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The entrepreneurial process: An institutional perspective

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Abstract: The aim of this paper is to discuss the process of development of the firm in interaction with its institutional environment, which I call “the entrepreneurial process”. This can be studied in three phases, i.e. initiating phase, establishment phase and growth phase. I am going to present a model, describing the entrepreneurial process and try to explain the co-relation and interaction between economic performance, formal institutions and informal constraints. I will first describe some institutional factors, second, a theoretical discussion; while also presenting a model. Third, accounts of two companies. Analysis, discussion, and conclusions appear in part four.

Keywords: The entrepreneurial process, entrepreneurship, institutions, informal and formal institutional theory, organization, culture, structure, the enterprise development process, enterprise growth phases, growth and institutions.

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Introduction

The aim of this paper is to discuss the impact of different institutions on the entrepreneurial process i.e. enterprise growth and business development. I am trying to study how institutions affect “the entrepreneurial process”, i.e. the process of the development of the firm. Perspectives on entrepreneurship may focus either on the individual entrepreneur as an individual (personal characteristics) or on the process of the development of the enterprise. I see entrepreneurship as a process where the enterprise develops in interaction with the institutions or the so called institutional environment. My research is about the role which institutions play in the process of enterprise development. According to institutional theory there is a co-relation between institutions and economic performance (for example, see North, 1990; Powell & DiMaggio, 1991; Scott, 1995). There is agreement about that; the institutions play an important role in economic performance/development, but there are discussions about in what ways and how much institutions play a role and how important they are. Institutions and institutional theory are discussed later on in this paper. This article will deal with the issue of how companies develop in interaction with the institutional environment, i.e., how informal and formal institutions, respectively, impinge on the corporate development process.

There are few studies of immigrant-owned companies or immigrant entrepreneurs in Sweden. Unfortunately, there are hardly any business administration studies dealing with immigrant-owned companies from a business administration or organisational perspective. Entrepreneurial processes and the interaction between culture, structure and entrepreneurship, involve the corporate development process, which has been studied in three phases (see Ahmadi, 2001), i.e., initiation, establishment and operating/growth phases. Here, I study the interaction between the socio-economic structure (what are termed formal institutions), culture (informal restrictions) and entrepreneurship in a process and also how this affects the development process and growth of the companies. I use the terms entrepreneurial- and corporate development process interchangeably and in both instances I designate the interaction between informal and formal institutions and also the entrepreneurship and development to which this leads.

This paper consists of four main parts. In order to develop and propel this discussion, I will first present some institutional factors – that are essential for how an enterprise develops – and describe how this is achieved in practice and how this interaction takes place on a corporate level in what is termed reality. In part two, I am going to discuss

institutions and institutional theory briefly. Afterwards, a model is presented that illustrates how the corporate development process is affected by informal and formal institutions. In part three, I will present accounts of two companies – two cases, two companies which are established and run by Iranian immigrants in Sweden. Analysis, discussion and conclusions appear in part four.

Personal experiences, empirical/reality description

There are several institutional factors, both formal and informal, which affect the corporate development process, some of which are described below.

The business community and the organisation of the public sector, the network

The business community and other networks. The Swedish business community is not open to immigrant entrepreneurs. It excludes them from many opportunities and forces them to create their own networks and to collaborate within their immediate and extended families and with their fellow countrymen. They are forced to create their own networks. There are also other institutional obstacles that are built into the system and work against immigrant businesses and entrepreneurs, thereby inhibiting growth and development. Here are some examples from actual business life.

Example 1. Some immigrants had started a wholesale operation and wanted to buy bananas from one of the major importers. They were not allowed to pay cash as the importer did not accept cash. They were new to the trade and were not allowed to buy and pay later against an invoice. The proposed solution according to the import company was for them to obtain a bank credit certificate. This meant that they would have to deposit half a million crowns as security in the bank in order to obtain the certificate. In practice they were prevented from dealing in bananas on account of an obstacle built into the system (Ahmadi and Rinée, 1998). This is one typical example of how immigrant-owned companies can be excluded from the business community without the law being formally infringed and shows how the Swedish structure disadvantages immigrant-owned companies and creates problems, placing obstacles in their way.

