

The impact of state legitimacy on entrepreneurial activity

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Abstract

The purpose of this research is to analyze the influence of the state legitimacy on of the different countries' entrepreneurial activity's development, the opportunities' perception and the entrepreneurship's motivations. This paper is set into the research field which analyze how the institutional environment influence entrepreneurship in different countries. Research framework has been built based on the Institutional Theory. To develop the model we use a set of data extracted from the European Social Survey and the Global Entrepreneurship Monitor about 28 European countries and we analyze them through Partial Least Squares-Structural Equation Modeling. Results show that state's legitimacy influences the level of entrepreneurship in the different countries and the perception of the entrepreneurial opportunities and chances. Besides, the research shows that, in the scenario of the most legitimated countries, entrepreneurial activities is related to the need of self-employment. Based on the Institutional Theory, this research provides relevant contributions in the research field about entrepreneurship and countries' institutions. From a practical point of view, the research shows ideas on how policymakers can improve entrepreneurial activity managing state legitimacy. Furthermore, the results provide new contributions in the research on the influence of the institutional context on the states entrepreneurial activity, providing an analysis and a comparison of the differences between countries, based on institutional theory.

Keywords State legitimacy, entrepreneurship activity, perceive opportunities, entrepreneurial motivations, necessity

Paper type Research paper

Introduction

The existence of differences between countries in the field of entrepreneurship has been analyzed by researchers within the framework of the Institutional Theory (Aparicio et al. 2016; Belitski et al. 2016; Stenholm et al. 2013). These differences have been explained taking into consideration that there are different entrepreneurial framework conditions (EFCs) which stimulate individual entrepreneurship (Alvarez et al. 2011; Pinho and Thompson, 2017; Stel et al. 2005).

The set of entrepreneurial framework conditions comprise financial access, government policies, entrepreneurial education, R&D transfer, market dynamics, infrastructure and cultural norms. The EFCs are shaped into each country's institutional context. The countries' institutional environment affects people's behavior, through laws and structures that set the framework for market transactions (North, 1990). In this context, EFCs contribute to countries' entrepreneurship supporting the emergence of entrepreneurship opportunities and the development of individual capacities that allow them to take advantage of those opportunities (Valliere, 2010).

Nowadays, the research about EFCs is focused on the analysis of the impact on: countries' entrepreneurship rate (Dileo and García Pereiro, 2019), the entrepreneurship social values (status, career choice) (Pinho and Thompson, 2017), others EFCs (e.g. R&D transfer) (Amorós, Poblete, et al. 2019; Sá and Pinho, 2019), or on different results of the entrepreneurship activity between countries in different stages of economic development (Martínez-Fierro et al. 2016). The results achieved have increased our awareness about the differences around entrepreneurship between countries. However, these findings have also generated new research questions. Are there any others variables which could affect entrepreneurship and explain the differences between countries? (Abdesselam et al. 2018).

Some authors suggest that these differences can be explained through the state legitimacy concept (Díez-Martín et al. 2016). According to this theory, the effect of the actions and conditions that states can develop to favor entrepreneurship would depend on the state legitimacy's level. The concept of state legitimacy refers to how the different practices of the institutional and public power are consciously accepted by citizens (Beetham, 2013). This theory is in line with classics studies that underline the relevancy of the common law versus the formal rules to improve the social support and the state's

economic growth (Hayek 1973). State legitimacy is a pillar for the prosperity of a country, since countries with low levels of legitimacy do not enjoy of social support and they are inclined to social instability, political, social and economic crises (Gilley, 2006). Some authors highlight the need to combine formal e informal norms to foster entrepreneurial activity (Sautet 2005).

