



# Contextualizing Entrepreneurship— Conceptual Challenges and Ways Forward

Friederike Welter

**This paper sets out to explore contexts for entrepreneurship, illustrating how a contextualized view of entrepreneurship contributes to our understanding of the phenomenon. There is growing recognition in entrepreneurship research that economic behavior can be better understood within its historical, temporal, institutional, spatial, and social contexts, as these contexts provide individuals with opportunities and set boundaries for their actions. Context can be an asset and a liability for the nature and extent of entrepreneurship, but entrepreneurship can also impact contexts. The paper argues that context is important for understanding when, how, and why entrepreneurship happens and who becomes involved. Exploring the multiplicity of contexts and their impact on entrepreneurship, it identifies challenges researchers face in contextualizing entrepreneurship theory and offers possible ways forward.**

## The Starting Point: Why Contextualize Entrepreneurship?

How can a contextualized view on entrepreneurship add to our knowledge of entrepreneurship? The call for considering context in entrepreneurship research is not new; and there is growing recognition that economic behavior can be better understood within its context(s) (Low & MacMillan, 1988), be that the social (Granovetter, 1985), spatial (Katz & Steyaert, 2004) or institutional (Polanyi, 1957) and societal<sup>1</sup> contexts (Weber, 1984). Gartner (1995, p. 70) prompts entrepreneurship research to acknowledge the context in which entrepreneurship takes place, as observers “have a tendency to underestimate the influence of external factors and overestimate the influence of internal or personal factors when making judgements about the behaviour of other individuals,” while Baumol (1990, p. 898) draws attention to the fact that the rules for entrepreneurship “do change dramatically from one time and place to another.”

Context simultaneously provides individuals with entrepreneurial opportunities and sets boundaries for their actions; in other words, individuals may experience it as

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Please send correspondence to: Friederike Welter, tel.: 46 (0) 36 101934; e-mail: wefr@ihh.hj.se.

1. I distinguish between societal and social. The former refers to the wider context of a society at macro level, while social refers to human relationships at micro level.

asset and liability. For example, in Uzbekistan the specific local environment, together with a resurgence of traditional and Islamic values in the post-Soviet period, is crucial in enabling or constraining female entrepreneurs. There are examples where representatives of local governing councils (*mahallas*) assist women in the registration process, but also instances where local traditions constrain the activities of women entrepreneurs (Welter & Smallbone, 2008). This can be illustrated by this young woman in rural Uzbekistan who had to go into business after her father's death to earn income for her family: She took up gold embroidery and sewing. Were we to consider only the entrepreneur, we would see a young woman who set up business in a low-growth sector, which would confirm well-known results from previous research on female entrepreneurs in market economies, and which probably would be attributed to a lack of access to resources from her side. If we take context into account, this changes: In rural post Soviet Uzbekistan young women and girls are supposed to stay home until they are married. Therefore, the young woman learned a traditional craft because this was one of the few vocational training opportunities available to her; and this activity could be conducted from home. Here, the *institutional and social contexts*, in the form of local traditions and norms that determine gender roles within families, help explain why female entrepreneurs start in specific, oftentimes low-growth and low-income, industries.

Deficiencies in the institutional context also can create opportunities when entrepreneurs exploit gaps left by new regulations and rules. Again, this is particularly evident in post-Soviet countries undergoing fundamental political and economic changes. For example, in the Ukraine, a combination of rapid and frequent changes in laws and overly excessive business regulations created a demand for consultants who could solve particular operational problems, such as taxation or accounting issues, as well as a demand for assistance in obtaining licences, permits, and planning permissions required for starting or expanding a business, including contacts and connections to administrations. Smallbone, Welter, Voytovich, and Egorov (2010) illustrate this with the example of an innovative business service provider, where the entrepreneur was quick to exploit these institutional settings by offering "full service" packages that included the necessary connections to officials. This points to *history and time* as important contexts. The former, as legacy of an economy of favors where informal connections helped a Soviet society to cope with shortages, contributes to explaining why entrepreneurs may be successful in exploiting institutional loopholes. The latter draws attention to the fact that such opportunities will vanish when the institutional context improves over time.

Therefore, context is important for understanding when, how, and why entrepreneurship happens and who becomes involved. This article sets out to explore the multiplicity of contexts and their impact on entrepreneurship, aiming to identify challenges researchers face in contextualizing entrepreneurship theory and offer ways forward, or, in other words, discussing the why, what, and how of contextualizing entrepreneurship. We are likely to better "see" the importance of context in examples from contexts we are not familiar with than in examples from contexts we take for granted. Therefore, the article draws on research from former Soviet countries that help to highlight the importance of context for entrepreneurship. The introduction so far focuses on exploring *why* context is important. The next section looks at *what* context is and what it does from a conceptual perspective, whereas the section on the multiplicity of contexts illustrates this from an empirical perspective. The article then discusses *how* to incorporate contexts into entrepreneurship theory. The article ends with an outlook, summarizing and discussing further challenges in contextualizing entrepreneurship research.