Example 2. An immigrant entrepreneur (one of few that is active in manufacturing) says that; “I have been warned several times by my Swedish colleagues, not to profile my company as a “wog business”, which can in turn lead to the loss of my Swedish customers! They (i.e. the

suppliers) tried to cold-shoulder me all the time and it took a long time before I gained some degree of acceptance as a businessman” (Ahmadi et al 2001).

Example 3. Immigrant entrepreneurs have no wide network among politicians, public bodies or the business community. One of the respondents stated as follows: “...we were to have a plant built for... we applied for a permit... we tried for two years but got no reply. ...I tried to arrange a meeting with J (a regional politician) several times for two years, but in vain... he didn't have any time for me...”(ibid.).

Inadequate networks among the business community and public bodies exclude immigrant entrepreneurs from many opportunities and force them to create their own networks and to collaborate within their immediate and extended families and with their fellow countrymen. This is not merely positive, as it creates obstacles, causes problems and restricts corporate development and growth. Here, one can see how the established attitude within the business community is maintained, reconstructed and reinforced, and defended. Even a person from a different culture must adapt to established, existing and prevailing norms and stereotypes. Either you adapt and accept this or you are ostracised.

Taxes and loans (methods of finance)

Swedish taxes and taxation rules are generally to the detriment of the small businessman (see e.g., Henrekson, 2001, p. 53) but the situation is worse in relation to immigrant-owned companies. Besides generally poorer conditions for small businessmen, the system discriminates even more against immigrant-owned companies. The favourable taxation of liabilities compared with equity and institutional as against individual ownership, systematically favours larger, quoted and well-established companies (ibid.). Since immigrant-owned companies are not allowed to borrow on the financial market (banks and the like) and have to borrow privately and on the parallel market, they cannot record in their accounts their capital repayments and interest, which are thus not tax-deductible. These conditions contribute to the creation of parallel markets and encourage and force companies to cheat and in practice inhibit their development, functioning as obstacles to growth on the part of immigrant-owned companies.

The capital market and its structure, which is not adapted to the needs of immigrant-owned companies, result in them having to meet their capital needs in different ways from other companies in Sweden, for example, through loans from their family and their relatives, personal savings or other channels. In the longer perspective this may stimulate the creation of parallel markets.

Regulatory codes and bureaucracy

Another institutional aspect is a regulatory code, which can facilitate and stimulate, or impede and obstruct entrepreneurship. The regulatory codes and bureaucracy are often a disadvantage and inhibit immigrant-owned companies as they cannot avail themselves of their advantages and opportunities while they cannot avoid their intricacies. Secondly, these companies often engage less qualified bookkeeping or audit agencies in order to avoid heavy costs, which lead to a lower service quality. These agencies have either inadequate information or are not bothered to obtain and provided the relevant information (interviews 2001).

Thirdly, the system as such inhibits these companies, as it does not take into account their interests, problems and opportunities, e.g., favourable debt financing or less complex rules on permits. Besides these regulatory codes, the middle-class Swedes, who design and maintain the institutional environment, adopt an attitude that often takes a negative view of immigrants, whose entrepreneurship is viewed as a threat to its Swedish counterpart.

Regulation and deregulations of the business community

Regulation or deregulation can facilitate or impede entrepreneurship and there are several examples that can be pointed out, when it comes to relations with immigrant-owned companies. The deregulation of the taxicab trade is a clear example and it contributed to many immigrants who worked as cab drivers, starting their own companies, which in turn lead to more of their fellow countrymen getting jobs with these companies and more medium-sized taxicab companies being founded by these immigrants. This led to an over-establishment within the trade, resulting in lower prices, the acquisition of smaller and cheaper cars (a pro-environmental argument) and new customers (with less purchasing power) and the creation of new markets. In addition, this resulted in over-establishment and lower prices, and in turn, lower margins and profitability and thus less potential for growth (see case one in this paper).