Legitimacy is a key factor to reduce uncertainty and risk perception (Desai, 2008). State legitimacy contributes to institutional stability, reducing corporations' concerns and fears, since, for example, if a company does not comply with the legislation, the state will act through an effective and impartial application of the law and justice. Estrin et al. (2013) suggest that institutional contexts with high levels of corruption or low levels of intellectual property rights respect inhibit entrepreneurship. If the population does not trust the state and its institutions, then it will have little reason to believe in the effectiveness of EFCs, and these conditions will have a minor effect on the intentions to start a new business (Assenova and Sorenson, 2017). The state legitimacy is a guarantee that investors, entrepreneurs, employees and clients get in return of the risk of making an investment (Wellalage and Locke, 2016). On the, the lack of legitimacy may be an entry barrier for a project development (Diez-de-Castro et al. 2019).

Institutional theory suggests that positive and stable legitimacy perception promotes access to resources and organizations' success (Díez-Martín et al. 2013; Pollack et al. 2012). This is possible since legitimacy has the capability to influence individuals' behavior (Choi and Shepherd, 2005). Scholars affirm that legitimacy is a competitive advantage (Oliver, 1997) that could be used by the states to boost their development (Díez-Martín et al. 2013; Grigoli and Mills, 2014; Prado-Román et al. 2016). Knowing the benefits and consequences of the state legitimacy is key to promote social balance, economic strength, competitiveness and the country's growth (Blanco-González et al. 2015).

The main objective of this paper is to clarify why there are differences in entrepreneurship between countries, by adopting the institutional perspective (Li and Zahra, 2012). We use the concept of state legitimacy as an institutional variable, considering different dimensions as the perceptions of consensus, justice and legality of the states (Blanco-González et al. 2017; Gilley, 2006).

This paper contributes to the academic research, fulfilling an identified gap in the research agenda about the need of analyzing the entrepreneurship activities through new and updated variables (Abdesselam et al. 2018; Fuentelsaz et al. 2019), especially taking into consideration the differences between various countries (Assenova and Sorenson, 2017; Martínez-Fierro et al. 2016). So far, the relationship between the state legitimacy and the entrepreneurship rate has not been empirically validated. State legitimacy's conceptualization and framing, considered as a variable within the EFCs, may improve the research and findings about the capabilities and opportunities which may increase the entrepreneurial activities in the different countries. In the field of the institutional theory, this research brings new light on the effects of legitimacy and its dimensions.

For this purpose, the research has been structured in four parts. First, we perform an academic literature review with the aim of creating as the foundations for the hypotheses and the research model generation. Second, we describe and justify the data collection, the variables and the research method used to test the hypotheses. A model of structural equations has been used. Third, we demonstrate the reliability and validity of the measurement model, as well as the results of the structural model. Finally, the results, implications, limitations and future research projects are proposed.

State legitimacy and entrepreneurship

States are framed in an institutional context composed by factors and forces. These two dimensions shape the entrepreneurship capital of a specific state's economy, and influence the grade and success of the entrepreneurial activity (Audretsch 2007). States are expected rationally manage the entrepreneurship capital. This context is defined according with the *forma mentis* of each individual and of the society in general, who determine what is rational and what is not (Meyer and Rowan, 1983). In other words, the norms, rules and ideologies of the society represent the appropriate behaviors by which the states should be governed. The states, considered as institutions, know that their dialogue with individuals is conditioned by their synchrony with their political approaches and ideas. When the states are capable to aligned with the society's expectations and indicators, they have more possibilities to maintain a fluid relation with all the stakeholders, decrease barriers and, therefore, to gain legitimacy.

Legitimacy is the core concept of the institutional theory. This theory points out that organizations pursue legitimacy to perpetuate themselves (Meyer and Rowan, 1977). The state legitimacy reflects cultural alignment, normative support and consonance with the relevant rules and laws (Scott, 1995). Legitimate organizations represent social beliefs and adapt their selves with rational and appropriate behaviors. The power of a legitimate organization is based on the positive acknowledge and approval by

the society. Legitimate organization are not questioned so they are not perceived as mistrusted and their effectiveness and adequacy is higher (Meyer and Rowan, 1977). This adequacy decreases the need of self-justification and increase the positive influence on the individuals and the society as a whole (Barley, 2008).

