INFORMAL INSTITUTIONS AND ENTREPRENEURSHIP: A LOCAL PERSPECTIVE

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Abstract

This paper takes an institutional approach in explaining entrepreneurial activities and their differences across places. If entrepreneurial activities are socially embedded activities, the importance of informal institutions needs to be considered in research. First, a conceptual framework has been developed. Then, the two most important institutional foundations have been identified and discussed. In the next step, these two institutional foundations have been used as a base to describe three case studies in Sweden. Several conclusions have been derived from the case studies. First, the local institutional foundation will influence the amount of entrepreneurial activity in a place. Second, the presence of a strong institutional foundation will hinder local entrepreneurs to take initiatives which do not fit within the existing rules of the game. Third, a dynamic region is distinguished by a gradual and constant change of the institutional framework. In less dynamic regions, entrepreneurs will build up a parallel group culture which eventually will replace the dominant territorial one.

Keywords: Informal institutions, Entrepreneurship, Local Development, Emerging Industries

INTRODUCTION

The view upon entrepreneurs as big men is currently challenged by a more network-oriented view: most entrepreneurial activities are a process involving a wide network of different actors (Freeman 2001, Johannisson 1998). The importance of social networks for the entrepreneurial activities is therefore acknowledged in entrepreneurship research (Schienstock 2007). Entrepreneurs draw on their social networks for advice, information and support with regard to their entrepreneurial activities. Such interactions are therefore an important foundation for each entrepreneurial activity. The nature of the interactions is subjected to the expectations of the people involved. Different people have different expectations about how to behave. These expectations are based on their social and economic context within which they use to act. In the literature, this is commonly addressed as institutions which are the rules of the game, such as laws, constitution, norms and taboos (North 1990). It is precisely these rules of the game that enable us to interact not only with acquaintances, but also with strangers. Following this argumentation, all interactions, may it be of social or economical nature, are subject to institutions. In other words, if entrepreneurial activities are indeed a social embedded activity, it becomes important to discuss institutions. This paper aims to contribute to the expanding literature on entrepreneurship by investigating which insights can be gained by adopting an institutional approach on entrepreneurship.

How does this institutional approach modify or extend our understanding of the entrepreneurial process/actions? It views the entrepreneurial process as subject to constraints. Generally, two types of constraints can be distinguished: First, objective hinders which are equal to all actors. Formal rules such as laws fall under this category. Second, the subjective hinders which can differ from actor to actor. In literature, this type is also referred to as informal institutions. Informal institutions depend on the social context of the actor and are self-imposed. Each entrepreneurial activity occurs on a specific place and requires social interactions with customers, competitors, venture capitalists and other stakeholders. These interactions are constraint by the different rules of the game. In this paper, the focus lies on informal rules of the game and their relationship to technological entrepreneurship. Entrepreneurship hereby is understood as the commercialization of business opportunities through the creation of new organizations.

In the next section, the notion of institutions is developed and insights are provided into what this concept entails. In section 3, it will be discussed how institutions matter for technological entrepreneurship and economic development. Section 4 describes two different institutional
foundations which are of special importance when discussing technological entrepreneurship. This is followed by a short description of the three case studies focusing on existing rules of the game. Based on these case studies, several propositions will be derived addressing the relationship between existing rules of the games and new entrepreneurial activities. The last section presents some conclusions and areas for future research.

**WHAT ARE INSTITUTIONS?**

This paper follows North (1990) who defines institutions as “the rules of the game in a society or, more formally, as the humanly devised constraints that shape human interaction” (North 1990, p3). According to this understanding, institutions influence the way entrepreneurs make decisions as institutions enable the development of routines and reduce the uncertainty of social interactions. North (1990) distinguishes between two types of institutions: formal institutions are the written rules such as laws and constitutions, while informal institutions are unwritten rules of a group such as taboos, norms, customs, traditions and codes of conduct.