The labour market

Low-paid jobs, unemployment and discrimination at work cause more immigrants to start their own business. At the same time this, i.e., their labour surplus combined with their family structure, traditions, etc. secures the supply of labour for these immigrant-owned

companies. This in turn paves the way for labour-intensive and service-oriented companies, as immigrant-owned companies often are.

Family structure, cooperation within the family

Immigrant entrepreneurs collaborate greatly within the family, which is at the centre of the entrepreneurship and working life of the majority of them, with no clear boundaries between private and working life. Discussions around the kitchen table are often a pre-requisite for the day's work and frequently have to do with the company. This has both advantages and disadvantages. Part of the strength of immigrant companies is cooperation within the family and with friends and relations, which considerably reduces their transaction costs (in terms of control, agreements and information aspects). This is due, on the one hand, to the situation of immigrant families in Sweden and, on the other, family construction and structure, attitudes to and views of the family, individual, etc.

Here are some statements and extracts from interviews with some immigrant entrepreneurs:

“...that you trust them (family members). (When one of the family members is there) you don't have to worry about the food being thrown out (no waste)...despite the disadvantages it's better to work with relatives... Employees never take full responsibility at work. It's impossible... but a relative does it better (takes responsibility), give a 100%. They come through for the family and work from the heart” (Ahmadi et al, 2001).

“You can trust family members even if it costs a little more. It's made up for by the fact that they care...” (ibid).

“This is a family company and family is important to us. We're not like Swedes. ...It's positive with the family's involvement and cooperation. Of course, my wife and I work here. We work eighty hours each. If we didn't work like this, what would happen? Then, it's not a family, but... you socialise on the job, exactly, both of us are building this company. We're in the same boat and trying...” (ibid).

Personal networks, a means of both socialising and organising

For various reasons immigrant entrepreneurs often lack networks among the Swedish business community and public bodies/society. This can be explained in varying ways and has different causes. A study undertaken in 2001 (Ahmadi et al) shows that 25% of small companies in the Göteborg region had received expertise support (M4) but that none of those that were immigrant owned (around 22% of companies in the study). A partial

explanation is that they had not been informed or that the information was inadequate, due to a great extent to their lack of the right contacts and networks that are required to get the correct information in the right time. Attempts are being made to compensate for this shortcoming by cooperating to build personal networks and cooperation within the family and with friends, relations and fellow countrymen and even creating immigrant organisations (e.g., the IFC – International Entrepreneur association Centre). This may involve exchanging information, advice, finance, capital or labour supplies, etc.

Inadequate experience of a collective safety net

Many of immigrant entrepreneurs come from countries without a collective safety net and are used to managing by themselves and being their own independent masters. These experiences contribute towards efforts that are important and play a role in successful entrepreneurship.

Attitude towards the private sector and the business community

The attitude towards the private sector is another cultural aspect. In countries where the majority of the inhabitants must fend for themselves, the people are accustomed to starting their own businesses and see nothing strange in this. This creates a mental ability that makes it easy for certain groups to go into business for themselves (Ljungar, 2002). In many countries dissidents are not given jobs in the public sector and so the well educated are forced into the private section and the business community. They thus learn how to run a company and the attitude towards private entrepreneurship and the business community becomes more positive.

Education and experience

Education has been mentioned by many researchers as an important factor in entrepreneurship and such contexts (Ahmadi 01). An earlier study (Ahmadi et al 2001) shows that immigrant entrepreneurs (small businessmen) have on average better education than the Swedish leaders of small businesses who were included in the study. This plays an important role in the development and future of small immigrant-owned companies.

Experience is another important factor in this context and the important role that practical experience plays in entrepreneurship cannot be denied. The majority of successful immigrants often started as trainees or in a similar capacity and have worked in their trade until they became entrepreneurs.

A brief summary follows below of what is meant by institutions and institutional theory. Later on presents two cases that are quite representative.

Institutions, institutional theory and the entrepreneurial process

Institutions:

Scott 1995 defines institutions thus: “Institutions consist of cognitive, and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction” (Scott, 1995, p. 33).

North’s description of institutions is more over-arching and extensive. He does not speak of them in detail but divides them into formal and informal. In addition, he describes in detail how institutions affect transaction/exchange costs and his description encompasses a variety of institutional forms, i.e., political, social and economic institutions. According to him (1990):

“Institutions are the rules of the game in a society or, formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change” (North, 1990, p. 3).

