

Entrepreneurial perception of institutional voids

ABSTRACT

Institutions can influence the development of entrepreneurial opportunities. Contexts with institutional voids are usually theorized to be especially harmful for new ventures. However, it is unclear if this is objectively true—or if the entrepreneur doesn't subjectively view voids as problematic. Using a conceptual approach, we explore the perception of entrepreneurs on how regulations may affect the development of imitation and innovation opportunities, proposing entrepreneurs are heterogenous based on their degree of perception on regulations favoring flexibility or stability, as mediated by voids affecting decision-making processes. Our study has theoretical and policy implications for entrepreneurs in differing institutional environments.

KEYWORDS: Opportunity recognition and evaluation; institutional environment, regulation; cognition and decision; imitation and innovation; institutional voids, entrepreneurial perception

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INTRODUCTION

Institutions are the “rules of the game” governing the exchanges in product and factor markets (North, 1990; 1992; Peng, Wang, & Jiang, 2008; Williamson, 1979; 2000). How entrepreneurial opportunities are developed to create value depends on the institutional environment in which they are rooted (Alvarez & Barney, 2010; Baker, Gedajilovic & Lubatkin, 2005; Henrekson, 2007; Stephan, Uhlaner, & Stride, 2015). This leads researchers to examine how institutional differences can influence entrepreneurship (see e.g., Davidsson, 1995; Klyver, Hindle, & Meyer, 2008; Sine & David, 2003; Young, Welter & Conger, 2018).

While product and factor markets are characteristically assumed to be effective and efficient, facilitating perfect information flows, ease of measurement and rights enforcement (North, 1990; Makhija & Stewart, 2002), there are contexts where institutions supporting these markets are missing, weak, or fail to fulfill their expected roles (Khanna & Palepu, 1997; Mair & Marti, 2009). Entrepreneurial firms are typically viewed as lacking the resources and capabilities needed to overcome challenges caused by institutional voids (Baker, et al., 2005). Voids are usually theorized to be especially harmful for new ventures and thus require a work-around (see e.g., Baker & Nelson, 2005) or result in failure or inaction (Easterly, 2006). However, it is unclear if this is objectively true—or if the entrepreneur doesn’t subjectively view voids as a problem.

Though analyses on perceived intention and motivation to exploit an opportunity are common—see e.g., studies on examined experiences and beliefs (Cliff, Jennings, & Greenwood, 2006), or human and social capital (Samuelsson & Davidsson, 2009), as factors that affect the decision to imitate or innovate—the perception of how institutions affect the exploitation of

opportunities has received little attention (see exceptions Marliati, 2020; Pinho & de Lurdes Martins, 2020). As entrepreneurs' perception of the existence of a problem will greatly affect their willingness to pursue an opportunity (McMullen & Shepherd, 2006), it is important to examine entrepreneurs' perceptions of the effect of institutional voids on opportunity types. Thus, we ask: *does the perception of institutional voids matter to the development of entrepreneurial opportunities?*

To address this important question, we use institutional economics theory (North, 1990, 1992; Williamson, 2000) and focus on formal (regulatory) institutions. Specifically, we employ the stability / flexibility framework (Young, Welter & Conger, 2018) that posits that institutions promoting stability foster more imitative opportunities, while institutions promoting flexibility foster more innovative opportunities. However, this research is based on secondary data and does not address whether entrepreneurs themselves perceive institutional voids to be a problem to developing an opportunity. We therefore build on this work but specifically examine the perception of entrepreneurs on how existing (absent) regulations and their enforcement (or lack of) shape their perception of imitation and innovation opportunities. In our model, voids mediate the relationship between institutions and opportunities. We hypothesize that entrepreneurs will be heterogenous based on their degree of perception on regulations favoring flexibility or stability, mediated by voids that affect various decision-making processes.

This paper extends our knowledge in several ways. First, by examining the perceived impact of (absent and present) regulations on entrepreneurial opportunities, we help theorize the drivers of the expectations of entrepreneurs on imitation and innovation opportunities, and the strengthening (weakening) effects of the institutional voids. Specifically, we explore various decision-making aspects of entrepreneurial ventures impacted by regulations favoring flexibility

or stability, linked to entrepreneurs' perception of the institutional voids and the effects of regulations on the opportunities that they identify and exploit. Our research should contribute to practitioners as well, by providing a better understanding of how voids can be effectively addressed by decision-makers and policymakers to lead entrepreneurs towards more imitative or innovative types of opportunities.