![Informal Norms vs Formal Rules](source: Sautet 2005, p.5)

**Figure 1:** Relationship between formal and informal institutions

Figure 1 shows the relationship between formal and informal institutions. Sautet (2005) and others suggest that they are not independent, but tend to interact as both are always present. Ideally, the formal rules are based on the underlying belief system of the society, namely the informal norms. Therefore this type of formal institutions is supported by the society and often self-enforcing. E.g. the informal law of keeping a promise is underlying the formal law of contract. But there is a second type of formal institutions, which is not self-enforcing but relies on an administrative structure for enforcement. Such institutions aim to change the current behavior of a society. Conclusively, this kind of formal institutions is in contrast to the actual belief system and lacks the support of the society. At this point it can be asked if such formal institutions can contribute to the creation of new informal rules. Changes in the tax system can be used as an example. Incentives were introduced to establish a firm. This opens the eyes for entrepreneurship as an alternative.

Despite their interaction, formal and informal institutions are quite different in character. Table 1 shows the differences. Formal institutions are written as laws, are applicable to all groups of society, will be enforced by the police and can not contradict each other. Informal institutions are more difficult to identify for outsiders. They are normally unwritten and most outsiders will be unaware of the norms. These types of institutions are embedded in the culture and entrepreneurs can only identify them through interactions with other group members. Norms only apply to specific groups. Different social groups can have different norms although living or working in the same region. This also means that only the misbehavior of group members can be sanctioned by other group members. The power of enforcement determines the degree to which the informal institutions are binding. As there are different groups with different norms, the norms can contradict between groups.
Table 1: Characteristics of informal and formal institutions

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<th>Formal institutions</th>
<th>Informal institutions</th>
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<tr>
<td><strong>Enforcement</strong></td>
<td>• Not self-enforcing</td>
<td>• Self-enforcing</td>
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<td></td>
<td>• Sanctioned by law</td>
<td>• Sanctioned by group members</td>
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<tr>
<td><strong>Identification</strong></td>
<td>• Written</td>
<td>• Embedded in culture</td>
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<tr>
<td><strong>Scope</strong></td>
<td>• Nation-wide</td>
<td>• Differences across places</td>
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<tr>
<td></td>
<td>• Applicable to all groups</td>
<td>• Applicable to respective group members</td>
</tr>
<tr>
<td><strong>Content</strong></td>
<td>• Can not contradict each other</td>
<td>• Can contradict each other</td>
</tr>
<tr>
<td><strong>Change</strong></td>
<td>• Clear date when the legal framework will change</td>
<td>• Long-term process with continuous alterations</td>
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Most research done within this field focused on formal institutions such as governmental regulations (e.g., Henrekson 2007) and by that address differences between nations (e.g., Mueller and Thomas 2001). In this paper the focus will be on the more informal institutions of the regional industries, firms and society, such as conventions and codes of behavior. By that, differences between places can be discussed.

**INFORMAL INSTITUTIONS, NETWORKS AND ENTREPRENEURS**

This paper takes an institutional approach in explaining entrepreneurial activities and their differences across places. Such an institutional approach to entrepreneurship shifts attention away from the personal traits of the individual entrepreneurs and towards the social embeddedness of entrepreneurial activities. Institutions structure social interactions and shape a framework within which the entrepreneurs are free to act (Aldrich 1994). Unlike formal institutions, informal institutions do not have legal sanctions. The entrepreneurs need to decide if they want to be accepted in a particular group. Then they have to follow the informal institutions which control the interactions between the group members. By using the institutions as guidance or restrictions of actions, the actions of the other group members can be estimated as they have to follow the rules as well. Thus, institutions in general help to reduce uncertainty.

The relation between the rules of the game and entrepreneurship can be illustrated through a metaphor. The institutional foundation can be described as a labyrinth build by Daedalus who wanted to hold the Minotaur. Entrepreneurs are the ones left in the dark looking for a way in, not fully aware of the path through the labyrinth. To some extend they do not have to be perfectly aware of it. As long as they can pursue their way, they do not have to think about the walls. They will however become partly aware once their actions are bouncing of the walls. By trial and error, throwing the ball into the dark, they are able to find the openings which allow them to proceed. Sometimes they find an opening made by an entrepreneur before them. But sometimes they create an opening themselves, depending on the thickness of the wall and how hard they throw the ball. Sometimes they end up in a dead end with thick walls around them. Then the entrepreneur has to go one step back and to throw the ball in another direction; locating new openings which allow him to finally reach the Minotaur.

