parents identified in modern psychological writings. In line with these insights, Kalantaridis ends his literature review with the conclusion that

[t]he entrepreneur operates in and is influenced by social and cultural factors. [At the same time, t]he entrepreneur is an individual who possesses psychological attributes that distinguish him (...) from other economic agents' (p. 66). Consequently, 'institutional analyses enable us to gain an in-depth understanding of the context in relation to the individual' (p. 67).

While a novice to entrepreneurship studies might particularly appreciate this review for its comprehensive introduction to the most relevant literatures of the field, an experienced entrepreneurship scholar may find the further theoretical developments particularly insightful, which can be seen as the second and major theoretical contribution of Kalantaridis' work (Chapters 4 and 5). Here, the author dares to bridge the most fundamental assumptions of economic, sociological and psychological writings by arguing that entrepreneurs are 'contextually' (institutionally) embedded, yet individually motivated. Kalantaridis develops this theoretical claim by introducing three propositions on how entrepreneurial action is driven by an individual's instincts, on the one hand, and channelled by his (institutional) context, on the other. According to Proposition 1, 'the actions of the entrepreneur are shaped by the interaction between purpose and context' (p. 8, repeated p. 79). Proposition 2 specifies that 'the interaction between purpose and context is influenced by the distinct (and in cases individual) positions that economic agents occupy in relation to their context' (p. 8, repeated pp. 9 and 81). Proposition 3 clarifies that 'economic agents use cognitive [institutional] frameworks in the process of learning (both as a social and an individual process)' (p. 8, repeated on pp. 9 and 82). Institutions, according to Kalantaridis, channel entrepreneurial decision-making because they enable entrepreneurs to predict both: the most likely behaviour of other economic agents and the outcome of their own actions. Institutions thus enable entrepreneurs to interpret the information available to them.

Kalantaridis' reasoning is fascinating to follow, given in particular that it is systematically embedded within the previously discussed literatures as well as the work of Thorstein Veblen—another major source of inspiration to the author. At the same time, though, Kalantaridis' conceptualizations of both institutions and entrepreneurial purposes seem unusually broad. According to Kalantaridis, '[i]nstitutions (or habits of thought) (...) refer to the regular, patterned behaviour of individuals in a specific social setting (...). Institutions are the embodiment of long-standing, widely accepted practice in the society' (p. 74). This encompassing definition suggests that any form of systematic behavioural pattern is an institution. Similarly, the purpose, or driver, of entrepreneurial actions is conceptualized in a very general way. If '[i]nstincts are the natural dispositions that are common to all economic agents [as they] provide direction and force to the process of human development' (p. 75), then all human beings are driven by their instincts, not only entrepreneurs.

These broad conceptualizations seem the reason for discrepancies between Kalantaridis' theoretical propositions and the empirical application of his framework in order to analyse entrepreneurship in post-socialist Russia in Chapter 6. To this end, the author combines the qualitative data from different sources: including travellers' narratives, the existing studies and the data gathered through hundreds of interviews with Russian entrepreneurs in rural areas at the beginning of this millennium. On the basis of these data, Kalantaridis describes eight types of entrepreneurs and their paths to establishing a business. In doing so, the author uses his theoretical framework to point out how entrepreneurs were driven by their 'instincts' (namely the necessity to find alternative sources of income after the breakdown of socialism), while the surrounding institutions (i.e. the entrepreneurs' networks) determined the type of business they engaged in.

Although these examples are highly insightful, the encompassing definitions of institutions and instincts imply that instances of non-entrepreneurship cannot be explained. Given that most people in post-socialist Russia were institutionally embedded as members of one or more networks and driven by the instinct to find alternative sources of income, Kalantaridis theoretical framework suggests that most Russians should have become entrepreneurs. This is obviously not the case. This inconsistency is further aggravated by the author's empirical focus on individuals who started a business, while non-entrepreneurs remain unexplored. It therefore remains unclear under which conditions individuals with similar instincts and institutional surroundings decided not to open a company. More systematic comparisons of entrepreneurs and non-entrepreneurs together with more narrow conceptualizations of institutions and instincts could have provided even more applicable propositions on how entrepreneurs are both individually motivated and institutionally conditioned.