LITERATURE REVIEW

Entrepreneurial perception

Entrepreneurial perception refers to how entrepreneurs view and interpret their business environment, opportunities, and the factors influencing their ventures (Tomski & Wysłocka, 2019). This perception is crucial as it shapes decision-making, strategic planning, and the overall success of entrepreneurial activities (Zhu & Sun, 2023). Entrepreneurs' perceptions are influenced by various factors, including their personal experiences, the socio-economic environment, educational background, and varying cultural contexts.

Entrepreneurs often perceive their business environment in terms of its dynamism, hostility, and heterogeneity. While some studies suggest that entrepreneurs view their environment as turbulent, others indicate a more moderate perception, suggesting that entrepreneurs may not always see their environment as drastically challenging (Tomski & Wysłocka, 2019). Entrepreneurs' perceptions of their business environment can be influenced by stereotypes and impressions, such as warmth and competence. These perceptions can affect their innovation strategies and interactions with the environment (Zhu & Sun, 2023). The perception of the business environment also includes views on government programs and international cooperation, which can significantly influence entrepreneurial activities and innovation (Saucedo-Bendek, Ewel, & Roman-Roig, 2020; Zhu & Sun, 2023).

Entrepreneurs perceive their opportunities both objectively and subjectively: entrepreneurs may see opportunities as existing phenomena to be discovered or as constructs that they create through their actions and perceptions (Alvarez & Barney, 2010; Alvarez et al, 2018; Renko, Shrader & Simon, 2012; Young et al, 2018), and the perception of opportunities is also linked to the entrepreneurs' ability to recognize and act on these opportunities, which is influenced by their personal and professional experiences (Renko et al., 2012).

While entrepreneurial perception is a critical factor in the success of entrepreneurial ventures, it is important to recognize that these perceptions are not static. They can evolve with changes in the external environment, personal experiences, and educational influences. Additionally, the perception of entrepreneurship can vary widely across different cultural and socio-economic contexts, highlighting the need for tailored approaches in entrepreneurship education and policymaking. In this paper, we focus on how entrepreneurial perception can be affected by the existence of institutional voids.

Institutions and institutional voids

Institutional economics theory explains how institutions can impact the economic transactions that are vital to business commerce (North, 1990; 1992; Williamson, 2000), including those of entrepreneurs. These institutions come in two types: formal, which are the codified regulations and physical institutions such as governments and legal courts needed to manage them, and informal, which are the cultural norms and behaviors that underlie the design of formal institutions and are much more difficult to alter (North, 1990; 1992). Every country has its own distinctive set of formal institutions, such as financial and legal institutions, government regulations and the organizations that enforce them, and as a result not all nations can be equated (North, 1990; 1992; Williamson, 2000). Well-developed institutions therefore allow economic

actors such as entrepreneurs to work within an established and comprehensible system without needing specific information about the actions of others. In general, because regulatory institutions are formalized through codification, they are more consistently understandable across and within different institutional contexts (Makhija & Stewart, 2002; North, 1990), meaning that their effects on entrepreneurial opportunities are more openly apparent (Young et al., 2018).

However, there are places where the institutional fabric is thin, where institutional voids occur and information is less transparent to economic actors (Khanna & Palepu, 1997; 2000). The term “institutional void” broadly refers to missing product, labor, and capital market institutions (Khanna & Palepu, 2010), and/or the absence of a strong rule of law (Carney, Gedajlovic, & Yang, 2009; Khanna & Rivkin, 2001; North, 1990). An institutional context containing institutional voids is one where the “institutional arrangements that support markets are absent, weak, or fail to accomplish the role expected of them” (Mair & Marti, 2009: 422), or in effect, “fail to establish or enforce the rules, or fail to articulate the state of play” (Kingsley & Graham, 2017: 327). Institutional voids may be found in several markets in which entrepreneurs must act, including capital markets to acquire funding, product markets to acquire customers, labor markets to acquire human capital, and cross-border markets for technology for R&D purposes (Khanna & Palepu, 2000). These institutional voids increase transaction costs for economic actors and results in inefficiencies for many across markets in the long term (Palepu & Khanna (1998).

Institutional voids impact the efficiency of the market mechanism by increasing uncertainty related to the market activities in which the entrepreneurs engage (North, 1990). Institutional voids have been recognized as hindering not only market function, but market development and market participation as well (Mair & Marti, 2009). While large established

multinational corporations or informal institutions can function as substitutes for institutional voids to replace missing by “specialist intermediaries, regulatory systems, and contract-enforcing mechanisms” (Khanna & Palepu, 2006: 62; Ma, Yao & Xi, 2006; Peng & Heath, 1996); entrepreneurs starting new ventures may have a bigger struggle dealing with voids in formal institutions.