As entrepreneurial activities always involve a certain degree of uncertainty, institutions might be of special importance for the entrepreneur’s actions. Boettke and Coyne (2009, abstract) suggest that “the rules of the game create payoffs that make certain entrepreneurial opportunities more attractive than others”. Acting within the established framework reduces uncertainty, provides trust and enables to build up a social network. This is endangered by activities going against the existing rules of the game. Such new activities are attractive if the losses, such as being sanctioned or even excluded from the group, are compensated by the expected gains, such as financial gain or personal satisfaction. Different types of entrepreneurs might have a different attitude towards institutions.
Entrepreneurs initiating activities which are related to what have been done before in the region might be more willing to follow the established institutions. Radical activities introducing either new knowledge and new technologies or a new combination of old things into the region have to break the institutional framework in order to be able to carry out their activities. It is also more likely that the new activities are not compatible with the existing institutional framework and therefore this framework needs to be accepted eventually. There are constantly entrepreneurial activities going on each of them stretching the institutional framework.

Are there such things as local institutions? As suggested above, different social groups can have quite different perceptions about which things should be done in what way. If entrepreneurial activities are collective activities, entrepreneurs are travelers between different institutional settings: the institutional settings of their customers, competitors, business partners, venture capitalists and the administrative representatives are certainly differing. A place houses so many different groups, it might be hard to talk solely about local institutions.

It can however be suggested that each place has certain local-territorial informal institutions as a foundation. This institutional foundation is valid for the whole place and is linked to the dominating class of this place. In places with a strong traditional industry, such as the metal or paper industry, this dominating class has been the worker class. In old university and cathedral towns, this institutional foundation is linked to the local middle class. The question to ask at this point is if different institutional foundations have different effects on entrepreneurial activities. The two classes differ in one important point. While the worker class is a strong, closed collective, the middle class was characterized by individualism and certain openness. It can be assumed that the more homogenous the dominating class is, the stronger the institutional foundation is. In other words, the institutional foundation based on the worker class will be stronger, than the foundation based on the middle class.

This understanding does not acknowledge the different, smaller sub-groups of a place. In order to do so, it can be suggested that different layers of institutions exist. While the institutional foundation is based on the norms and values of the dominating class, another layer is formed by the informal institutions of the different sub-groups. In other words, while there are some underlying informal institutions as foundation for the vast majority of a place, they can indeed differ according to other norms.

Contradicting informal institutions at the business level are most clearly to be observed in places with both traditional industries and emerging new industries. The large manufacturing companies were the job providers and the whole local structure aligned according to their needs. But suddenly a new industry with different rules of the games and different needs emerges. It can be that these new industries are avoiding places where hard resistance is expected. It might not be a conscious choice but rather that the other place with a less distinct industrial tradition is perceived more open towards new activities. But nonetheless, there are heavy industrialized places with new emerging industries. It is therefore interesting to analyze how the disturbing new activities relate to the established traditional structure, namely the rules of the games.

**INSTITUTIONAL FOUNDATIONS AND THE STRUCTURATION OF CLASS**

First, it needs to be clarified how the established rules of the game came into existence. For the purpose of this paper, namely to analyze the impact of informal institutions on entrepreneurial activities, two socio-economic classes and their norms are of special interest: the working class and the middle-class. These two are of special interest because the majority of people can be said to belong to either of them (Beeghley 2004, Thompson & Hickey 2005 and Gilbert 2002). The following section discusses first the class characteristics and concludes how the different norms of the classes could affect entrepreneurial activities. It should be made clear that the following two descriptions are of stereotypical nature, meaning that the most polarizing norm profiles are described. A more detailed picture will be shown later on based on the case studies.

The term working class has in recent decades been the subject of much scholarly dispute, as it does not have the same explanatory power as it had in the beginning of, and until the mid-1900s. In this era of class antagonisms, the class definition served to clarify the conditions for production. That understanding refers to a Marxist perspective of the class concept, which includes other indicators as well, such as, ownership of capital and the possibility to control the labor of others. Today, after the breakthrough of the service society, these categorizations could be described as obsolete. Production and ownership are not currently organized in the same dichotomous way as in the early industrial society. In addition, a worker in Sweden may have a higher lifetime income than an academic, which reflects that socio-economic position is influenced by more variables than wage income (Thio, 2008).