The state legitimacy has been used to explain some unexpected results on the entrepreneurial activity of the countries. For example, a recent research indicates that tightness does not influence the entrepreneurial activity of the countries (Harms and Groen, 2017). This research suggests that it does not matter if a country has more or less tolerant norms with distinct behaviors, but the degree to which those norms are legitimized by society is very important. That is, the degree to which these norms are accepted and shared by society (Dobrev, 2001). Some scholars suggest that countries must develop a right institutional context in order to foster the entrepreneurship activity (Sautet 2005). In this context formal rules must be aligned with informal rules.

There is a negative relationship between legitimacy and uncertainty. Research in the field of organizational legitimacy indicates that a higher level of legitimacy reduces uncertainty (Bansal and Clelland, 2004). As a consequence, the states with major social conflicts do not achieve full legitimacy and they experience a decrease of the trust of investors and society. Avoiding uncertainty positively influences entrepreneurial activity (Harms and Groen, 2017; Mueller and Thomas, 2001). The stakeholders which are the resources providers (investors, employees, buyers or suppliers) are distressed by uncertainty, since they consider that it may put their investments at risk. It has been demonstrated that the lack of state legitimacy decreases formal (legal) entrepreneurial activity, because the risk of dealing with non-formalized companies is less than with formal companies. On the contrary, the absence of uncertainty suggests an environment full of trust. When the state is more legitimized, stakeholders will have greater confidence in the effective and impartial intervention of the state, and, therefore they will easily share their resources improving the entrepreneurial activity (Assenova and Sorenson, 2017).

The benefits associated with the state legitimacy are based on the trust of individuals that a legitimate state will operate efficiently and consistently. In the less legitimate states the uncertainty of the institutional environment is higher. There are perceived risks associated with starting a business, which may be associated with bribes payment and not with legal standards compliance (Anokhin and Schulze, 2009). The same goes for disputes that may arise in transactions between seller and buyer. The lack of the state legitimacy can lead to expect solutions that are not based on the impartiality of the courts or property rights (Estrin et al. 2013). Summarizing, states' institutions are vital to the expansion of entrepreneurial activity (Sautet 2005). Higher levels of legal, institutional, and social factors (entrepreneurship capital) match with a higher start-up rates (Audretsch 2007). Taking into consideration the exposed theoretical framework, we formulate the first hypothesis:

H1. A higher state legitimacy perception corresponds to a higher entrepreneurial activity

State legitimacy, entrepreneurial opportunities and motivation

Legitimacy is a multidimensional concept that includes regulatory, moral, pragmatic and cognitive aspects (Diez-de-Castro et al. 2018). These dimensions shape the necessary institutional structure for entrepreneurial activity because its existence is associated with risk (Bansal and Clelland, 2004) and access to the resources necessary to survive, such as financing (Pollack et al. 2012) or customers (Chaney et al. 2016).

The existence of a legitimate institutional environment, in which property rights are defended, helps the perception of available opportunities, because entrepreneurs will rely on the respect and safeguard of their rights (Stephan and Levin 1996). When states assure entrepreneurs that the effort they make can compensate them, they are boosting entrepreneurship and innovation (Baumol, 1996). Business opportunities are higher in countries with less regulation, more market freedom and few entry barriers (El-Namaki, 1988). However, governments also generate regulations that offer incentives for entrepreneurship. The acceptance of laws and norms by society, stimulates some behaviors and decelerates others (Kostova and Roth, 2002).

The defense of property rights also affects the perceived risk of investors. Easy access to financing is one of the first causes pointed out by entrepreneurs to start a business (De Clercq et al. 2012). Access to financing increase access to opportunities and increases the possibility of exploiting new business chances (Evans and Leighton, 1989). The access to financial resources has been one of the most important analyzed topics about the consequences of the legitimacy. It has been shown that legitimacy boosts the

attraction of financial resources (Deeds et al. 2004; Pollack et al. 2012), and affect investors' decision-making process (Higgins and Gulati, 2003).

When states have lower legitimacy, entrepreneurship opportunities are reduced due to lack of access to financing. The lack of state legitimacy is linked to uncertain environment that cause investors, such as banks, to require more guarantees (Blanchflower and Oswald, 1998). These situations reduce financing accessibility for entrepreneurs, which, finally, are supported just by family and friends, limiting opportunities to invest in high-growing and promising projects (Beck et al. 2005).