The stability / flexibility framework

The stability / flexibility framework, as posited by Young et al. (2018), argues that institutional arrangements that promote stability, by supporting an entrepreneur’s ability to assess risk, will result in the development of more imitative opportunities. In a likewise fashion, institutional arrangements that promote flexibility, by supporting an entrepreneur’s ability to respond to uncertainty by iterating, will result in the development of more innovative opportunities. The Young et al. (2018) study revealed the disparate effects of risk and uncertainty in different institutional (national) contexts through the development of an empirical composite measure of formal institutions. Specifically, they found that formal regulations such as the protection of intellectual property rights and understandable taxation policies will provide institutional stability, resulting in more imitation, while regulations that provide access to efficient capital markets (financing), ease business formation and allow for the greater ability to hire and fire a labor force at will results in more innovation.

Yet, the Young et al. (2018) study, as expansive as it is, uses secondary data that does not capture whether entrepreneurs themselves *perceive* institutional voids to be a problem to developing an opportunity. Young et al. (2018) captured the outcomes regarding the type of opportunity developed, but not whether the entrepreneurs thought of institutional voids as problems preventing them from acting, as an antecedent condition, or whether entrepreneurs

simply ignored or developed a workaround for such voids. For example, scholars have noted that social entrepreneurship often occurs in environments where markets are considered to have failed (McMullen, 2011) or where considerable institutional voids exist (Austin, Stevenson, & Wei Skillern, 2006; Dart, 2004; Haugh, 2005; Mair & Marti, 2009; Seelos & Mair, 2005), suggesting that entrepreneurs can perceive voids as less of a problem and more of a challenge to navigated. This important distinction has not been the subject of much attention, however, and is deserving of further exploration.

We seek to address this lack by focusing on the perceptions of entrepreneurs regarding their regulatory environment, and whether the presence of institutional voids affects their decision-making processes on developing an entrepreneurial opportunity. We employ the stability / flexibility framework of Young et al. (2018) as a theoretical basis for our conceptual paper and therefore focus on their “scale of opportunity types based on market attributes, which treats opportunities as an imitation/innovation continuum (Edelman and Yli-Renko, 2010; Zahra, 2008)” (Young et al., 2018: 409). Specifically, we make a theoretical argument about the perceived effect on entrepreneurs and regulators of institutional voids within formal regulatory institutions in five areas of concern for the successful development of entrepreneurial opportunities: (1) financing, (2) R&D and decision-making, (3) human capital, (4) management and leadership decisions, and (5) sales and marketing decisions. Next, we discuss the basics of our conceptual framework.

THEORETICAL DEVELOPMENT:

Entrepreneurs' and Regulators' Perceptions: A Framework Rooted in Institutional Voids

Entrepreneurs' and regulators' perceptions of regulatory institutions are shaped by their interactions with the stability and flexibility inherent in these institutions. Building on

institutional economics (North, 1990), our conceptual framework links five types of institutional voids—financial, human capital, R&D, sales and marketing, and leadership and management voids—to constructs of risk and uncertainty. These voids create distinct challenges and opportunities for entrepreneurial ecosystems, influencing how stability and flexibility are perceived and navigated (North, 1990; Mair & Marti, 2009; Ahn, Cho & Cho, 2021).

Entrepreneurs' Perceptions

Entrepreneurs' perceptions are shaped by their ability to navigate the risks and uncertainties inherent in institutional voids. *Financial voids*, characterized by weak enforcement or outdated regulations regarding financial markets, amplify risks by creating unpredictable environments. Entrepreneurs perceive stability through mechanisms such as transparent information flows, effective banking systems and consistent fiscal policies. These elements reduce known risks and provide confidence in planning and operations (Knight, 1921; McMullen et al., 2008).

Human capital voids, including skill mismatches and inadequate labor market support, affect flexibility by limiting entrepreneurs' ability to adapt to dynamic environments. Efficient systems that address labor freedom and foster workforce development enhance adaptability, enabling entrepreneurs to respond to uncertainties. Similarly, *R&D voids*, marked by limited access to innovation networks and funding, exacerbate risks but also offer opportunities for entrepreneurs to create value through innovative solutions. During societal disruptions like the Covid-19 pandemic, *sales and marketing voids* emerged as critical barriers, complicating entrepreneurs' ability to maintain market presence. However, these voids also presented opportunities for collaborative networks and entrepreneurial constellations to address market

challenges, demonstrating resilience and adaptability (Deerfield & Elert, 2022; Makridakis et al., 2009).