In order to understand the socioeconomic stratification in the empirical cases, this paper follows
a structure of class profiles that is more often applied in the United States tradition (Beeghley 2004, Thompson & Hickey 2005 and Gilbert 2002). While identifying classes it is common to distinguish between reputational, subjective or an objective method (Thio, 2008). Both reputational and subjective methods rely on people’s perception of class, while the third method depends on objective criteria’s, such as annually income, occupation, and education. In the United States, very few people are either in the top, upper class or in the bottom, lower class. The majority is somewhere in the middle, and that group can be divided in a upper middle class, the middle class, and the working class (Thio, 2008). Sociologist may disagree about the accurate boundaries of these classes, but most would accept the rough estimates of their sizes based on the family income.

People in the upper middle class are distinguished from those above primly by their lesser wealth and power and from those below them by their highly successful and profitable careers as physicians, lawyers, midsized business owners, and corporate executives. Many have graduated from prestigious universities (Ivy League) and have advanced degrees (Thio, 2008). The middle class constitutes the largest class in the western societies, and is much more diverse in occupation than the upper middle class. It is made up of people with college educations or at least high school diplomas. They work in low- to mid level white collar occupations as average professionals, small business owners, salespersons and managers (Beeghley, 2004, Thompson & Hickey, 2005 and Gilbert, 2002).

The working class consists of clerical and most blue and pink-collar workers whose work is highly routinized. Most individuals belonging to the working class have high school education or less (Gilbert, 2002).

Describing the class structure of Sweden in the early 1900’s is a quite straightforward task, since it was big and demarcated, as much as 52 percent of the total work force in Sweden in the 1930’s was employed in the manufacturing industries. The rest was farmers and officials. The number of people belonging to the working class reached its peak during the 1960’s. Almost two third of Sweden’s work force belonged to the working class (Ahne et al, 1996).

The labor movement with unions and labor parties was structured as a collective movement, organized to represent workers and the working class interests in the industrial society. This understanding of production creates a conflict between labor and capital. At times when the labor movement had a huge impact on the Swedish society there were political paths, more or less running through a person's entire life. Spending your life within the frameworks of such a social engineering could affect a wide range of everyday aspects, such as arrangements regarding childcare or retirement savings, grocery shopping (at cooperatively owned Konsum) or reading a certain morning newspaper. The extent of this common socialization and learning process of the whole socialistic project must be called significant in terms of shaping collective norms. According to Coleman (1990) the concept of a norm consists on a macro level and is governing the behavior of individuals at the micro level. He explains;

“Those subscribing to a norm, or I will say holding a norm, claim a right to apply sanctions and recognize the right of others holding the norm to do so. Persons whose actions are subject to norms (who themselves may or may not hold the norm) take into account the norms, and accompanying potential rewards or punishments, not as absolute determinants for their actions, but as elements which affect their decisions about what actions it will be in their interest to carry out” (Coleman, 1990, p. 243).

Norms, values and symbols that have been manifested in a working class culture is to a large extent about strengthening the collective, with the purpose to gain greater influence in politics. Looking at the aim of creating a strong collective it is not surprising that this ambition also have produced norms, encouraging homogeneity, like-mindedness and trust in the system. Further, it is not difficult to imagine how strong norms create a society with low tolerance for dissent. In such a social system, individualism and independence will be subject to social sanctions. By identifying the sanction it is according to Coleman (1990) possible to identify the link between the macro norm and the individual action. In other word these norms form a structure for action. But, the very emergence of the norms springs out of individual behavior which reminds of a process of structuration. Giddens means that; “social structures are both constituted by human agency, and yet at the same time are the very medium of this constitution” (Giddens, 1976, p. 121).

