

≈ SUMMARY ≈

**SEEDING NEW VENTURES – GREEN THUMBS NOT FERTILE FIELDS:
INDIVIDUAL AND ENVIRONMENTAL DRIVERS OF INFORMAL INVESTMENT**

Laszlo Szerb & Gabor Rappai
University of Pécs, Hungary
Siri Terjesen

Visiting Research Fellow, Max Planck Institute of Economics

Principal Topic: Informal Investment

Recent studies of informal investment have focused on individual characteristics and behaviour. Behavioural features are important drivers of the decision to invest in others' businesses, and the heterogeneity of informal investors in terms of age, education, income, and working status has also been noted. While the decision to invest in another person's business is an individual behaviour, it is embedded in the larger environmental context. However, to date, there has been a lack of investigation into how different environmental factors in the form of economic, political, educational, or societal attributes affect the level of informal investment decision. The main reason is limited data sets. The GEM adult population survey of nearly 300,000 individuals in 29 countries enables an investigation the significance of both the individual and environmental factors driving informal investment.

Literature review: Informal Investment (e.g. Wetzel, 1981; Mason & Harrison, 1999; Bhide, 2000; Bygrave et al, 2003), Individual Drivers of Informal Investment (e.g. Szerb Rappai & Makra, 2006; Maula, Autio & Arenius, 2005); Environmental Drivers of Informal Investment; Country level studies of Informal Investment (Hindle & Wenban, 1999; Hindle & Lee, 2002; O'Gorman & Terjesen, 2006)

Data/Methodology/Key Propositions

Data: We use population sample data from the Global Entrepreneurship Monitor (GEM). In 1999, 2000 and 2001, a standardized telephone survey was conducted of a representative sample of approximately 2,000 people in each country, yielding a total response of nearly 300,000 individuals. We believe that this constitutes the largest dataset of informal investors. The GEM survey requests a broad array of information related to individuals' demographics, perceptions of the country environment for entrepreneurship, attitudes and awareness of entrepreneurship, as well as participation in new business activity as an entrepreneur or as an informal investor. Additionally, we use the Master GEM data set and the expert data set for environment level variables. See Bygrave *et al.* (2003) and Reynolds *et al.* (2004) for a detailed overview of the GEM methodology and approach.

Methodology: Hierarchical linear modelling allows for the analysis of models of multiple levels of nesting. The data is analysed at two levels. First, individual decision making is analyzed. Next, country variables are used to explain alterations at the country level. It is assumed that environmental factors affect informal investor decision differently in each country. First, the probability of acting as an informal investor is estimated by the logistic regression method independently for each country. Our main concern is the behavioral individual characteristics, and

we control for demographic variables. Country level variables are applied to explain variances in the behavioral parameter estimates at the second level of analysis. This paper replicates the multinomial logit method in Szerb, Rappai & Makra (2005) where informal investors are split into two categories: those who own businesses and those who do not. (This is due to Bygrave's estimation that owners are four times more likely to become informal investors than non-owners.)

Key Propositions: Based on our literature review of informal investment, individual and environmental drivers, we develop a number of propositions:

1. Economic: There should be a positive relationship between the economic environment (e.g. development, growth, prosperity, ease of start-up, equity stocks, private sources) and the propensity to make informal investments.
2. Political: There should be a positive relationship between the political environment (government policies and programs to support entrepreneurship and the education system) and the propensity to make informal investments.
3. Social: There should be a positive relationship between the social environment (e.g. societal support and acceptance of independence and entrepreneurship) and the propensity to make informal investments.
4. Behavioural: There should be a positive relationship between the individual behaviour (e.g. personal acquaintance with entrepreneur, past experience as entrepreneur or owner, start-up skills, opportunity recognition, fear of failure) and the propensity to make informal investments.
5. Demographic: There should be a positive relationship between individual demographics (e.g. age, gender, education, household income, working status) and the propensity to make informal investments.

Results and Implications

We are in the process of analysing our data. The co-authors will be meeting together at the University of Pecs during the week of October 10 to agree to our results. We will be able to produce a draft of our paper, with results, by mid-November. We expect that our conclusions will offer a number of implications for practice and policy.

CONTACT: Siri Terjesen, Max Planck Institute of Economics, Entrepreneurship, Growth & Public Policy Group, Kahlaische Straße 10, D-07745 Jena, Germany. Tel: 44 -77-8619-7606, Email: Siriterjesen@yahoo.com