Regulators' Perceptions

Regulators' perceptions center on managing the interplay between stability and flexibility to promote market efficiency. Institutional voids challenge stability by undermining predictability in governance, fiscal health, and trade protections. Effective regulatory frameworks mitigate these risks through transparency and systematic enforcement, enabling regulators to manage "subway uncertainty" using predictive tools (Makridakis, Hogarth, & Gaba, 2009; 2010). *Leadership and management voids* within regulatory institutions influence flexibility by shaping how regulators adapt to emerging challenges. Regulatory adaptability is critical for accommodating innovative business models, such as those introduced by platform businesses like Airbnb and Uber. Regulators who balance consumer protection with market openness foster perceptions of effective governance among entrepreneurs and market participants (Edelman & Geradin, 2016).

Interaction Between Perceptions

Our model seeks to demonstrate how institutional voids shape the interaction between regulators' and entrepreneurs' perceptions. *Regulatory efficiency* is perceived through the lenses of stability and flexibility, with regulators prioritizing systemic stability and entrepreneurs focusing on localized adaptability. Misalignment in these perceptions—driven by voids in leadership, human capital, and R&D—can disrupt entrepreneurial ecosystems, while alignment fosters innovation and market efficiency (Young et al., 2018). The dynamic interplay between institutional voids, stability, and flexibility profoundly influences the perceptions of entrepreneurs and regulators. Addressing these voids through frameworks like our conceptual

model enables policymakers to reduce risks and uncertainties while fostering market efficiency and entrepreneurial growth. By strategically managing financial, human capital, R&D, sales and marketing, and leadership voids, policymakers can enhance the resilience and adaptability of entrepreneurial ecosystems.

In the next section, we lay out our specific theoretical propositions about the perceived effect of formal regulatory institutions on five areas of concern for the successful development of entrepreneurial opportunities: (1) financing, (2) R&D and decision-making, (3) human capital, (4) management and leadership decisions, and (5) sales and marketing decisions, as mediated by the perceived presence of institutional voids. We begin with the financing of a new entrepreneurial opportunity.

Institutional voids related to financing entrepreneurial ventures

The ability to procure adequate financing to fund the development of a new entrepreneurial opportunity is essential to the success of a venture. Traditional mediator roles include venture capitalists, investment bankers, financial analysts, and the financial press. The role of financial stakeholders is to help the firm maximize value (Henisz, Dorobantu, & Nartey, 2014).

In institutional voids settings, however, expected financial institutions may not even be present. For example, capital markets may lack sufficient disclosure processes and have weak standards for corporate control and governance, and traditional mediator roles may be missing entirely or not fully advanced. Institutional voids correspond with a lack of those market intermediaries that analyze and produce information critical to the decisions banking institutions must make for financial investments (Kingsley & Graham, 2017), including those in entrepreneurial ventures. Of perhaps even more importance, the regulation of securities may be

anemic and burdened with unreliable enforcement (Khanna & Palepu, 2000). Indeed, business may be conducted on a cash only basis, people may not even have bank accounts, or a country's currency may be highly volatile and not trusted by the residents, further complicating matters. Inadequate access to sources of capital is often cited as a cause for entrepreneurial failure (Katz & Green, 2014).

Financing voids, characterized by the absence or inadequacy of financial bodies and resources, dynamically mediate the relationship between regulatory frameworks and entrepreneurial resilience. These voids exacerbate or mitigate the challenges posed by regulatory uncertainty, shaping the entrepreneurial perception of their ecosystems and innovation outcomes. Entrepreneurs in such contexts adapt by leveraging alternative financing mechanisms, creating innovative business models, and fostering resilience against institutional inefficiencies (Webb et al., 2020; Mair et al., 2007; Khanna & Palepu, 1997, 2000).

In environments where financing and regulatory voids intersect, entrepreneurs often establish alternative financial networks, such as bootstrapping or informal partnerships, and advocate for regulatory reforms that address new business models. This dynamic fosters adaptive responses and innovative market strategies (Mair et al., 2007; Deerfield & Elert, 2022).

The interaction between financing voids and regulatory uncertainty is particularly pronounced in emerging markets. Here, the absence of formal financial systems compels entrepreneurs to develop alternative capital structures, enabling them to overcome institutional gaps and maintain competitive advantage. This interplay emphasizes the importance of entrepreneurial resilience in navigating weak institutional environments (Khan & Quaddus, 2020; Khanna & Palepu, 1997). Indeed, investors may “adapt business models, products, or organizations to institutional voids” (Khanna et al., 2010: 41), and capable investors may use

what's considered private information about the local investment climate to substitute for lacking public information (Kingsley & Graham, 2017), often by building political connections (Amore & Bennedson, 2013; Faccio, 2006; Fisman, 2001) and through familiarity with the local entrepreneurial scene.

Moreover, financing voids can act as catalysts for social and environmental innovation. Entrepreneurs leverage these gaps to develop sustainable business models that address unmet societal and ecological needs, bypassing traditional institutional constraints. This can foster market adaptation and a redefinition of entrepreneurial success in terms of broader societal impact (Deerfield & Elert, 2022; Mair & Marti, 2009).