What effect do these norms have then on entrepreneurship? Already in the 1940s, Schumpeter (1942) described that there is an imminent risk that large organizations dampens creativity. Entrepreneurship and creativity is per definition not anything that will be promoted, as the interests of the collective consistently will be prioritized. Loyalty with the socialist project and its politics, on a personal level, is in this understanding not to distinguish oneself from the network of peers.

When the industrialization of Sweden took off, it increased the demand for science and
engineering, which strengthened the middle class position in the industry. The term “white-and blue collar workers” reflects this distinction, which also set focus on the increasing value of human capital and the degraded view of labor.

The middle class has to a greater extent than the working class, united around the norms of tolerance. The virtue of openness and embracing diversity is in many aspects compatible with the educational ideals that characterized the middle class. Progressive norms, which become visible while people from the middle class are raising their children is according to LeMasters (Referred to in Gilbert, 2002) respect for autonomy, encouraging non-conformity. Also, more seldom the children from the middle class will meet stereotypical expectations linked to gender roles.

The middle class has historically not been in need of asserting their rights through a collective organization. Based on their financial means and property ownership, they have been represented in the parliament, as well as in the political discourses. Further more they have been a strong actor in the important contexts of higher education and fine culture. Living like this, they have not experienced the dark side of class antagonisms. It is not without reason that the middle class sometimes is called the “lucky class.” The members of the middle class is a diverse set of individuals with different interests, which is a great difference compared to the more homogeneous working class. The main reason for this is that the middle classes don’t have a common social background, history or a similar worldview (Butler & Savage, 1995).

The tentative conclusion of this reasoning about the middle class as individualistic and the working class as collective oriented, aims to accentuate how localities hosting a middle class also is more diverse per see. It lies in the characteristics of the middle class to be individualistic which also open up for the idea that the middle class may differ according to locality. The working class on the other hand is rather homogenous and has the same characteristics independent of place.

INFORMAL INSTITUTIONAL ENTREPRENEURSHIP!? – THREE DIFFERENT STORIES

This study seeks to apply process tracing in the analysis of three cities. There will be a comparative element stressing the differences in the settings of the informal foundations. The aim is not to search for a correlation, instead identify the crucial mechanisms in the process. In order to make the cases somewhat comparable a structured, focused comparison of cases is applied (see George, 1979). The method implies that the researcher elaborates on a set of general questions that are then posed to each of the cases. This allows for the data collected to be more standardized, thus making the systematic comparison possible and facilitating the accumulation of findings (George and Bennett, 2005). By structuring the collection of data around an explicit set of aspects, the method allows also for a focused comparison, as only certain historical aspects are taken into account (George & Bennett, 2005). Three cities in Sweden have been selected for the case studies: The coastal Karlskrona in the South of Sweden as well as Norrköping and Linköping. Both cities are situated in the East of Sweden relatively close to Stockholm, the Swedish capital and also close to each other.

The story of Norrköping is the story of a formerly fast growing industrial town which has difficulties to adapt after the decline of its manufacturing industry. Norrköping has a long tradition in the metal and textile industry which dates back to the 17th century. Most of the production processes needed large amount of water and the town’s river location was ideal. Norrköping soon developed into Sweden’s most important manufacturing town and became the second largest city by inhabitants after Stockholm. New textile companies emerged; all fighting for a place at the river. In the late nineteenth century, Norrköping was the largest textile production center in Sweden and also added successfully paper production to its economic profile. Large manufacturing companies of the textile and paper industry dominated long the city’s economic profile. Jobs were provided by the large companies and the entrepreneurial spirit was basically non-existing. Conclusively, Norrköping’s culture was dominated by the industrial workers. Sons followed the career path of their fathers and sought for jobs in the textile and paper industry. It can be stated that the industrial foundation of this city was provided by the dominating working class.