Institutions can be divided into two types: informal and formal. As we see, institutions are not only the rules of the game but also the key to historical changes in society. Institutions are divided into different categories and Scott terms them regulative, normative and cognitive, while North divides them into two categories, namely, formalised and informal. Here, in agreement with North, I divide them into informal and formal.

Informal institutions

Informal institutions are unwritten norms in society, norms, traditions, values and conventions that everybody is aware of and follows without them being written down anywhere. North defines informal institutions as:

“codes of conduct, norms of behaviour and conventions” (North, p. 36).

Informal institutions are facilitative and normative in communications with other actors in daily social life. They are frameworks within which one can move and be understood by

others, who know these rules of the game, follow them and are part of the game when it is a matter of how one conducts oneself in relation to others. They have a fundamental function and play a highly important and decisive role in social function and control. According to North, the role of informal restrictions is as follows:

“arising to coordinate repeated human interaction, they are (1) extensions, elaborations, and modifications of formal rules, (2) socially sanctioned norms of behaviour, and (3) internally enforced standards of conduct. (North, p. 40)

Hence, the role of the informal institutions is the coordination and standardisation of human interaction within a society. Coordination and standardisation of human interactions through informal institutions is frequently insufficient in modern, complex societies and these informal institutions should be supplemented by clear and formal laws and rules, i.e., formal institutions.

Formal institutions

In order to be able to coordinate relations and interaction between physical or legal entities, society needs more formal institutions, i.e., laws and rules. These laws and rules exist in order to simplify interactions between human beings and organisations, typifications that limit the potential for interpretation and thus enhance security. Formalised institutions vary from more extensive and over-arching laws such as national constitutions to simple rules and agreements between two parties.

What is included in formal institutions? Which ones are formal institutions and what do they comprise? Formal institutions comprise political, judicial and economic rules as well as laws and agreements, everything from national constitutions to agreements between private individuals or organisations. According to North, formal institutions comprise the following:

“Formal rules include political (and judicial) rules, economic rules, and contracts. The hierarchy of such rules, from constitutions, to statute and common laws, to specific bylaws, and finally to individual contracts defines constraints, from general rules to particular specifications. (North, p. 47).

Below, I am going to present and describe institutional theory.

Institutional theory

The roots of institutional theory go back in time and more specifically, to the 1880s and Weber and Durkheim (see, e.g., Scott 1995, p. 9). Weber's theories about bureaucracy are the firsts texts to deal with institutional theory. The debate in the USA gathered pace as Weber's writings were translated to English at the end of the 1940s. Merton was the first to make efforts to develop the role of the institutions in organisations. Selznick, one of Merton's students, developed institutional theory in an organisational context (Scott 1995, p. 17) and is often held up as the person who in recent times has taken up and discussed institutional theory in organisations.

Institutional theory states that organisations are affected by the environment in which they operate and that this comprises both technology and the institutional environment. According to institutional theory, institutions can affect the development of the organisations and their change in a variety of directions.

We can summarise as follows. Institutional theory implies that one focuses on rules, norms, traditions and cognitive-cultural factors(=institutions) as the important components of organising, which stimulate and maintain operations, imply continuity or create inertia. Institutionalised behaviour is when one does things that one has learnt to do through the culture (in a socialisation process), (e.g., the way in which money is borrowed among Iranian entrepreneurs, that is, how one obviously solves a company's financial problems, can be considered as an institution). This can be done by means of rules and laws, created by traditions, norms, values etc. This is the reason why it is interesting to use institutional theory in order to explain interaction between institutions and economic performance, i.e. the entrepreneurial process, which is the purpose of this study.

Different views of institutional theory and emphasis on various aspects of institutions and different approaches

In recent years institutional theory has developed rapidly and in various directions and especially within disciplines such as economics, sociology and organisational theory. Depending on the researchers' scientific interest and subject area, different views of institutional theory have developed. In addition, research has also shifted the focus from studies of primitive societies to studies of the national state and modern organisations, both national and international (DiMaggio and Powell, 1991, p. 19).