In sum, financing voids serve as mediators producing both barriers and opportunities within entrepreneurial ecosystems, dynamically interacting with regulatory uncertainty. They influence economic, social, and environmental outcomes by shaping how entrepreneurs identify opportunities, mobilize resources, and adapt to institutional deficiencies. By understanding these interactions, policymakers and stakeholders can better support resilient entrepreneurial ecosystems and drive sustainable innovation (Webb et al., 2020; Mair et al., 2007; Khanna & Palepu, 2000). Therefore, we propose:

P1: Financing voids dynamically interact with entrepreneurial resilience under regulatory uncertainty.

Institutional voids related to R&D and decision-making for entrepreneurial ventures

The advancement of innovation efforts relies on the R&D function of a firm, and in particular the regulatory protection of intellectual property rights (IPR). Laws that govern IPR protect the rights individuals such as entrepreneurs have on any intangible or tangible resources they own (Miller & Kim, 2016). In general, the provision of these monopoly rights, provided by

patent protection, increases the life of the fruits of an opportunity (Shane & Venkataraman, 2000). Other regulations related to R&D and decisions regarding innovation in an entrepreneurial venture often involve those within specific industries, such as those regarding the environment and pollution (Chen, Shi & Wei, 2022). Studies have shown that environmental regulations can enhance technological productivity (Zhao & Gu, 2015), and that when environmental regulations are enforced the overflow of international R&D (knowledge spillover) level rises (Liu, Wang & Guo, 2019), which can benefit entrepreneurs' innovation.

Regulation-driven voids, particularly those related to research and development (R&D) and decision-making, critically influence the relationship between regulatory frameworks and entrepreneurial outcomes. These voids arise from absent, weak, or misaligned institutional support structures, affecting opportunity recognition, innovation performance, and market efficiency (Khanna & Palepu, 1997, 2000; Mair & Marti, 2009). R&D voids are evident in the limited availability of funding, knowledge, and innovation networks, weakening firms' ability to innovate and respond to environmental challenges (Brinkerink & Rondi, 2021; Chen et al., 2022). This lack of resources hinders firms' competitiveness and reduces the inclusivity of entrepreneurial ecosystems. Williamson (1991) mentions the lack of IPR as a shift parameter that alters the governance structure of firms, while North's (1990) argument is that the lack of protection of IPR will deter firms from investing in R&D within the borders of the emerging nation.

The absence of transparency and accessible market data exacerbates these voids, leading to fragmented intelligence and inefficient resource allocation (Yu et al., 2021; Khanna & Palepu, 1997, 2000). Technological regulatory regimes that have weak appropriability mechanisms limit the returns explicitly earned by the entrepreneur (Eckhardt & Shane, 2003). Therefore, when

institutional voids include the lack of formal institutions such as property right protection, in particular the protection of IPR (Williamson, 1991) through patents and the regulatory muscle to support these rights, hinders the economic development of entrepreneurial opportunities.

Decision-making voids, caused by inconsistent regulatory enforcement and unclear policies, heighten uncertainty and alter entrepreneurial logics such as causation and effectuation. These voids delay market participation and hinder opportunity recognition, reducing economic growth and institutional trust (Guo et al., 2020; Miao et al., 2009; Khanna & Palepu, 2000). In emerging markets, decision-making voids complicate cross-border R&D and technology transfer, slowing digital transformation and limiting firms' global adaptability (Muchungu, 2022; Khanna & Palepu, 2000). Poorly aligned regulatory measures further amplify these voids, forcing entrepreneurs to navigate high uncertainty in balancing exploration and exploitation, leading to inefficient resource use and delayed adoption of sustainability initiatives (Gao et al., 2024; Lowe & Feldman, 2008).

The implications of these voids as mediators of the relationship between regulatory institutions and their perceived effects are significant. Economically, they result in reduced market entry, innovation performance, and foreign direct investment while increasing transaction costs. Socially, they marginalize small and medium enterprises, reduce trust in regulators, and limit inclusivity in accessing opportunities. Environmentally, they delay compliance with sustainability regulations, reduce clean technology adoption, and cause inconsistent impacts on carbon reduction (Khanna & Palepu, 1997, 2000; Mair & Marti, 2009). Therefore, we propose the following:

P2: R&D and decision-making voids mediate the relationship between regulatory uncertainty and market efficiency in entrepreneurial ecosystems.