## Defining Context

### A Context Lens for Entrepreneurship Research

In its original, Latin, meaning, context stands for weaving together or to make a connection (Rousseau & Fried, 2001). In management research, context refers to circumstances, conditions, situations, or environments that are external to the respective phenomenon and enable or constrain it. For example, Capelli and Sherer (1991) define context as surroundings that are associated with specific phenomena and help to illustrate those, while Mowday and Sutton (1993) see context as stimuli existing in the external environment. Johns (2006, p. 386) takes this a step further and understands context as situational opportunities and constraints that affect behavior. Moreover, Johns (1991) distinguishes between substantive and methodological contexts, where substantive context stands for the context individuals or groups face while methodological context refers to detailed information about the research study.

This article focuses on substantive contexts for entrepreneurship, furthermore taking into account omnibus and discrete context dimensions as suggested by Johns (2006). Omnibus context refers to a broad perspective, drawing attention to who, what, when, where, and why (Johns; Whetten, 1989), while discrete context refers to specific contextual variables (Johns). Thus, in concordance with Griffin (2007), context can simultaneously be considered as a “lens” (omnibus context) and as a “variable” (discrete context). As most entrepreneurship research to date has studied discrete contexts, focusing on context as variable, this article emphasizes omnibus contexts, applying a context “lens.”

### Multiplicity of Context

By introducing the who, where, and when dimensions of context, Whetten (1989) draws attention to the diversity and manifold facets of context. In defining context for entrepreneurship research, the “where” and “when” dimensions are of particular interest. “Who” does not refer to contexts as such but rather reflects the impact of contexts on entrepreneurship. From a contextual perspective, this points to who enters entrepreneurship and which ventures are created. “Where” refers to the manifold locations in which entrepreneurship happens, all of which have an impact on “who.” The “where” dimension can be further distinguished according to its main type: business, social, spatial, or institutional (Table 1). It includes both distal contexts, for example, countries, political systems, or society, as well as more proximate contexts (Mowday & Sutton, 1993) such as the social environment or the local neighborhood of entrepreneurs. The “when” perspective draws attention to temporal and historical contexts, by referring to historical influences on the nature and extent of today’s entrepreneurship and changes in the respective omnibus contexts over time.

### The Impact of Contexts

Context is not only multi-faceted, but it also cuts across levels of analysis. The “context lens” allows us to frame entrepreneurship by paying attention to lower and higher levels of analysis (Hackman, 2003). As West (2003, p. 55) points out, “it is clear that, in the domain of entrepreneurship, aspects at one level of the phenomena have an impact and a bearing on aspects of other levels.” Context can exert either direct or indirect influences (Whetten, 2009), as illustrated by the examples in the introduction where local traditions determine gender roles that in turn influence the nature and extent of female entrepreneurship, while institutional deficiencies have a more direct impact on

Table 1

Classifying “Where” Contexts for Entrepreneurship

Dimensions Type of Context	Omnibus	Discrete (examples)
Business	Industry; market	Stage of life-cycles of industries and markets, number and nature of competitors
Social	Networks; household and family	Structure of networks, density, frequency of network relations; composition and roles of household/family
Spatial	Geographical environments, e.g., countries, communities and neighborhoods; industrial districts and clusters	Characteristics of physical business location; business support infrastructure; characteristics of local communities and regions
Institutional	Culture and society; political and economic system	Societal attitudes and norms; legal and regulatory regulations; policy and support measures

entrepreneurship by offering opportunities. Moreover, contexts operate as cross-level effects (Johns, 2006). This is seen in the innovative business service firm in Odessa, Ukraine mentioned in the introduction, which offers a packaged set of permissions, licenses, architectural design documents along with legal and practical advice for construction projects, including connections and contacts (and where necessary bribery) to city and district administration, sanitary and fire inspectors (Smallbone et al., 2010). In this case, a deficient institutional context provided opportunities for the entrepreneur to offer assistance for firms to comply with the regulatory regime and local administrative “traditions.” In other words, context on a higher level of analysis (the political and economic system) interacts with the phenomenon on lower level (opportunities identified by the entrepreneur) and results in a context-specific outcome.

**Exploring the Multiplicity and Impact of Contexts: Some Examples**

This section offers some empirical insights into contexts, drawing on the “where” dimension of context as outlined in Table 1 as starting point. Each of the subsections briefly outlines facets of the respective context, before proceeding to discuss how it affects entrepreneurship. Much entrepreneurship research still uses contexts that are easy to operationalize and to observe like the business context (e.g., Klapper, Lewin, & Delgado, 2009), and that fit into the model of the enterprising individual, as apparent in a recent stocktaking of entrepreneurship studies (Minniti, 2003). Therefore, the article leaves out a review of the business context, that is, a review of how industry and markets impact on entrepreneurship (Table 1). Instead, it concentrates on other contexts, namely social, spatial, and institutional ones, in order to illustrate the multiplicity of contexts (Steyaert & Katz, 2004), linkages between the various nonbusiness contexts as well as their impact on entrepreneurship.