In the 1950s, the crises of the textile and the paper industry became obvious and the last of the big textile companies which closed down in the 70s. (Alzén 1996) This development was hard on Norrköping’s economy. With the large job providers closing down and few entrepreneurial activities, job opportunities diminished and the number of unemployed people increased. Ever since the decline, the municipality initiated several activities to establish new jobs, but the efforts failed. Incentives for the industries and locating several public organizations as compensation did not result in an expanding economy, but the growing public sector took over the role as job provider in the local economy (Svensson 2010).
In the 80s and 90s, Norrköping experienced its latest economic crisis; Phillips and Ericsson successively reduced the number of employees in their branch plants and finally closed down the plants. (Svensson 2010) In the 80s, actors in Norrköping acknowledged the shift of the labor market towards a higher educated workforce. Therefore, the establishment of a university was desired. In 1997, Linköping University opened a second campus in the neighboring city Norrköping. Norrköping’s industrial history is omnipresent even today. Large areas in the inner city, especially along the river, still show the buildings from the days of industrial glory. The challenge today is to reuse these buildings in a new way which allows paying homage to its successful past, but at the same time not to be restraint by it.

The story of Linköping is of a totally different character. Linköping started to grow at the time when Norrköping had many difficulties. Three events, one might say historical accidents, had a considerable impact on that development. The first one dates far back into the 12th century. The Catholic Church decided to build a cathedral in Linköping and the town developed early on as a place for education. Linköping’s self-image was characterized by an intellectual middle class throughout the following centuries. (Lokalhistoria 1999) Despite its importance for the church, Linköping was a small town of rural character with no noteworthy industry before the 20th century. Norrköping’s location at a river and access to a harbor attracted most of the companies. But then finally the industrialization arrived also in Linköping and the second important event happened. In 1907, the private Swedish Railroad Shop (ASJ) was established by the Uggla Family and this was the first large-scale industry. After the First World War, buses and trucks started to compete with the railroad and ASJ needed to search for new products. Soon ASJ started to build airplanes and already a couple of years later SAAB bought ASJ’s aviation division and moved its own airplane manufacturing to Linköping. Since that time on, Linköping has been Sweden’s aviation capital meaning it is the only place in Sweden with an airplane manufacturing site. The large-scale manufacturing industry came rather late to Linköping. Thus, the city was lacking an old tradition-tied corporate culture and a new form of corporate spirit could develop. It can be suggested that the industrial foundation of this city was based on the norms and traditions of the intellectual middle class. While the metal industry was still of importance after 1970, the mid 50s showed the tendency to develop from a blue collar to a white collar city. 1955 was the first year where the number of white collar employees in Linköping exceeded the number of workers at SAAB. (Lokalhistoria 1999)

In the mid 50s, SAAB director Lars Brising and civil servant Samuel Bergbäck suggested the establishment of a university college with strong links to the regional industries. Even if their original idea about a university college did not get implemented, their initiative was important for the later discussion about a technical university. Fact was that SAAB and other regional companies required highly educated employees. The industry as well as the municipality took actions to bring a university to Linköping offering higher education. In 1967, the technical university welcomed its first students. The establishment of the university was the third important event. The university and SAAB cooperated right from the beginning. As SAAB entered early on the IT industry also the university got an IT department accordingly. Other companies followed and one of Sweden’s first science parks was established to enable the university and companies to work together. The Mjärdevi Science Park proved to be an important platform for the information exchange between spin-offs, start-ups and established companies in the high-tech sector, especially the IT industry. 27 % of the companies are university spin-offs and additional 11% are company spin-offs (Mjärdevi 2009). Currently, the IT and the aviation industry are the most prominent industries of Linköping.

The historical background that has formed the context of Karlskrona’s commercial and industrial life can be traced back to a political decision in the late 17th century. Karlskrona was then founded with the primary aim to serve as a bastion for the Swedish Royal Navy. Since that time, the naval framing has been dominant in the city, alongside the related industry such as the navy yard. The middle class and the commercial life had a strong link of dependence towards the military sector. As the military was dominating in Karlskrona, the middle class of Karlskrona was formed by mostly military. Thus, in Karlskrona, the middle class shared norms with the working class. In other words, the clear hierarchy of the military left no room for individualism and self-realization.