Institutional theory developed rapidly during the 1970s, due in part to the historic background and also because institutional analysis enjoys a long historical background – key works on institutional theory were undertaken at the turn of the century

– and new scientific progress was stimulated within the social sciences. Especially within disciplines such as economics, politics and sociology, great progress has been made and a broad spectrum of the arguments is encompassed by and subsumed within this perspective. The arguments run together and converge around the interest in understanding the bases for “social meaning” and social stability. They (these arguments) diverge/depart/deviate in those elements/features that are stressed as providing/creating these conditions/situations/circumstances (Scott 1998, p. 117).

Scott describes the roots of institutional theory in his book from 1998. He points to the historical background, where institutional theory had not attracted either greater attention or theoretical successes. In his opinion, this changed in the 1970s. He divides institutional theorising into three perspectives or more accurately, three approaches, namely, regulative (economists), normative (earlier sociologists) and cognitive-cultural (organisational theoreticians and sociologists) perspectives/approaches.

My view of and perspective on institutional theory and the corporate development process

I have divided institutions into informal and formal. Informal institutions (restrictions) correspond to the cognitive-cultural perspective that incorporates both the normative and cognitive perspectives. I concur with North’s division of institutions in informal and formal, respectively. Scott’s division, too, does not deviate especially much from this division. What I view as informal institutions, include Scott’s two perspectives, i.e., the cognitive and normative approach, respectively. Scott views the latter as institutionalism, while he terms the former, new institutionalism. Secondly, one can view the normative and cognitive approach as the cognitive-cultural approach, as I do, while Scott too considers the new institutionalism as the cognitive-cultural perspective. Formal or formalised institutions correspond to what Scott terms the regulative perspective.

Now, I am going to present a model, discussing, what I mean by the entrepreneurial process.

A model, “The entrepreneurial process”

Here, I am discussing the process of development of the firm in interaction with its institutional environment. Figure 1 illustrates the interaction between the individual entrepreneur/ entrepreneurship and informal/cultural and structural/formal institutions, i.e., the corporate development process.

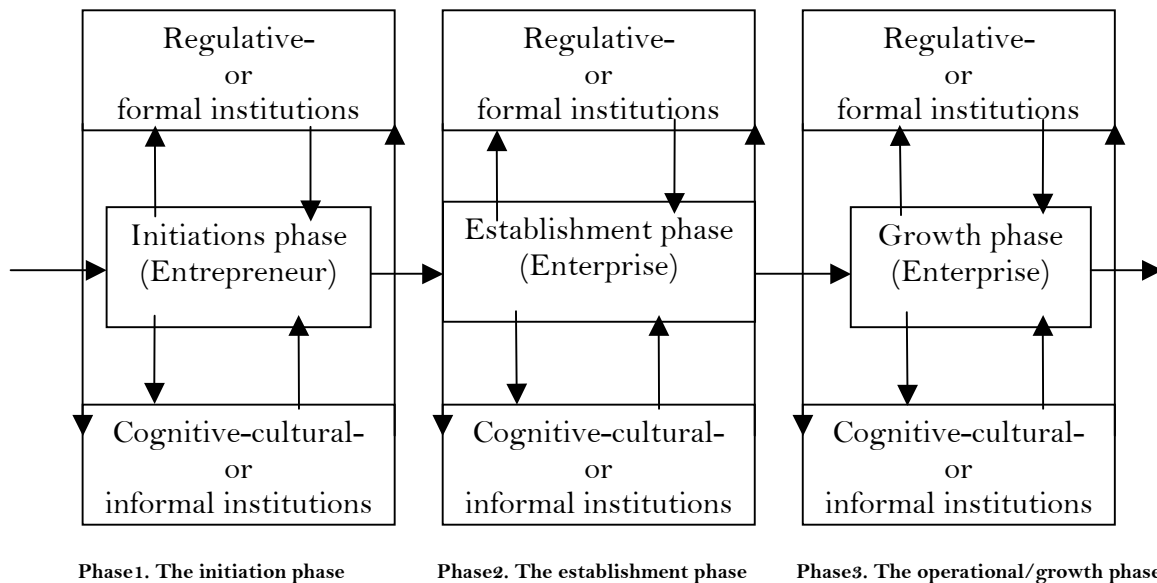


Figure 1. The organisational genesis process, initiation, establishment and corporate growth.