**The Social Context: Towards Household and Family Embeddedness**

*The Social Network Perspective.* The most popular application of social context in entrepreneurship research refers to social network approaches. Networks can provide

financial capital, information, potential employees, or access to clients, but also the emotional understanding, encouragement, and support that family and friends are able to offer. This itself depends on societal values regarding entrepreneurship, thereby emphasizing links between social and societal contexts. Research has shown social ties to be an important resource for overcoming liabilities of newness and smallness when starting and developing a business (e.g., Davidsson & Honig, 2003; Greve & Salaff, 2003), for providing opportunities and resources for social ventures (e.g., Haugh, 2007) or for founding teams (e.g., Aldrich & Kim, 2007; Ruef, Aldrich, & Carter, 2003). Social ties also are important for ethnic minorities (e.g., Aldrich & Waldinger, 1990), for women entrepreneurs (e.g., Caputo & Dolinsky, 1998; Manolova, Carter, Manev, & Gyoshev, 2007) or for entrepreneurs in hostile and turbulent environments like former Soviet countries (e.g., Rogers, 2006; Smallbone & Welter, 2001).

Some studies explore how opportunities are recognized and constructed through social contacts (de Carolis & Saporito, 2006; de Koning, 2003; Fletcher, 2006). Such an opportunity enactment perspective emphasizes the fact that not only does context influence entrepreneurship, but also that context is influenced by individual actions, indicating recursive links that exist among individual perceptions, actions, and contexts.

This already points to one of the challenges in contextualizing entrepreneurship, namely incorporating recursive links. In addition, many of the studies applying a social network perspective acknowledge contexts beyond the social context, thus drawing attention to the links between social and institutional environments and their combined influence on entrepreneurial behavior that will be explored in a later section.

***Household and Family Contexts.*** Recently, entrepreneurship scholars have started reconceptualizing the social network approach by incorporating household and family as contexts for entrepreneurial activities. This understanding is not new, but (implicitly) draws on the concept of socioeconomic hybrid systems from agricultural economy, the so-called household-enterprise system (Tschajanow, 1923). These systems are characterized as small socioeconomic units with household and market production, a predominant household and family work constitution, and interdependent consumer and investment decisions. Aldrich and Cliff (2003) argue that a family embeddedness perspective of entrepreneurship has been neglected so far. In outlining trends in family composition, the changing roles of family members and relationships in the 20th century in the United States, they illustrate how the wider family can influence opportunity emergence and recognition, the decision to set up a new venture, and access to resources. Similarly, Anderson, Jack, and Drakopoulou Dodd (2005), who analyze the role of family members in entrepreneurial networks, draw attention to a missing middle between family businesses and family members, while Carter (2011) emphasizes the role of the household for economic wellbeing.

Empirically, a growing number of entrepreneurship researchers apply a family and household perspective, albeit often implicitly. Examples from the family business field show that most studies continue to emphasize the business context, and only recently, researchers started discussing the family context, for example, as a systems perspective on family business (Habbershon, Williams, & MacMillan, 2003). Other studies link family and household contexts to work-life balance and/or gender issues (e.g., Jennings & McDougald, 2007). Some research has concentrated on the nature of entrepreneurship in the context of farm households (e.g., Carter, 1998; Carter, Tagg, & Dimitratos, 2004), showing how portfolio entrepreneurship and pluriactivity boost incomes and facilitate business entry or exit. Other studies discuss the interface of household and institutional contexts, indicating that households in a transition context partake in “multiple

economies” (Pavlovskaya, 2004), which has implications for (access to) resources and business development. This can be illustrated with the example of a pensioner, 65 years of age, living in a Belarusian border region, who trades in medicines and second-hand clothes. She regularly travels to Lithuania to visit her sister, bringing medicines along (purportedly for self-use) which both sisters sell to pensioners. On her way back, she buys second-hand clothes, which she sells on the market in Belarus. Her daughter works in a chemical firm in Belarus, thus securing access to medicines, while her niece in Lithuania works in a second-hand shop, which allows her access to the clothes. Her opportunities are based on family connections, and her family is heavily involved in securing resources and helping with sales.

Thus, with regard to social context, studies applying a household or family perspective to entrepreneurship demonstrate the value of going beyond a social network perspective, as this captures the impact of the family or household contexts on opportunity recognition, entry into entrepreneurship, as well as enterprise development.

## **The Spatial Context: Bridging Between Social and Institutional Contexts**

*Diversity of Spatial Contexts.* Entrepreneurship is not only socially bound, but also happens in spatial, or geographical, contexts (Johannisson, Ramirez-Pasillas, & Karlsson, 2002, p. 298). Of specific interest is the discussion on community entrepreneurship (e.g., Haugh, 2007; Johannisson, 1990), entrepreneurship in neighborhoods (e.g., Frederking, 2004; Welter, Trettin, & Neumann, 2008) and other forms of local entrepreneurship such as “heritage entrepreneurship,” which refers to communities safeguarding their heritage, or “tribal entrepreneurship” as a specific form of ethnic community undertaking (e.g., de Bruin & Mataira, 2003).