Kalantaridis acknowledges the limited applicability of his framework in the conclusions. Accordingly, he points out that his framework does not belong to those theories that can be considered '"useful" (...) [as they] enable the development of policies, which in turn, may enhance entrepreneurial activity in specific socio-economic contexts' (p. 144). 'Instead, [this book] raises concerns and advances an alternative mode of viewing entrepreneurship (...) but does not put forward prescriptive [policy] solutions' (p. 144).

The monograph by AnnaLee Saxenian (2006) *The New Argonauts: Regional Advantage in a Global Economy* differs from the other volumes discussed here as it illustrates not only how institutions influence entrepreneurs, but also how entrepreneurs shape institutions. Empirically, Saxenian builds these arguments on rich qualitative insights into how the information technology (IT) industry has grown in Silicon Valley and in several developing countries since the 1970s. In short, her argument goes as follows. High-skilled entrepreneurs who emigrated to earn 'science and engineering degrees at US universities (...), [who] remained after graduation to work in the nation's fast-growing technology companies' (p. 14), and who finally return to their home countries to open their own businesses are central to the boom of the IT industries in Israel, Taiwan, India and China. These 'new Argonauts' who 'undertake the risky but economically rewarding project of starting companies far from established centers of skill and technology' (p. 3) succeed as they 'transfer (...) the institutions of entrepreneurship from American technology regions like Silicon Valley to their home countries' (p. 6).

The reciprocal influence of institutions and entrepreneurs thus occurs at different points in time, whereby well-functioning institutions in one economy serve as role models for the adaptation of less well-functioning institutions in another economy. In a first step, prospective entrepreneurs become acquainted with the institutional model of a booming industry. To use the IT example of Saxenian, foreign-born entrepreneurs first 'learn[ed] the Silicon Valley system' (p.48). Seeking to break through the 'glass ceiling' that prohibited their promotion in firms led by US Americans, high-skilled immigrants have increasingly opened their own companies since the 1970s. Networks among immigrants of the same origin—such as alumni and business associations, banks, and venture capital firms—played a crucial role in facilitating the success of these foreign-born entrepreneurs. While benefitting from these networks, immigrant entrepreneurs internalize the business practices of Silicon Valley: an important precondition for their future success back home (Chapter 2).

In a second step, these foreign-born entrepreneurs then induce the change in less well-functioning institutions of their home nations. Accordingly, Saxenian illustrates how 'cross-regional communities' developed since the 1990s in Israel, Taiwan, China and India. Following the recession of the US high-tech industry around 2001, foreign-born knowledge immigrants returned home in great numbers in order to open their own IT firms. Specializing in niche production that is complementary rather than competing with Silicon Valley manufacturing, IT clusters grew rapidly in these countries and contributed notably to their economic development. The latter is not only sustained by the sheer number of company foundations, but also by the institutional changes induced. By opening their own firms, the returning Argonauts transferred those Silicon Valley institutions to their home countries that facilitate entrepreneurship: such as venture capital, legal advice and business networks, as well as standard-setting practices (Chapter 3).

Saxenian's argument is not only highly original *per se*; it also fascinates by challenging the two standard assumptions of neo-classical economics. First, Saxenian demonstrates that economic growth does not necessarily result from *competition* but rather from *cooperation* between developed and developing economies. This argument results from the observation that IT growth in both developing economics and the USA was fostered by the 'brain circulation' that gained momentum after the high-tech recession of the early new millennium. Since then, the brain drain of highly talented people, who had left a developing country to study in the USA, turned into a 'circulation of brains' because these emigrants increasingly returned home to found their own firms there. Importantly, these new Argonauts do not only create new job opportunities in their home nations but also in the countries they left due to collaborations with venture capitalists, suppliers, accountants, consultants and business associations in both places. Hence, international cooperation rather than competition fosters economic growth.

Second, Saxenian illustrates that one ideal-typical growth path does not exist. Quite on the contrary, the development of the IT industries in Israel, Taiwan, India and China was characterized by unique growth paths. While Israel's strongly developed military sector facilitated new firm foundation by the returning emigrants because skilled labour and research facilities were widely available (Chapter 3), the Taiwanese Argonauts were assisted by their government which explicitly sought to build an institutional environment that supports high-tech entrepreneurship (Chapters 4 and 5). In China, in contrast, governmental interventions were more cumbersome than helpful, because the government sought to promote a Chinese modus operandi rather than facilitating the adaptation to international standards and financing models. Consequently, China's IT industry is, thus far, a technological follower rather than a product innovator (Chapter 6). India, in turn, is characterized by an unusually heterogeneous development of its IT industry, because facilitative institutions, such as venture finance as well as research and training centres, are available only in some areas—typically supported by large international corporations (Chapter 7).