The model (Figure 1) illustrates how companies are affected in their development process by informal and formal institutions, respectively, in three development phases. In general, the entrepreneurial perspective can be divided into two: a focus on the individual (the entrepreneur in focus) and a focus on the corporate development process, i.e., the entrepreneurial process. I view entrepreneurship as a process where companies develop in interaction with the institutional environment. This involves the role that institutions play in the corporate development process. The entrepreneurial process is the process of interaction between informal and formal institutions and entrepreneurship and it is the corporate development process. In line with the above model, this process is studied in three periods or phases:

- The initiation phase;
- The establishment phase; and
- The operational/growth phase.

Two cases are presented bellow.

Account of two companies/Presentation of two cases

The case of the MT company

Description of the background/The initiation phase:

R.H., the MD of the company, came from Iran at the end of the Eighties. He was an economics student from a middle class and urban family. In Sweden he had a number of choices: unemployment, a low-paid unskilled job or his own business. The first choice was not an option and the third required capital and some skills and information that he lacked. After a while he began to work at a company, which was later his company's greatest competitor. He worked for some years in the trade, during which he saved a little capital and accumulated much information and knowledge of the trade.

Establishment and growth phases:

During the period the trade was deregulated and establishment within the trade became possible. He had a little capital and quite a good knowledge of the trade. Having consulted and discussed with friends and fellow countrymen, who were active and worked in and around the trade and he realised that it offered great opportunities. He started the MT company in 1994, during the recession and high Swedish unemployment. He had found his niche, a company, similar to the company for which he had worked, with lower prices, good service (rapidity) but lower quality(less luxury and comfort), new customers with less purchasing power or customers who wanted both lower quality and rapidity.

In 1994 a company was founded and the deregulation of the trade solved the permit problem. The economic recession meant that more customers were interested in lower prices, while unemployment was high and hence there was a surplus of labour. This meant that the company had access to almost unlimited labour, a large part of which consisted of immigrants, where high unemployment and inadequate language skills, meant that they committed themselves to a technology that replaced this lack of fluency. In addition, the company invested in environment-friendly production of services, which rapidly gave the company very successful publicity and the company quickly became known for low prices, rapidity, service and environmental friendliness.

Growth was a fact. As one the co-workers put it "after the rain we were a stream that became a river". The company grew by 100% and even 1000% in the space of 5-6 years (in 2000 it had a labour force of over 100 and its turnover had increased 10-20 times). It has captured a large portion of the existing market and created new markets and was so enormous that it became very difficult to handle customers and the range of services.

Every day new tenders and agreements arrived. Demand was so high that the supply could not be provided on time. The quality declined, service deteriorated and repeated delays occurred. Every day, it grew more difficult to organise the operations of a growing company and now there was a shortage of labour. With its low prices, the company could not pay higher wages, making it even more difficult to recruit labour. Deliveries of services on time and without slip-ups became harder. This resulted in delays, slip-ups and poorer service... it was completely out of control.

In 2001 the operation was sold off and RH is in the process of establishing operations under the same name and in the same trade but with different characteristics and orientation. This new operation is more capital-intensive, less labour-intensive and more service-oriented, with higher prices, higher margins, lower growth (in the number of employees) but higher per-capita turnover and yield.

The MT company has developed as shown and has gone from:

Labour-intensive	to	capital-intensive
Low-cost strategy	to	higher costs
Lower quality	to	higher quality
Low prices	to	higher prices
More competitive trade	to	less competitive trade

It can be seen that despite everything the development process in the MT company has followed the same path as other companies, rationalising and becoming more effective. The process goes from low-cost, labour-intensive, low quality and low prices to high costs, capital-intensive, high quality and higher prices. But we can see also, how partly institutional environment affected MT- company's development processes. This processes is going to be discussed later on.