Community entrepreneurship moves away from the enterprising individual. It sees entrepreneurship as a collective event in a particular spatial context, the local environment, although some authors go beyond local boundaries by identifying national governments as actors in this regard (Dupuis & de Bruin, 2003). Moreover, community entrepreneurship and similar concepts such as heritage and tribal entrepreneurship highlight social commitment, nonprofit goals, and benefits for the wider community as (additional) drivers for entrepreneurship besides calculated and self-interested individual behavior. The latter might benefit communities through job creation, but without this being the main objective (at least in most businesses). In this regard, entrepreneurship is the leverage for social change as illustrated by Johnstone and Lionais (2004) for community businesses, which foster economic and social development in “depleted” communities. This draws attention to the societal context for entrepreneurship, thus linking spatial and institutional contexts. For example, studies that research entrepreneurship in local neighborhoods contribute an explicitly socio-cultural perspective which is important in contextualizing entrepreneurship, as it highlights power implications the spatial and social contexts may have for entrepreneurship (Anderson, 2000, p. 93): “The geographical distribution of society in space creates an unevenness of power.”

All these approaches see entrepreneurship as happening in intertwined social, societal, and geographical contexts, thus indicating the difficulties in developing a clear-cut distinction between those contexts as outlined in Table 1. Therefore, Thornton and Flynn (2003) refine the spatial context by indicating the social boundaries of local neighborhoods and communities that can be bounded by cognitive and culture-based rules and shared meanings. Wigren (2003) illustrates this for an industrial district in Sweden (Gnosjö), where business, social, and spatial spheres are heavily intertwined,

which fosters the development of a particular local identity, often referred to as the “spirit of Gnosjö.” Frederking (2004) analyzes two communities (Punjabi and Gujarati) in three neighborhoods (two in London, one in Chicago) across two national contexts. The author demonstrates the links between location, ethnic culture, and the country framework, showing how the socio-spatial context can either be a liability, an asset or, as in the case of Chicago, irrelevant. By “going beyond geography” (Thornton & Flynn, 2003, p. 422), these studies bridge the social, spatial, and institutional contexts for entrepreneurial activities.

***Gender Aspects of Spatial Contexts.*** From a gender perspective, Berg (1997) and Mirchandani (1999) consider interesting facets of the spatial context that may not have received sufficient attention. Berg demonstrates how gender, place, and entrepreneurship are intertwined, indicating how a feminist perspective can assist in understanding the centrality of place for entrepreneurship. She argues that in relation to entrepreneurship, place oftentimes implies “breaking out of the norms” (Berg, p. 265) of, in this case, female behavior, thus linking spatial and societal dimensions of entrepreneurship. In this regard, research on female entrepreneurs in Eastern Europe shows how women defy the male norm of entrepreneurship by playing with gender stereotypes (Welter & Smallbone, 2010). Several women vividly described how they had used their female identity to cope with administrative bodies as this Ukrainian importer explained: “The tax inspector saw me as a weak woman and felt pity for me. He did not ask for bribes and sometimes even confined himself to minimal fines for my mistakes.”

Moreover, the spatial context needs to go beyond the public sphere and include the private sphere, which refers back to the household and family embeddedness perspectives introduced previously. Mirchandani (1999) discusses the implications of the physical business site for venture survival and development, based on the example of women entrepreneurs who often start home-based businesses: Home-based ventures experience difficulties in gaining legitimacy with clients and creditors, they are frequently seen as leisure activities, and their growth potential is limited. Additionally, she points to a gendered effect of industry that often accompanies the social and spatial embeddedness of women entrepreneurs because they prefer (or are forced to prefer) industries they can operate from home. This can be illustrated by the young woman entrepreneur operating a traditional crafts business in Uzbekistan, although Mayer (2006) shows this to be the case also for high-technology-based ventures of women.

***The Dark Side of Socio-Spatial Contexts.*** The spatial context, together with the social context, can have contradictory effects on entrepreneurship, although there is a tendency in entrepreneurship research to focus on the positive effects. On the one hand, spatial proximity facilitates the emergence of social networks. On the other hand, spatial proximity also can contribute to “over-embeddedness,” signalling a dark side of this context for entrepreneurship. The reasons for this are manifold: embedded ties could be used increasingly as control mechanisms; links between social and spatial contexts which result in socio-spatial embeddedness and contribute to trust at local level can also result in “closed” local networks; and close ties may become “a stumbling block” (Johannisson & Wigren, 2006, p. 200) for communities wishing to promote social change.

Thus, a consideration of the spatial context draws attention to the complexity of contextualizing entrepreneurship, by highlighting close links between social, institutional, and geographical contexts as well as possible dark sides of contexts.

## **The Institutional Context: Including the Societal Dimension of Entrepreneurship**

*An Institutional Framework.* The institutional context draws on the concept of formal and informal institutions as “rules of the game,” introduced by Douglass C. North (1990). Formal institutions are political and economy-related rules which create or restrict opportunity fields for entrepreneurship. Examples include laws and regulations for market entry and exit or private property regulations. Informal institutions, which include the norms and attitudes of a society, influence opportunity recognition of (potential) entrepreneurs as well as opportunity exploitation and access to resources. Examples include the value society generally puts on entrepreneurship or the roles of women in society that might restrict the nature and extent of their entrepreneurial activities in societies where women are identified with homebound roles (Welter & Smallbone, 2008).