Overall, Saxenian's monograph is equally instructive and enjoyable to read. The rich empirical evidence presented in the form of the 'New Argonaut argument' offers the reader with an insightful understanding of how fast-growing IT clusters in developing countries operate. Presenting this evidence, Saxenian gives an optimistic assessment of the future development of these economies without failing to stress the extraordinary difficulties that Argonaut entrepreneurs face upon return to their home nations.

At some passages, though, a reader may be puzzled by Saxenian's tendency to glorify the positive externalities of Argonaut clusters in developing countries. While the author mentions that the development of high-tech clusters leads to massive increases in the wage levels of skilled people, she fails to mention the drawbacks of this phenomenon. Local firms that are not able to attract venture finance, public and private schools, as well as governmental agencies—to name just a few—are usually not able to pay competitive wages and have, therefore, difficulties in hiring competent employees. A reader may therefore wonder whether the Argonaut effect broadens the cleavage between the rich and the poor in developing countries, because well-educated people work for US branches rather than for local firms, schools and public agencies that seek to foster social cohesion and development. Do high-tech clusters foster uneven upward mobility between skilled people with links to Argonaut clusters on the one hand and the less privileged masses on the other? The imbalanced economic development in Israel and India seems to lend support to this suspicion.

In his monograph *Comparative Entrepreneurship: The UK, Japan, and the Shadow of Silicon Valley*, Whittaker (2009) has similar concerns as Saxenian in the conclusions of her book: that a one-fits-all entrepreneurship policy, aiming at stimulating the development of Silicon Valley outside the USA, may not be successful. While Saxenian is sceptical about such a top-down policy because it does not accommodate cross-regional networks that seem essential for entrepreneurial success in developing countries, Whittaker questions whether Silicon Valley-type policies are appropriate for countries where entrepreneurs face different institutional constraints.

Throughout his book, Whittaker therefore explores and explains differences between entrepreneurial characteristics in Japan and the UK: 'Are entrepreneurs the same everywhere? Do they strive for the same things? Are the processes of entrepreneurship similar? Are they equally collaborative? Or are all of these shaped by their environments? If so, how?' (p. 1). To shed light on this question, the author deems neo-institutionalist approaches, in general, and the literature on 'varieties of capitalism' (VoCs) in particular, most insightful. Contrary to the VoC literature, though, Whittaker does not want to start from hypothesizing about how differences in institutions might influence the entrepreneurial behaviour. He rather wants to observe such differences first and then seek to explain them through the variety of institutions across countries.

Empirically, Whirttaker bases his analyses on three different data sources: First, on a 'founders and founding dataset' composed of 238 interviews with British and Japanese entrepreneurs in the late 1990s. Second, the author uses the 'comparative entrepreneurship dataset' that surveys 336 British and Japanese entrepreneurs in the early years of the new millennium. Thirdly, 50 in-depth interviews with British and Japanese entrepreneurs carried out between 2001 and 2004 supply empirical data. These data sources are partly combined, partly used independently of each other, to illustrate how entrepreneurs differ in their approaches to opening a firm.

Most notably, Whittaker finds empirical support for his initial hypothesis that entrepreneurial founding activities differ across countries. To mention some of his most remarkable findings, Whittaker reveals that British entrepreneurs tend to open their own firms to advance in their careers, whereas major founding motives of Japanese entrepreneurs boil down to the realization of technological opportunities (Chapter 2). While in Japan and the UK a similar share of companies is founded by more than one person, British founding teams are more 'collegial' in that responsibilities and rewards are shared equally among the owners, whereas Japanese entrepreneurs are 'hierarchical' as power is typically concentrated in one or a few founders (Chapter 3). Albeit not identical, the business objectives of British and Japanese entrepreneurs are similar and include the intention to move from technological imitations towards technological innovation, to grow moderately and to avoid risk (Chapter 4). In addition, product market strategies of entrepreneurs in Japan and the UK are similar as both seek to compete in local niches rather than in competitive mass markets. Interestingly, though, British entrepreneurs see their competitive advantage in a strong customer orientation, whereas Japanese entrepreneurs perceive a technology orientation and technology-driven innovativeness as their most important competitive advantages (Chapter 5). Human resource management (HRM) in start-up companies is also distinct in that teamwork is less pronounced while measurable goals are more important in Japan compared with the UK. Furthermore, British start-up firms differ notably in their HRM practices from their Japanese counterparts, as the former actively seek to win the support of the employees' families through organizing social activities. Such practices are unusual in Japan (Chapter 6). Finally, Japanese entrepreneurs cooperate with rather few business partners, whereas British entrepreneurs entertain a broader variety of business collaborations (Chapter 7).