Institutional voids related to human capital decisions for entrepreneurial ventures

Developing capabilities for a new entrepreneurial venture involves choosing and retaining the correct human capital to accomplish what is needed to develop the new opportunity. The acquisition and retention of individuals beneficial to the de novo entrepreneurial firm is therefore paramount in establishing success (McMullen, Bagby, & Pallich, 2008). Certain strategic factor markets for human capital (Barney, 1986) may be viewed as places to fulfill these human resource needs. In an institutional voids setting, however, schools of higher education and advanced skilled trades such as computer sciences and engineering may be few and far between, which has implications for the strategic factor market for advanced skills. A strategic factor market for the needed human capital may be distinctly lacking (Khanna and Palepu, 2000), making it difficult to recruit and retain employees.

Human capital recruitment voids, defined as gaps between the availability of skilled labor and the needs of entrepreneurial ventures, act as critical mediators between institutional mismatches and entrepreneurial risk-taking behaviors. These voids contribute theoretically to the causal link between regulatory environments and entrepreneurial resilience, shaping opportunity recognition and decision-making processes in the face of uncertainty. They influence how entrepreneurs perceive and navigate institutional support, shaping their strategies for addressing regulatory challenges (Schwarz et al., 2023; Zhuang & Sun, 2024; Mair & Marti, 2009).

In contexts where regulatory frameworks fail to adequately address entrepreneurial needs, human capital recruitment voids exacerbate institutional mismatches. These voids hinder the ability of entrepreneurs to leverage existing resources and navigate regulatory complexities. They significantly affect entrepreneurial risk-taking propensity by altering institutional perceptions and shaping how opportunities are pursued and evaluated. Entrepreneurs with higher

human capital levels exhibit greater adaptability, reducing the perceived risks associated with weak regulatory environments (Zhuang & Sun, 2024; Bárcena-Martín et al., 2021).

Furthermore, the interaction between regulatory and human capital recruitment voids mediates the prevalence of opportunity-driven entrepreneurship. In emerging economies, these voids limit the capacity of entrepreneurial ecosystems to adapt to dynamic market conditions, reducing the success rates of entrepreneurial ventures. However, they can also catalyze the emergence of innovative strategies and informal networks to bypass institutional inefficiencies (Mair et al., 2007; F, 2023).

Human capital recruitment voids also influence the growth of social entrepreneurship, particularly in weak regulatory environments. Social entrepreneurs face additional challenges in aligning institutional expectations with local realities, which can hinder their ability to implement social innovations effectively. By understanding these voids, social entrepreneurs can foster greater resilience and adaptability in navigating institutional gaps (Schwarz et al., 2023; Deerfield & Elert, 2022).

In sum, human capital recruitment voids mediate the interplay between institutional mismatches and entrepreneurial behaviors by shaping how entrepreneurs perceive risk, allocate resources, and adapt to regulatory challenges. These voids have profound economic, social, and environmental implications, influencing entrepreneurial success and resilience in diverse institutional contexts (Mair & Marti, 2009; Zhuang & Sun, 2024). Therefore, we propose:

P3: The interaction between regulatory and human capital recruitment voids reduces entrepreneurial risk-taking behaviors.

Institutional voids related to management and leadership decisions for entrepreneurial ventures

Management and leadership voids, defined as gaps in strategic direction and adaptive capabilities within entrepreneurial ventures, mediate the relationship between regulatory environments and entrepreneurial opportunities. These voids emerge when there is a lack of clear management strategies or visionary leadership to address challenges posed by regulatory frameworks, thereby impacting innovation, risk-taking, and market adaptation. Visionary leadership plays a crucial role in mitigating these voids by enabling businesses to navigate regulatory complexities and capitalize on emerging opportunities (Deerfield & Elert, 2022; Joel & Oguanobi, 2024).

In regulatory contexts characterized by freedom and flexibility, visionary leadership mediates the effects of management voids by fostering adaptability and exploratory activities, particularly in dynamic sectors such as FinTech. Experienced leaders can leverage regulatory opportunities to overcome institutional barriers, facilitating radical innovation and entrepreneurial resilience (Kraljev, 2022).

Management and leadership voids also affect strategic entrepreneurship, where leaders engage in strategic and governance work to create or disrupt frameworks that enable entrepreneurial ecosystems to thrive. This is evident in public organizations, where addressing leadership voids through boundary and legitimacy work facilitates systemic change and entrepreneurial opportunities (Rao-Nicholson & Svystunova, 2022).

Effective leadership enables firms to navigate uncertain regulatory environments, aligning their strategies with market trends and driving innovation and growth despite institutional gaps (Joel & Oguanobi, 2024). For example, in high-growth sectors like clean energy, visionary and adaptive leadership shapes the causation link between regulatory challenges and market adaptation.