The impact of formal institutions on entrepreneurship has been well researched, with several studies analyzing the influence of the formal and regulatory framework (e.g., Acs & Karlsson, 2002; Davidsson, Hunter, & Klofsten, 2006; Karlsson & Acs, 2002; Klapper et al., 2009). Changes in technology, political forces, and regulation can be decisive influences on the existence and occurrence of new opportunities (Shane, 2003). For example, the initial reforms in Central and Eastern European countries that allowed private enterprises to legally exist is an extreme illustration as to how changes in laws can create new opportunity fields for entrepreneurs (Smallbone & Welter, 2009).

Another strand of research studies the influence of informal institutions in relation to entrepreneurship. Such research falls into two broad categories. One group of studies looks at informal institutions across countries, comparing, for example, different institutional profiles (Busenitz, Gómez, & Spencer, 2000; Manolova, Eunni, & Gyoshev, 2008), entrepreneurial cognitions across different cultures (Busenitz & Lau, 1996; Mitchell, Seawright, & Morse, 2000; Mitchell et al., 2002), the impact of cultures and national environments (Hayton, George, & Zahra, 2002; Tan, 2002) or single cultural factors such as post-materialism on entrepreneurship across nations (Uhlener, Thurik, & Hutjes, 2002).

The second group of studies is characterized by a different approach to the institutional context, where the societal context not across, but rather within countries, is of more interest. This includes a few studies researching the influence of single informal institutions such as religion on entrepreneurship (e.g., Drakopoulou Dodd & Seaman, 1998) and studies that look at entrepreneurship in unfamiliar (country) contexts (e.g., Aidis, Welter, Smallbone, & Isakova, 2007; Rehn & Taalas, 2004; Smallbone & Welter, 2001, 2009). This research draws attention to institutional and temporal contexts, demonstrating how institutional rules influence the nature of entrepreneurship, for example, by rewarding illegal or semi-legal activities (Baumol, 1990) as in the case of cross-border entrepreneurship in post-Soviet countries, where petty traders and small-scale entrepreneurs alike circumvent customs and excessive border controls (Welter & Smallbone, 2009). For a specific political context and time period, the USSR, Rehn and Taalas have illustrated how entrepreneurship flourished during the Soviet period in the daily lives of individuals, as they struggled to cope with the material shortages that were a common occurrence in the Soviet system. They suggest that the former USSR may be seen as a highly entrepreneurial society, which “forced all its citizens to become microentrepreneurs, enacting entrepreneurship in even the most mundane facets of everyday life” (Rehn & Taalas, p. 237). With this, the authors highlight one important aspect of the societal embeddedness of entrepreneurship, namely its mundane and everyday nature.

***Understanding the Societal Context of Entrepreneurship.*** The examples outlined above point to two issues that are relevant for understanding the societal context of entrepreneurship. Firstly, a perspective, which understands entrepreneurial activities happening as part of everyday life and also outside the business sector, emphasizes the link between society and entrepreneurship. Thus, the contribution entrepreneurship can make to society (Davidsson, 2003) is put to the forefront. Entrepreneurship from this perspective no longer is a purely individual undertaking, but its outcomes are “socialized.” This draws attention to the impact of entrepreneurship on society, again indicating the recursive links between entrepreneurship and its contexts.

Secondly, as Max Weber has already pointed out, society also influences entrepreneurship, which emphasizes the “double sociality of entrepreneurship” (Steyaert & Hjorth, 2006 p. 1). In this regard, entrepreneurship is also a process of social change, which is influenced by change at societal level and vice versa, although Steyaert and Hjorth apply this mainly to social entrepreneurship. Broadening this view beyond social entrepreneurship would allow us to study the recursive links between society and entrepreneurship and to move the field beyond the “all-too-familiar inclination (. . .) to return to a possessive individualism” (Steyaert & Hjorth, p. 2). Entrepreneurship then is not limited to the chosen few, as generally implied in the dominant stereotype of the “heroic” entrepreneur (Ogbor, 2000), but it can be enacted by other groups as well (communities, women, ethnic minorities, youth, etc.). Therefore, entrepreneurship interpreted from a societal perspective also refers to social (and societal) inclusion. Anderson and Smith (2007) take this even further by pointing to yet another facet of the societal context for entrepreneurship. They explore the moral space of entrepreneurship, which they position at the interface between the private and public, thus linking the societal and social contexts of entrepreneurship and pointing out culturally constructed moral boundaries for entrepreneurial activities.

## **Challenges in Contextualizing Theory and Theorizing Context**

This section turns to the *how* of contextualizing entrepreneurship. Contextualization can take place at many stages of the research process, from formulating the research problem; selecting a research design, methodology, and site; to data measurement, analysis, and interpretation (Rousseau & Fried, 2001). The consequences of such an approach have been highlighted by Aldrich and Cliff (2003, p. 547) for a family embeddedness perspective on entrepreneurship, which “(. . .) implies that researchers need to include family dimensions in their conceptualizing and modelling, their sampling and analyzing, and their interpretations and implications.” This article will focus on theoretical challenges in order to contribute to an “integrated, theoretically driven and comprehensive framework” for studying contexts of entrepreneurship (Ucbasaran, Westhead, & Wright, 2001, p. 68). The next subsections discuss two major challenges, namely contextualizing entrepreneurship theory and identifying possible theories of context.