While the variety of evidence that is analysed through a mixture of quantitative and qualitative analyses is impressive, Whittaker admits that his 'explanation of the research design and data set[s used] may [lead readers to] raise eyebrows' (p. 172). Seemingly, the research design of Whittaker's studies was not planned *ex ante* but has developed out of different research projects since the mid-1990s, which obliged the author to make sense of the data available *ex post*. Owing to this *ex post* logic, it is often difficult to retrace upon which part of evidence the respective analyses are based, given in particular that most analytical explanations are made in the appendix rather than in the respective chapters.

Furthermore, institutionalist scholars might regret Whittaker's diffidence towards systematically embedding his findings within the existing literature. Even though the author repeatedly stresses the usefulness of neo-institutional approaches, he does not explicitly conceptualize his understanding of institutions. The question of how institutions matter is therefore answered rather implicitly. Whittaker's hesitance to interpret his findings in light of neo-institutionalist theories is particularly visible in Chapter 8, where the author summarizes the empirical findings of Chapters 2–7 in the first part and interprets them in the second. While Whittaker mentions the VoC literature as an insightful analytical framework to explain the differences in entrepreneurial behaviour, he does not make use of it. Instead, the author develops his own view on how differences in market interaction, in market transactions and in the possibilities of market participation explain some of the observed differences of entrepreneurial behaviour in the UK and Japan. Hence, a reader who hoped for systematic insights into how institutions influence firm-foundation processes might be disappointed.

At the same time, Whittaker's deep insights into the entrepreneurial differences across countries provide a solid basis for his suspicion towards the unconsidered imitation of Silicon Valley. Consequently, Chapter 9 concludes with the warning that a 'one-fits-all' policy seems inappropriate in the face of the observed differences in entrepreneurial characteristics.

Together, these four books highlight that scholars researching into the links between institutions and entrepreneurship have a notably homogeneous understanding of the most promising research approaches—despite the heterogeneity of their individual research foci. First, agreement seems broad that entrepreneurship needs to be understood from a dynamic perspective that aims to explain differences in firm foundation processes. Static studies of business and management scholars which seek to understand different levels of entrepreneurship or differences in entrepreneurial backgrounds are considered less fruitful. Second, to gain dynamic insights, qualitative evidence obtained from in-depth interviews with a specific group of entrepreneurs is deemed more insightful than quantitative analyses of statistical data that lump different entrepreneurship types together. Third, due to the broad variety of entrepreneurs, ranging from the self-employed owner of a hot-dog stall to Bill Gates, the aim to develop *one* theory about *the* entrepreneur seems neither possible nor desirable. What is needed is a variety of theories in accordance with the variety of entrepreneurship types observed—distinguishing, for example, between high-tech and low-tech entrepreneurship, or opportunity and necessity entrepreneurs. Fourth, entrepreneurship researchers seem increasingly sceptical about attempts to imitate Silicon Valley outside the USA. While Silicon Valley was, and still is, considered a role model of entrepreneurship, awareness is increasing that this type of entrepreneurship is based on a peculiar institutional constellation that cannot and, hence, should not be imitated elsewhere. To succeed, entrepreneurs need to build competitive advantages in line with the comparative advantages of their institutional environment. Therefore, attempts to imitate Silicon Valley will probably be fruitless.

Certainly, all contributions discussed here contain parts in which a reader might have appreciated more theoretical, empirical or methodological rigour. Most importantly, more close-knit ties between empirical findings and theoretical interpretations would have highlighted the possible contributions to previous entrepreneurship research. At the same time, these inconsistencies and the *ex ante* logic of some analytical explanations are an indication that institutional approaches to entrepreneurship studies are still in their infancy. Future research into this area therefore seems equally promising and desirable. The aforementioned contributions have paved the way.

Acknowledgements

I wish to thank Guido Möllering, Erik Stam, Wolfgang Streeck and Neil Thompson for their comments on previous versions of this article.