An account of the MK company – From sausage stand to restaurant

K is forty-five years of age. He came to Sweden at the end of the Eighties after studying civil engineering in Eastern Europe. He comes from a middle-class family in Teheran, Iran. His father was an entrepreneur who dealt with importing goods from overseas and had had an agency for a number of major companies in Iran.

K was familiar with entrepreneurship and business from his early years. He went abroad at the start of the Eighties and studied to be a physicist. When he arrived in Sweden, immigrant unemployment was especially high and for the first few years he studied

Swedish and did some other courses. He very quickly understood the labour market situation and that he had four alternatives: 1) to become a permanent student; 2) to be unemployed or take part in labour market programs; 3) to take an unskilled job and 4) to start his own business. He chose the latter.

In Sweden he had several family members and relatives. At the start of the Nineties he bought a sausage stand in a Göteborg suburb from a Swede who wanted to sell because of poor profitability. Many people believed that he had made a bad bargain or investment. He borrowed capital from some relatives and received help in running the stand. Business went well. He then bought his first restaurant, then the second, third and fourth. K realised that you could make money by buying and renting out premises, setting up restaurants and pizzerias...and then selling off the operation, which he was involved with several times.

At the start of the twenty-first century, he has three bars/restaurants and a number of employees. At least one of these is a top-class, high-quality bar. K's strategy is to develop a bar/restaurant chain through Western Sweden and he is currently involved in planning and organising his operations.

The development of the MK companies from initiation through establishment to growth can be summarised as follows:

Initiation

The factor that contributed to K conceiving the idea of starting his own business was that his own father had been a businessman and he was familiar with (working life and) entrepreneurship in general and for him it was not virgin territory. He had travelled and lived abroad, had high social competence, spoke several languages and had academic education, ambitions and dreams.

The alternative was unemployment, low-paid jobs or extended studies. K had several family members and relatives (his own network) in Sweden and elsewhere, who could contribute with advice, knowledge, capital and labour. During the recession and restructuring of the Eighties and Nineties many Swedes sold their businesses because of poor profitability, while immigrant unemployment was high, which guaranteed the supply of labour.

Establishment

Establishment proceeded rapidly. K bought a sausage stand and got started. The family backed him with capital, labour, knowledge and advice and there were plenty of unemployed

immigrants who could work as trainees,... The establishment proceeded smoothly and K had ideas and saw the opportunities and future potential of this trade. He was active and received help from different quarters.

Growth

At the end of the Nineties business was doing well. The boom resulted in the restaurant trade flourishing and K started to buy his first, second and third restaurants. He sold off the less profitable operations and retained three profitable ones that he believed to have a future and development potential. A sausage stand at the start of the Nineties had grown into three well-run and well-patronised bars/restaurants. The MK companies have had stable growth of some 600-1000% in the past eight years.

Next chapter consist of analysis, discussion and conclusions.

An institutional Analysis

The institutional environment influences IOSME's (Iranian Owned Small and Medium sized Enterprises), at least as much as they do on other SME's (Small and Medium sized Enterprises), but effects are different. Because the institutional environment for Iranian immigrants in Sweden consist of partly the Swedish formal/regulative institution, while they share a double informal/cognitive-cultural institutional environment. This is the most profound distinction between IOSME's and Swedes owned SME's institutional environment in Sweden. This difference is sometimes an advantage, otherwise a disadvantage. Regulative institutions often are formed to IOSME's disadvantages. Financial institutions are arranged in such a way that benefits/serves the biggest enterprises. The IOSME's have almost no interest there. Deregulation is to the IOSME's advantages. They have much to benefit by supplying services, lower prices, etc. the determinant and judges are customers and not bank officials, public sector officials and regulations. The more regulation, the more it is to the immigrants/Iranian owned corporate disadvantage due to inadequate networks among the public sector and the Swedish business community. The close network in the Swedish trade and industry and the public sector exclude the immigrant businessmen and oblige them building their own networks. They lose much on this, but gain some by more collaboration among their own fellow-countrymen, friends and family. The Swedish economy/trade and industry and the public sector's organization and structure is formed in a such a way that exclude immigrant businessmen and oblige them constructing and developing one's own network and finding one's own solutions.