In late 17th century a huge number of newcomers moved to Karlskrona in order to serve the King as officers, soldiers and being employed at the navy yard. The officers kept coming, in most cases from outside the city. Karlskrona today is one of UNESCO’s world culture heritage, hence it is considered to be a well-preserved example of a European naval base. Always present was the ambition to protect the naval city of Karlskrona against unwelcome outsiders, and non Swedish people was prohibited to enter military restricted areas in the city and some parts of the archipelago. In the 17th century the hostile elements was primly from Denmark, but as time folds on the restriction was not removed. Not until the middle of the 1990’s people without Swedish
citizenship was allowed to enter all civil parts of Karlskrona. Also, it was not until the middle of the 1990’s Karlskrona became more diversified in terms of ethnicity. The old understanding of the city as a fortress therefore, lingered on for many hundred years.

During the 1950s and 1960s Karlskrona could be described as a dynamic industry region. The dominating work places were still; the navy yard, the national defense but also some large manufacturing industries. In 1947 LM Ericsson located a factory for the manufacturing of telephone products. Atlas Diesel, Vibroverken (Dynapac), Uddcomb and Luma were also central names in the industrial base. In connection with the industrial structure of Karlskrona the trade union grow strong, promoting wage labor. In the 1970s and 1980s Karlskrona met a time of decline due to structural changes in the industry. Representatives from the municipality called for support from the national government stressing the need for new industries, SAAB was mentioned as a potent lifeline. But, the development took a new turn in 1990 when the headquarter of Nordic Tel (Telenor) and EP-Data (Ericsson software) decided to locate in Karlskrona. Here, a radical change can be identified which in addition connects to the location of a university college, named Blekinge Institute of Technology (BTH). Several IT companies saw possibilities to locate and get connected to each other and with the higher education to supply them with knowledgeable graduates within their field. The University's focus on signal processing and applied IT created opportunities to expand both the higher education and the new dynamic sector in terms of telecommunications and software industry. Newcomers, students and entrepreneurs came to Karlskrona with new ideas about business and about life.

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<th>Table 1: Overview of the three cities</th>
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<td><strong>Karlskrona</strong></td>
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<tr>
<td><strong>Institutional foundation</strong></td>
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<td><strong>University</strong></td>
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<td><strong>Former dominating industry</strong></td>
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<td><strong>Emerging industries</strong></td>
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The first illustration showed that the case studies have quite different institutional foundations. Three different types can be distinguished. First, Karlskrona’s institutional foundation is formed by the norms of the working and the middle class. This was possible as the middle class in Karlskrona was formed primarily by the military and the workers at the Navy shipyard which shared norms with the working class. Second, in Norrköping the dominating class was the working class. Third, the institutional foundation of Linköping was formed by the middle class. In other words, the institutional foundation of Karlskrona and Norrköping was dominated by the collective spirit, where everyone should be treated equal and no one should stick out in any way. The middle class in Linköping however, was characterized by individualism and openness. Norrköping and Karlskrona had their days of glory during the industrialization, while Linköping was fast growing during the time of high-technology. Norrköping and Karlskrona as industry and harbor cities with their blue collar workers, the other one an education city with its white collar workers. Two separated cultures; the collective and the individualism. The history of people and places are expressed in their local cultures and the informal institutions are closely tied to them. What for conclusions can be drawn from this?

**CONCLUSIVE DISCUSSION**

The conclusions will be structured along several propositions which can be derived from the short illustration of the case studies. These suggested conclusions are addressing the relationship between the existing rules of the game and new entrepreneurial activities.

The discussions in this paper showed that each place has an institutional foundation. This institutional foundation is strongly linked to the norms, taboos and codes of conduct of the dominating class. Two socio-economic classes and their norms are of special interest for the purpose of this paper. The working class was dominating in old industrialized cities and the middle class was dominating in university, merchant and cathedral cities. In general, these two classes differ according to one outstanding characteristic. The working class was a rather homogenous group, while the middle class
was characterized by individualism. It can be assumed that such different views upon self-discovery
and self-realization have different impacts on entrepreneurial activities. As shown in the previous
description of the socio-economic classes, children are raised according to the dominating norms. This
influences their attitude towards entrepreneurship. In Karlskrona and Norrköping, it can be seen that
sons follow the career paths of their fathers in one of the large manufacturing companies or the
military. The entrepreneurial spirit was basically non-existing. In Linköping on the other hand, the
institutional foundation was formed by the middle class of the cathedral town. High-educated
engineers engaged in the development of new aircraft components found support to follow new
business ideas because it meant to get an advantage in the technological competition. It should be
stressed once more that the middle class in Karlskrona was of quite a different nature than the middle
class in Linköping. Linköping’s middle class was connected to the engineers. Karlskrona’s middle
class was linked to the military and the navy shipyard with a clear hierarchy and chain of command.