The culture and the mindset of a state affects the entrepreneurial intention and expectations of the individuals (Krueger et al. 2000). Culture is a decisive factor for the construction of legitimacy (Brown and Toyoki, 2013; Ruebottom, 2013; Treviño et al. 2014). Social norms, values and beliefs are included in the legitimacy (Busenitz et al. 2000; Scott, 1995). When individuals assess legitimacy, they do so based on their beliefs, attitudes, and the information they received (Bitektine and Haack, 2015). In the most legitimate states, that have a more developed entrepreneurial culture, individuals will have the perception of having more available opportunities and resources. Researchers have shown that entrepreneurial projects increase when society's expectations and beliefs are favorable to entrepreneurship (Liñán et al. 2011; Valliere, 2017).

Besides that, when the states are legitimized, trust in institutions and in the markets increases. This will increase the chances that investors and entrepreneurs will perceive new opportunities to do business or reinvest their profits (Johnson et al. 2002).

On the contrary, less legitimate states can be an important limitation for entrepreneurship and, in particular, for the growth and perception of business opportunities (Krasniqi and Desai, 2016). Some researchers point out that less legitimate states tend to be characterized by turbulent environments, bureaucratic structures and scarce resources (Puffer et al. 2001), while the most legitimate states have more reliable tax systems, predictable and consistent laws, and less bureaucracy (Manolova et al. 2008). Bureaucracy, taxation, or a large number of laws have a detrimental effect on business activity and discourage entrepreneurship (Djankov et al. 2002). For example, the excess of bureaucracy to start a business implies the need for more profits to compensate for the opportunity cost of an alternative investment, discouraging the options for the creation of new businesses. Too much tax regulation can discourage to invest in a business project, because individuals will be more skeptical about earning profits (Williamson and Mathers, 2011). At the other side, complex legal framework can discourage job creation. Generalized corruption and unreliable application of laws and regulations can hamper entrepreneurial behavior (Aidis et al. 2008).

The legitimized states adapt and change according to the changing and demanding environment. This flexibility does not imply a lack of stability and reliability, since these legitimized states count of behavioral norms accepted and approved by their stakeholders (Greenwood et al. 2002). The state adaptability, flexibility, and a clear and accepted legal framework, provide a trust environment very much necessary for entrepreneurship (Zimmerman and Zeitz, 2002), since it improve the business opportunities' perception.

H2. A higher state legitimacy corresponds to a higher grade of business opportunities' perception.

H3. A higher grade of business opportunities' perception corresponds to a higher entrepreneurship activity.

A recent research has revealed the need to understand how the institutional context influences the motivations of individuals to start their own business (Eijdenberg et al. 2019; Puente et al. 2019). Entrepreneurial motivations have been analyzed mainly considering the entrepreneurial event model (Shapero and Sokol 1982), the Theory of Planned Behavior (Ajzen 1991), the model of entrepreneurial potential (Krueger and Brazeal 1994) or the Theory of Social Cognitive Career (Lent et al. 1994). All these models assume that the entrepreneurial motivations depend from variables related with individual attitudes such as the perception of desirability, viability, conduct control, and success rate expectation.

Traditionally, the academic literature assumed that, according with the previous mentioned theories, there are two main reasons that entail to a new business creation: necessity-driven and opportunity-driven (Ardichvili et al. 2003; Reynolds et al. 2005). There are entrepreneurs who start their business because of the need to find a source of employment. Other entrepreneurs start business when they find an opportunity that can exploit.