How do institutions specifically influence immigrant owned businesses? It can be partly observed in MT- and KM-companies.

MT-corporation

MT-company is a very typical case. We can see obvious impacts of institutions on this firm. On one side deregulation (license) and knowledge about the branch and experiences and on the other side immigrants network and collaboration within the network are very determining factors particularly in the establishment phase. But these factors became obstacles in the growth phase. Management of different family members and agreement on different strategies, were one of the greatest obstacles. The other limitation was lack of confidence and co-operation from the public sector authorities. Another problem was that the MT-company had grown very quickly. There were very short time for management adapting to the new institutions (establishment of contacts with the public authorities, learning modern growth management and organization [lack of strategy for the growth and planning, control, etc.]). Expressing this in institutional theoretical language/terms: The institutionalizing process was more slowly than the market and the company's conditions and needs for adaptation.

KM-corporation

KM-company has a different institutional story. The contributing factors in the initiations phase were partly K's education, knowing several languages, urbanity, familiarity with (experience in) the ways of society and a very wide personal network. These factors also contributed to the successful establishment and stable and solid growth. Financial support and supply of manpower assured the growth of the business. Other crucial factors were of course K's attitude to business and to the private sector, background, experiences in business etc. Government's establishment support had also some effects in the first two phases.

Discussion and conclusions

Institutions, both informal and formal, affect the corporate development process in different ways and to varying degrees. The effect of institutions on the development process is often contradictory. It can be stimulating in one phase but inhibiting in another or positive in one respect but negative in others. The effects of institutions on the entrepreneurial process should be described as dynamic. If we take formal institutions, they are some times stimulating for a certain type of company in one phase but can at the same time be inhibiting for other companies in other development phases. E.g., deregulation of a certain trade

creates the establishment of new companies within that trade but it impedes existing companies in that trade through greater competition, falling prices, falling profits, etc.

An institution can in one phase stimulate entrepreneurship but in other situations create obstacles/hamper entrepreneurship. One example of this is the economic cycle. In a recession, unemployment is high and thus the supply of labour, while financial institutions are strict when it comes to lending and financing risky projects. Also, demand for goods and services is low due to low incomes, i.e., production costs are low but there is a shortage of purchases (demand). Purchasing power is low and thus increases the demand for low-price goods and services, which in turn stimulates the establishment and growth of low-price companies, while in a boom, there is a shortage of labour but surplus of capital, which leads to higher incomes and a high demand for goods and services. This affects different companies in different ways. E.g. low-price companies benefit in a recession, while high-price companies selling luxuries and expensive goods, flourish during a boom.

This dynamism and variation can also be seen in the influence of informal institutions on the process of corporate development. Maintaining family cohesion is stimulating for immigrant-owned companies through private supplies of capital and labour and an exchange of knowledge and experience, while these companies are inhibited by informal institutions (e.g., informal loans, repayment and remuneration), family expectations and consideration for the views etc. of family members.

From this discussion one can draw the conclusion that institutions play a dynamic role in the corporate development process. It cannot be claimed that an institution always stimulates or inhibits entrepreneurship. It is not possible to draw clear conclusions as to the extent to which institutions affect the development process of companies, although one can describe processes that are frequently similar.

Institutions are not objective rules or norms. They exist (have been created) or are being created in order to benefit certain activities and interests. There are interest groups that have an interest in maintaining these institutions but immigrant entrepreneurs have not been participants in the process of constructing these institutions in Sweden and therefore their values and interests are not reflected in existing or constructed institutions. In those cases where their values coincide with the institutional environment in Sweden, they can make use of prevailing institutions or they can adapt to them and find opportunities that sometimes exist and are created (in some cases unconsciously) while in other cases they are forced to by social restructuring.

Being successful, immigrant businessman have to create and develop their own networks, learn about, pay attention to, establish contacts with, and adapt themselves to the

existing institutional environment in Sweden. And gradually, attention have to be paid by Swedish authorities and Swedish business communities to immigrant businessmen's interests. This depends on how strong they become economically and politically in the future.

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