Management and leadership voids link with both barriers and opportunities for entrepreneurial ventures. While they can constrain the ability to respond to regulatory challenges, strategic and visionary leadership transforms these voids into opportunities for alignment and adaptation, fostering entrepreneurial success and sustainability. By addressing these voids, entrepreneurial ecosystems can better navigate regulatory environments, enhance resilience, and exploit market opportunities (Deerfield & Elert, 2022; Kraljev, 2022). Thus, we propose:

P4: Adaptive leadership mitigates the causation effect of leadership and management voids on entrepreneurial adaptation under regulatory challenges.

Institutional voids related to sales and marketing decisions for entrepreneurial ventures

The exploitation of an opportunity only earns profit for an entrepreneur if the market can recognize the opportunity's value (Shane & Venkataraman, 2000). Thus, connecting to market involves the important sales and marketing function of a firm; a firm must attract and retain customers to survive (Alvarez, Young, & Woolley, 2018). This is particularly important for a de novo entrepreneurial firm, as the market may need to be educated on the product particulars.

Sales and marketing voids, defined as gaps in formal market-supporting regulatory institutions, act as critical catalysts for entrepreneurship in weak regulatory contexts. These voids mediate the relationship between regulatory environments and entrepreneurial outcomes by providing challenges and opportunities for innovation and market adaptation. Entrepreneurs often leverage these voids to create new market spaces, introduce innovative products and services, including cross-country expansions and global internationalization, and push for regulatory changes, especially in developing economies or during societal disruptions (Khanna & Palepu, 2000; Mair & Marti, 2009). Institutional voids regarding incomplete communications

infrastructure in the emerging economy may make traditional marketing plans difficult to design and implement.

In weak regulatory environments, sales and marketing voids hinder entrepreneurs to navigate governance gaps and information asymmetries. These voids have adverse causal effects on social entrepreneurs' behaviors when they transform institutional gaps into opportunities for economic inclusion and social innovation. By addressing these voids, entrepreneurs can foster new ecosystems that balance social impact and market participation (North, 1990; Khanna & Palepu, 2006).

During societal crises, such as the Covid-19 pandemic or recessions, sales and marketing voids present significant barriers to entrepreneurial resilience, compelling businesses to develop innovative strategies to navigate institutional gaps and maintain operations (Netz et al, 2022). These voids often necessitate the formation of entrepreneurial constellations, where collaborative efforts address regulatory and market disruptions, fostering systemic change and driving innovation. This dynamic highlights the dual role of voids as both challenges and potential enablers, emphasizing their critical function in promoting entrepreneurial adaptability and innovation during periods of uncertainty (Deerfield & Elert, 2022; Mair et al., 2009).

In developing economies, the complex institutional fabric often creates tensions that sales and marketing voids mediate. Entrepreneurs can exploit these tensions by innovating within the constraints of weak institutions, enhancing market exchanges, often outside their regional boundaries, and fostering economic growth. This ability to navigate institutional complexity highlights the dual role of voids as both barriers and opportunities (Mair & Marti, 2009; Khanna & Palepu, 1997).

Sales and marketing voids also act as dual forces within entrepreneurial ecosystems, presenting both challenges in navigating regulatory compliance and opportunities for market innovation. By strategically engaging with these voids, entrepreneurs can transform weak regulatory environments into spaces of resilience, innovation, and sustainable growth (Khanna & Palepu, 2000; North, 1990). Thus, we propose:

P5: Strategic engagement with sales and marketing voids enhances entrepreneurial ecosystem sustainability.

DISCUSSION

In this paper, we seek to begin to conceptually explore the research question: *does the perception of institutional voids matter to the development of entrepreneurial opportunities?* As Mises (1949) argued, entrepreneurship is a characteristic of human action and can therefore be found in any country at any point of time. What matters, then, are the rules of the game under which these entrepreneurs must act. These rules—these institutions—are what dictate the effect that entrepreneurial action will ultimately have on an economy (North, 1990; 1992). What is also true is that a *lack* of reliable institutions can have a distinct effect on entrepreneurial activity as well (Young et al., 2018). The implications of this distinction are important to the study of entrepreneurial opportunities. The question that remains, however, is how much the presence of these voids affects entrepreneurial opportunity development, or even if the entrepreneur perceives these voids as a problem.

This conceptual paper should extend our knowledge in several ways. First, we explore the perceived impact of (absent and present) regulations in entrepreneurial opportunities, which helps theorize the drivers of the expectations of entrepreneurs on imitation and innovation opportunities, and the strengthening (weakening) effects of the institutional voids. Second, we

will contribute a better understanding of how voids can be effectively addressed by decision-makers and policymakers to lead entrepreneurs towards more imitative or innovative types of opportunities. Finally, our exploration will have necessary practical implications for the development of economic policies for the entrepreneurial ecosystem of underdeveloped economies, particularly in the areas of improving the business context for entrepreneurial ventures, and policies for the future.