Context is essential to understand the behavior of entrepreneurs (Stenholm et al. 2013). As we said previously, the institutional context is reflected in the state legitimacy. Legitimacy is expected to

influence the types of opportunities people identify, the decision to start a venture or the financing arrangements (Valdez and Richardson 2013). When the institutional context is weak, where states have little legitimacy, the environment and adverse conditions can cause the emergence of entrepreneurs motivated by survival needs (Capelleras and Rabetino, 2008). Entrepreneurship motivated by the need of surviving is related to low growth aspirations (Galindo-Martín et al. 2019), which are the common in a not legitimate environment. It is a self-employment option rather than an initiative to grow a business and consolidate it (Hessels et al. 2008). On the contrary, the context of the legitimized states will favor the emergence of entrepreneurs who start their businesses to seize an opportunity. In addition, it has been shown that entrepreneurship by necessity is related to little interest in growth or in achieving an impact on the economy or society in general (Puente et al. 2019).

The fragility of the state has a positive effect on necessity-based business efforts, while delays opportunity-based efforts (Amorós, Ciravegna, et al. 2019).

H4. A higher state legitimacy corresponds to a higher motivation to opportunity-driven entrepreneurship.

Context also influences the market opportunities. Environmental variables may generate inefficiencies in the market, creating new opportunities for entrepreneurs able to identify and get profit of them (Stevenson and Jarillo 1990). From an economic perspective, economic growth generates a lot of opportunities to create a new business (such as an easier access to financing) and to get a new job. Therefore, new business creation would be more linked to an opportunity-driven entrepreneurship affected by the market, since, in this positive environment, finding a new job would not be difficult. On the contrary, economic crises generate less market opportunities, the cost of opportunity increases, the demand decreases and employment chances are much more difficult to reach: during a crisis the main entrepreneurship driver is the need to economically survive (Stuetzer et al. 2014).

H5. A higher level of perception of opportunity for entrepreneurship corresponds to a higher motivation for opportunity-driven entrepreneurship.

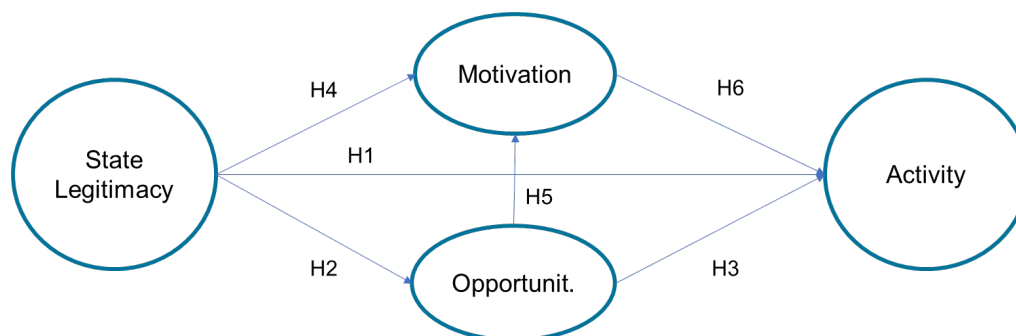
The literature review highlights the Entrepreneurship rate and drivers (*opportunity-driven or necessity-driven*) is affected by the context (Simón-Moya et al. 2016). For example, during an economic crisis the necessity-driven entrepreneurship rate is higher than the opportunity-driven one. Something very similar happens when we compare different countries with different institutional conditions and variables such as lower levels of development, greater income inequality and high levels of employment (Simón-Moya et al. 2014). Necessity-driven entrepreneurship is associated with developing countries while opportunity-driven entrepreneurship is associated to developed countries (Pinho and Thompson 2017). Usually, the opportunistic entrepreneurship is more frequent than the necessity motivated entrepreneurship (Reynolds et al. 2005).

H6. A higher level of motivation for opportunity-driven entrepreneurship correspond to a higher entrepreneurship activity.

Conceptual framework

Figure 1 shows the applied research model. It proposes that state legitimacy influences entrepreneurial activity, perception of new business opportunity and entrepreneurship motivation (H1, H2, H4). At the same time, the model suggests a relationship between business opportunity an entrepreneurial motivation (H5). Moreover, both variables are also positive related to entrepreneurship activity (H3 and H6).

Figure 1 State legitimacy and entrepreneurial activity.