### **Contextualizing Entrepreneurship Theory**

***How to Contextualize Entrepreneurship Theory.*** In line with Whetten (2009, p. 36), a first challenge in contextualizing entrepreneurship is to make entrepreneurship theory more context sensitive, that is, to contextualize theory. Too often, context (still) is taken

for granted, its influence is underappreciated or it is controlled away (Johns, 2006), although it offers deeper insights into how individuals interact with situations and how situations influence individuals, which allows us to explain seemingly “anomalous” results (Johns, 2001). Whetten (1989) argues that contextual factors set boundaries for theoretical generalizations, thus indicating how we can improve the “theory lens” by contextualizing entrepreneurship theory.

Contextualizing theory implies acknowledging situational and temporal boundaries for entrepreneurship in order to frame research questions and research designs; it is currently the dominant way of how entrepreneurship is contextualized. This can include context descriptions (e.g., the country context in which a particular theory is applied) or studying entrepreneurship from a comparative perspective (Rousseau & Fried, 2001). Situational boundaries refer to the different “where” contexts discussed in the previous sections, while temporal boundaries refer to the role of the “when” context as reviewed, for example, by Jones and Wadhvani (2006) for historical influences on entrepreneurship. For example, the business service provider in Odessa (mentioned in the introduction) built his packaged services around deficient regulations and a lack of proper implementation: Given that the business environment and institutional context in the Ukraine have improved over the past decade, the opportunities the institutional context provided at the time the entrepreneur started his business (mid-1990s) might no longer exist today (2009). Therefore, this specific venture is embedded spatially (country), institutionally (regulatory environment, country culture), as well as temporally (early transition stage).

***Challenges in Contextualizing Entrepreneurship Theory.*** Although seemingly easy, three issues render contextualizing entrepreneurship theory a more difficult task than is apparent at first glance. First, a contextualized theory perspective preferably should integrate the “context lens” used in this article and “discrete contexts” that have dominated entrepreneurship research so far and where context is taken into account in the form of single context variables.

Second, contexts can be enabling and restraining at the same time, thus indicating a bright and a dark side of context, which poses conceptual as well as methodological challenges. This has been researched, for example, in connection to the role of trust in entrepreneurship (Zahra, Yavuz, & Ucbasaran, 2006) or from a socio-spatial perspective as atrophied embeddedness (de Bruin & de Bruin, 2002). Hess (2004, p. 174) pointed out the risk of over-territorialization. In the broader meaning of “over-contextualization,” this is a general risk inherent in any efforts trying to capture the manifold contexts for entrepreneurship.

Third, shifting perspectives from the individual to context and its influence on actions questions theoretical assumptions underlying mainstream entrepreneurship research as well as dominating research methods. For management research in general, Johns (2006) and Bamberger (2008) have drawn attention to persistent institutional and epistemological barriers that prevent contextualization. This also holds true for entrepreneurship research: Where entrepreneurship studies take into account context, they often focus on a single context. Holmquist (2003, p. 85) attributes this to mental barriers we encounter in shifting perspectives as individuals are “often the prime source of information through surveys and interviews” and, when applying narrative methods, researchers rely on individual perceptions of actions. However, as said before, contexts are intertwined and cut across levels of analysis—contextualizing theory thus needs to apply a multi-context perspective. Steyaert and Katz (2004, p. 193) recognize this as a challenge when stating that “The true measure of entrepreneurship in a society as a whole needs to sample across multiple sectors, domains and spaces.”

## Theorizing Entrepreneurship Contexts

**Identifying Theories of Entrepreneurship Context.** Although entrepreneurship research has made progress in acknowledging context, this specifically applies to contextualizing theory, less to theorizing context. Thus, the second challenge in contextualizing entrepreneurship concerns identifying “theories of context” (Whetten, 2009, p. 36), which allow us to understand and analyze the effects multiple contexts have on entrepreneurship *and* the ways entrepreneurship influences context, from a dynamic perspective (Hess, 2004). Bamberger (2008) suggests that “context theorizing” requires researchers not only to acknowledge the importance of context, but to challenge the boundaries of their preferred research paradigms. Most research implicitly assumes a “one-way relationship” between entrepreneurship and the respective context where entrepreneurs and businesses have to take a context as given. Such thinking implies that the main interest in contextualizing entrepreneurship should be to study how context factors influence the nature and extent of entrepreneurship and not how entrepreneurship impacts its contexts. Additionally, entrepreneurship is either recognized as an individual phenomenon *or* as a phenomenon which (heavily) depends on various contexts. Few studies so far acknowledge recursive relationships and try to bridge different contexts, not least because of conceptual and empirical challenges.