Therefore:

**Conclusion 1: The local institutional foundation will influence the amount of entrepreneurial activity in a place.**

If different institutional foundations will have different impact on entrepreneurial activities, the
following question emerges: In what way do the institutional foundations differ? One way to look upon
it is to distinguish between strong and weaker institutional foundations. In Karlskrona and Norrköping,
the institutional foundation was based on norms of a strong collective. Even if the institutional
foundation of Karlskrona can also be linked to the middle class, the institutional foundation was
formed by the norms, customs and taboos of a rather homogenous group. Strong is here understood as
homogenous. Today’s society becomes more and more heterogeneous and also the working class
diversifies. The institutional foundations however still need to be taken into consideration as they
change slowly. Such a change can be influenced through a high mobility of the local inhabitants.
Linköping on the other hand was early on a place where different ideas and norms could co-exist as
this institutional foundation is characterized by individualism and openness. While this institutional
foundation was dominating, it can not be called strong as it emphasizes ‘being different’. It can be
assumed that less homogenous the dominating class is, the weaker the institutional foundation is.
Conclusively, the weaker the institutional foundation of a place, the more open this place is towards
new activities as differences have always co-existed. Therefore:

**Conclusion 2: The presence of a strong institutional foundation will hinder local entrepreneurs to take initiatives which do not fit within the existing rules of the game.**

Entrepreneurs are constraint by the rules of the game (North 1990). But on the other hand, the
institutional framework is continuously altered through many processes, one of them being
entrepreneurial activities. It needs however to be understood that entrepreneurs usually not aim
consciously to improve the local environment for entrepreneurial activities in general. Mostly, they are
just interested to implement their ideas. Sometimes this means to ignore the rules of the game and act
according to their specific needs. Furthermore, changes take time and are usually of incremental
color rather than of radical character. No entrepreneurial activity is alike another one. Even within
the same industry producing similar products, the activity will look somewhat differently. This
suggests that a gradual and constant change in the institutional framework is needed in order not to
hinder the new activities. In a dynamic region, this gradual change does occur as it can be observed in
the Linköping case. The stories of Karlskrona and Norrköping however suggest that the entrepreneurs
do not move within the existing institutional framework and their activities do not initiate a gradual
and constant change. This occurs as the institutional foundations in these two cities are stronger and
are therefore more reluctant to a gradual and constant change. Entrepreneurs need to act fast upon
business opportunities and do not have time to wait for the institutional framework to change.
Therefore, the entrepreneurs in these cities intend to build up a parallel one supporting the
implementation of their business ideas. The first entrepreneurial activities which break with the
existing rules of the game will experience a strong resistance at first. With time, more similar activities
will emerge and they will build up their own business culture with their own rules of the games.
Eventually, if successful, the new business culture will replace the previous one. Therefore:

**Conclusion 3: A dynamic region is distinguished by a gradual and constant change of the institutional framework. In less dynamic regions, entrepreneurs will build up a parallel group culture which eventually will replace the dominant territorial one.**
IMPLICATIONS AND LIMITATIONS OF THIS STUDY

Implications for academics and practice include the need to recognize the importance of institutional settings for entrepreneurial activities. While the importance of prior technological knowledge has been acknowledged in entrepreneurship literature (Shane 2000) and the political agents are mostly concerned to improve the physical infrastructure, the importance of informal institutions has been neglected. The discussion in this paper will contribute to increase the awareness about these issues.

This study is not without limitations. The focus so far has been on the theoretical discussions using the three cases as a first illustration. As a next step the cases need to be analyzed more detailed. Interviews with local entrepreneurs and representatives from the local public authorities will be used to gain more information about the institutional foundations, entrepreneurial activities and their relationship.

REFERENCES