Practical implications: Improving the business context

The relationship between entrepreneurship and economic growth has been recognized at the local, state and national levels (Audretsch & Thurik, 2001; Kumar & Liu, 2005), and Chell (2007) has established that entrepreneurial activity has significant social implications as well. For example, Nystrom (2008) provides new evidence on the determinants of entrepreneurship across countries using data from 23 OECD nations, examining the relationship between the institutional setting and entrepreneurship. It has further been suggested that knowledge spillovers, such as those generated by entrepreneurial activity, are spatially bounded (Jaffe, Trajtenberg & Henderson, 1993) and Mueller (2007) demonstrates this empirically in Germany.

Successful entrepreneurial efforts thus benefit more than just the de novo firm involved; entrepreneurial activity can stimulate economic growth and activity beyond the boundaries of the firm, through the rise of competitors, an extended supplier base and auxiliary product and service offerings by others. Therefore, regulations that focus on improvement of the business environment generally are important to the development of entrepreneurial opportunities, and institutional voids in this area can serve to suppress or discourage entrepreneurs from acting. Palepu & Khanna (1998) highlight the importance of government intermediation, recommending such programs as management development and financial services. Other scholars encourage the

use of intermediaries such as business accelerators and incubators to span institutional voids in emerging economies (Dutt et al., 2016).

To encourage innovative opportunity development, the government of an emerging nation may wish to consider funds for more general entrepreneurial activity. For example, since innovation can be a trial-and-error activity with a high degree of failure until the variation-selection-retention process is complete, the government of an emerging nation may wish to consider loan forgiveness programs or patient money to allow for additional iterative time for success to occur. Specific suggestions could include such as some countries providing grant money to encourage research for specific purposes as neglected but necessary drugs. This is, in essence, money for the development of an imitative opportunity for the market imperfection has already been identified for exploitation.

Entrepreneurship and policies for the future

Limited investments usually lead governments to tailor entrepreneurship policy to support the diverse objectives of specific industrial, innovation, social and environmental policy. Entrepreneurship policy then finds several voids that can affect how to reach its full potential for stimulating innovation, growth, job creation and economic diversification. To fill the gaps and avoids those workarounds, further policy development is suggested in three priority areas: youth entrepreneurship, women's entrepreneurship, and green entrepreneurship. While entrepreneurship education continues to be rolled-out in higher education and in the last years of schooling, usually regions find themselves with significant gaps and delays in the youth entrepreneurship support system. Similarly, the scale of investment in supporting women entrepreneurs is usually limited. Diversity of efforts can be made to attract women into entrepreneurship such as the introduction of the home business license, but often there remains

substantial untapped potential since women are over-represented in graduate level studies and early-stage women entrepreneurs appear more likely to be innovative. Finally, the establishment of research centers might be indicative of the push in certain areas to develop green technologies, but more often than not only few supports are available to green entrepreneurs who take these innovations to market.

Limitations and future research

One limitation is that emerging economies here are being treated as rather uniform, and while emerging economies may share many similarities, it must be noted that they are heterogeneous institutional environments with differing histories, sizes, and social, political, cultural, technological and economic characteristics. Empirical papers could be developed involving comparisons between several emerging economies to further examine our propositions. In addition, comparisons with developed nations, such as the U.S. and western Europe, would be beneficial to more thoroughly investigate the effect of the influence of institutions and institutional voids on the entrepreneur's perception in their development of innovative and imitative opportunities.

However, there are also benefits to doing a deep dive into a single institutional context, to explore the nuances of the perceptions of a specific but unique group of entrepreneurs. For example, in United Arab Emirates (UAE), which is culturally relatively uniform across its emirates, there is a heightened presence of institutional voids challenging entrepreneurs. There is also willingness of policymakers to address them, which would allow for practical implications of any recommendations to be observed, if desired. The emirate of Abu Dhabi in particular, with others to follow, wish to restructure entrepreneurial ecosystems based on conditions due to

climate emergencies, economic crises, global health hazards, and global economic trends resulting from BRIC alliances.

When institutions “fail to establish or enforce the rules, or fail to articulate the state of play” (Kingsley & Graham, 2017: 327), entrepreneurs may perceive significant barriers to their ability to pursue an entrepreneurial opportunity due to one or several types of regulatory institutional voids we’ve identified herein. Yet there are actions governments can take to help entrepreneurs overcome these barriers, and some entrepreneurs might even find potential opportunities for profit lying within, around or beyond these institutional voids. Some entrepreneurs may not perceive these voids as barriers. What is clear, however, is that more theoretical exploration is necessary to better understand these relationships.

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