**Considering Top-Down and Bottom-Up Context Effects.** With regard to theorizing entrepreneurship contexts across levels of analysis, sociology (Granovetter, 1985, 2005; Thornton, 1999; Zukin & DiMaggio, 1990), economic geography (Hess, 2004), and economic institutional theory (North, 1990; Polanyi, 1957) acknowledge different levels of embeddedness for economic actions. Besides social embeddedness, which is widely applied in entrepreneurship research, this includes political, cultural, and cognitive as well as territorial (or spatial) embeddedness. Political, cultural, and cognitive embeddedness emphasize institutional contexts, the former indicating sources and means for economic action, while cultural embeddedness refers to the collective understanding of a society as basis for economic behavior (Denzau & North, 1994), and cognitive embeddedness to the “ways in which the structured regularities of mental processes limit the exercise of economic reasoning” (Zukin & DiMaggio, 1990, pp. 15–16). Here, research on women’s entrepreneurship (Brush, de Bruin, & Welter, 2009) and on ethnic entrepreneurs (Kloosterman, van der Leun, & Rath, 1999) offer useful theoretical perspectives by proposing multi-layered embeddedness concepts, which recognize the diverse institutional and socio-spatial contexts in which human agency is embedded.

Any theory of context also has to pay attention to temporal and historical aspects in order to avoid oversimplifications across contexts (Aldrich, 2009; Hess, 2004). The question remains as how to best incorporate time into “theories of context.” Here, institutional theory offers the concept of path dependency, which links temporal and historical contexts. Path dependency assists in explaining entrepreneurial actions which “. . . may bear little resemblance to the legitimate courses of action stipulated by the formal rules” (Nee, 1998, p. 86). For example, research in post-Soviet countries illustrates that norms and values governing behavior tend to be persistent over time, which results in misfits between the newly introduced regulatory frame and entrepreneurial actions because entrepreneurs recur to familiar courses of actions such as relying on old connections and circumventing the new, but unfamiliar regulations (Smallbone & Welter, 2009).

So far, the article considered “theories of context,” which theorize top-down effects of context by emphasizing how individuals are embedded in higher-level contexts

(Kozlowski & Klein, 2000, p. 14). However, entrepreneurship itself also influences contexts, as shown in Feldman, Francis, and Bercovitz (2005), who analyze the role entrepreneurship plays in triggering the emergence of high-tech agglomerations, or by Boettke and Coyne (2009), who study the two-way relationship between institutions and entrepreneurship. Or take the example of the young woman in rural Uzbekistan mentioned in the introduction. The traditions of the Uzbek society left her with no choice but to take up a traditional business activity that could be conducted from home. Similar to her, two of her three sisters set up home-based, traditional business activities in carpet weaving and cookery. However, they also became involved in training unemployed girls in their region, thus acting as role models and mentors for girls in a similar situation. Over time, they may contribute to overcoming traditional gender roles through entrepreneurship, thus fostering changes in the societal and household context for female entrepreneurs in rural Uzbekistan.

Thus, “theories of context” need to be able to integrate top-down effects of context on entrepreneurship and bottom-up processes influencing context. A multi-layered embeddedness perspective has to be combined with an individual perspective that takes into account the adaptability and learning behavior of entrepreneurs, thus drawing attention to the process dimension of entrepreneurship where individual action impacts context and contributes to changing a context. Dopfer, Foster, and Potts (2004) recommend a micro-meso-macro framework, where meso refers to change or the “dynamic building blocks of an economic system” (Dopfer et al., p. 268), while the concept of emergence emphasizes co-evolutionary processes, thus offering a way “to theorize the nature of individuals, the nature of social environments and the nature of their [two-way: 141] causal interaction” (Sawyer, 2005, p. 140).<sup>2</sup> Moreover, for entrepreneurship research, the concept of institutional entrepreneurship can offer an overarching approach to encompass the bottom-up processes and top-down effects of “theories in context,” as it combines the different theoretical perspectives outlined above (Fligstein, 1997).

## **Outlook: Ways Forward**

### **The Why, What, and How of Contextualizing Entrepreneurship**

This article argues that a contextualized view on entrepreneurship can add to our knowledge of when, how, and why entrepreneurship happens. Conceptually, context is a multiplex phenomenon, which cuts across levels of analysis and influences entrepreneurship directly or indirectly, but which also is influenced by entrepreneurial activities. A “context lens,” which considers the omnibus context (Johns, 2006) and its different “where” and “when” dimensions (Whetten, 1989), assists in framing entrepreneurship by drawing attention to lower and higher level of analysis. Besides the business context, which has been widely researched in entrepreneurship studies, such a context lens includes somewhat neglected aspects of social, spatial, and institutional contexts. Examples from research, looking at social, spatial, and institutional contexts, served to highlight the benefits of a wider context perspective. Such a perspective acknowledges household and family embeddedness as wider social context. Moreover, it sees entrepreneurship as taking place in intertwined social, societal, and geographical contexts, which can change over time and all of which can be perceived as an asset or a liability by

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2. “Emergence” has provided a substantial theoretical underpinning for entrepreneurship studies, both explicitly and implicitly; see the review in Fuller, Warren, and Welter (2008).

entrepreneurs. And finally, it takes into account recursive links between contexts and entrepreneurship. Thus, context contributes to explaining why some entrepreneurs might recognize opportunities and others do not and why the outcomes of entrepreneurial activities might vary across different countries, regions, and other contexts (Baker, Gedajlovic, & Lubatkin, 2005).

With regard to the question of “how to contextualize” entrepreneurship, the article identified two major conceptual challenges. First, entrepreneurship theory needs to be contextualized. This refers to paying attention to situational and temporal boundaries for entrepreneurship, in order to frame adequately research questions and designs. However, the manifold facets of contexts, with its simultaneous dark and bright sides and its multi-levels, as well as conceptual barriers in shifting perspectives from the entrepreneur to entrepreneurship in various contexts render this a difficult task. In addition, this asks for integrating both the context lens and discrete context perspectives.

The second challenge concerns “theorizing context,” in other words, identifying “theories in context.” This implies researchers should challenge their preferred research paradigms, which assume one-way relationships between context and entrepreneurship, instead theorizing top-down and bottom-up links between context and entrepreneurship and incorporating temporal and historical aspects and acknowledging a better overall balance in covering both causal directions. Multi-layered embeddedness concepts that cut across levels of analysis can assist in theorizing top-down effects, while bottom-up effects can be theorized through considering individual adaptability, change, and co-evolutionary processes. In general, the concept of institutional entrepreneurship might serve as overarching theory, considering both top-down and bottom-up effects.

However, the question remains what type of “theory in context” entrepreneurship research requires: Do we aim for customized theory, that is theory by context, or more generalized theory that would be applicable across contexts (Rousseau & Fried, 2001)? I suggest that a contextualized view on entrepreneurship asks for an interdisciplinary perspective, as the solution *cannot* be to develop an overarching theory of entrepreneurship in all contexts, but rather working with disciplines like anthropology, sociology, and others, which possess some of the tools and concepts entrepreneurship scholars need to explore the variety, depths, and richness of contexts.

### **Ways Forward in Contextualizing Entrepreneurship (Research)**

One challenge not explored in this article concerns methodological choices when contextualizing entrepreneurship, including unit of analysis, sampling, multilevel models, and analysis. For example, with regard to the unit of analysis, Oughton and Wheelock (1996) argue that for consumption as well as labor supply decisions, the crucial unit is not the individual, but the household. However, Carter and Ram (2003) point out that such a perspective, while recognizing the importance of the resources of the family/household on strategies and objectives within the enterprise, “may fail to address issues beyond the family domain.” The question remains which unit of analysis adequately represents contextualized entrepreneurship.

Moreover, a contextualized approach to entrepreneurship also questions the dominance of quantitative methods in entrepreneurship research. While some authors argue that quantitative methods and testable hypotheses help the field as such to gain legitimacy (Cornelius, Landström, & Persson, 2006), I suggest that the gap in multi-context analysis partly also results from the neglect of (more) qualitative or combined methods, which allow capturing the richness and diversity of the context(s) (similar Bamberger, 2008, pp. 842–883 for management research in general).

Also, Zahra (2007) draws attention to the idea that entrepreneurship research itself needs to be contextualized. He argues for greater care and creativity in contextualizing the field as such, which applies especially to theories imported from other disciplines, pointing out that effective theorizing “centers on framing the debate, seeing things afresh and offering fresh insights into things we know and those we should know” (Zahra, p. 452).

Thus, opening up the discussion on the diversity of contexts of entrepreneurship will be a step towards “understanding the nature, richness and dynamics” (Zahra, 2007, p. 451) of entrepreneurship, also because this draws attention to the diversity of entrepreneurship, which ranges from simple, yet innovative entrepreneurial activities that might serve as stepping stone towards more fundamental ventures in the long run, to growth-oriented and technology-based ventures. Therefore, entrepreneurship researchers have to acknowledge that entrepreneurship happens in various contexts *and* that entrepreneurship *research* takes place in specific contexts and communities (Gartner, Davidsson, & Zahra, 2006) and that they themselves bring *their own context* to the research site. Nevertheless, fragmentation in the research field might hinder the assimilation of perspectives from different research communities. This is as much a result of a lack of communication as it is of the predominant (and oftentimes hidden) assumption that entrepreneurship research will benefit from one overarching theory, concept, and methodology. Therefore, researching entrepreneurship in its contexts is not only about recognizing the complexity and diversity of the phenomenon and its contexts for theory and methodology as such, but it is also about listening to each other and recognizing contributions outside the mainstream debate. Considering Davidsson’s (2003) distinction between entrepreneurship as a societal phenomenon, which draws attention to outcomes of entrepreneurial behavior, and entrepreneurship as a scholarly domain, which aims at understanding what entrepreneurship is about, it may well be time for entrepreneurship scholars to combine both dimensions in order to successfully contextualize the field and the phenomenon.

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Friederike Welter is a Professor of Entrepreneurship at Jönköping International Business School (JIBS), P.O. Box 1026, 551 11 Jönköping, Sweden, and TeliaSonera Professorship at Stockholm School of Economics in Riga, Latvia.

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