Methodology

Sample and data collection

We used two data sources to construct the variables employed in our analysis: European Social Survey (ESS) and Global Entrepreneurship Monitor (GEM). Standing Committee for the Social Sciences (SCSS) of the European Science Foundation leads the ESS. This is an effort to measure change in the attitudes, beliefs, and behavior patterns of the various populations in Europe, improve the quality of quantitative measures, and establish a set of solid social indicators to evaluate well-being in European countries. The country sampled in the ESS is representative of all residents over the age of 15 in that country, independently of their nationality, citizenship, or language. Individuals surveyed are selected by random sampling. All countries undertake a nationally representative sample of a minimum 'effective achieved sample size' of 1,500. For these reasons, the ESS is ideally suited for use to measure the state legitimacy. Precisely, state legitimacy measurement is based on Gilley (2006 and 2012) and Blanco-Gonzalez et al. (2017) (see Table 1).

To measure business opportunities' perception, motivation, and entrepreneurial activity, we use the data for the Global Entrepreneurship Monitor (GEM). The GEM data are collected through a survey. Each GEM national team undertake a nationally representative sample of at least 2,000 working-age adults. Some countries have far larger samples than this. For instance, in 2016 in Italy 2,045 surveys have been collected, and in the 10,011. Survey items was collected with different survey techniques to avoid common method bias (Bosma et al. 2012).

During the data collection phase, we identified the ESS and the GEM specific variables for this research (Table 1), we chose the Countries which were included into both the databases during the timeframe between the years 2008 and 2017. To analyze the effect of the state legitimacy (t) on the variables related to entrepreneurship, we quantify the influence in one-year time (t+1). To do so we created a new database including 28 countries and 104 observations. Specifically, the sampled countries are: Austria, Belgium, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Kosovo, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, United Kingdom.

Variable measurement

State legitimacy can be studied at numerous levels: for institutions, processes, or individual actors. In this research paper, we focus on the state level, which is the basic institutional and ideological structure of a political community (Gilley, 2006). State legitimacy has been analyzed from three dimensions (Beetham, 2013, Blanco-González et al, 2017):

- **Legality:** It is the acceptance of legal authority. The state exercises its political power in concordance with its citizen's views on laws, rules, and customs. These are important because they are generally applied and predictable. Rules create predictability in social life, which is in itself a moral good.
- **Justification:** It looks at shared principles in a specific society: its ideas and values. Citizens react to the moral reasons a state gives to act a certain way. Some indicators of this dimension are trust in political leadership or opinions on the effectiveness of political institutions.
- **Consent:** It is the political support and participation. This dimension refers to positive actions that express the acknowledgment by a citizen that the state possesses overarching political authority and that he or she must follow the resulting decisions. Examples of acts of expressed

consent would be voter turnout, level of participation in associations, or membership in political parties.

Following GEM, the entrepreneurship motivations are the percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) involved in TEA that are Improvement-Driven Opportunity motivated, divided by the percentage of TEA that is necessity motivated. Perceived opportunities are the percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who see good opportunities to start a firm in the area where they live. And, the entrepreneurship activity is the percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business.

Table 1 Variables and measures

Variable	Item	Measures
Legitimacy. Legality	Leg_02	Trust in the legal system
	Jus_01	Trust in parliament
	Jus_02	Trust in political parties
	Jus_03	Trust in politicians
Legitimacy. Justification	Jus_04	Satisfaction with your country's democracy
	Jus_05	Satisfaction with your country's economic situation
	Jus_06	State of education in your country
	Jus_07	Satisfaction with your country's government
	Jus_08	State of health services
Legitimacy. Consent	Con_02	Participation in an election in the past 12 months
	Con_04	Contact with public administration in the past 12 months
	Con_05	Member of a political party
	Con_07	Worked in a political party or action group in the past 12 months
Motivations	Mot_01	Improvement-Driven Opportunity/Necessity Motive.
Opportunities	Opport_01	Perceived opportunities
Activity	TEA	Total early-stage Entrepreneurial Activity (TEA)

Data analysis

Table 2 shows the descriptive statistics of the model variables. To analyze the effect of state legitimacy on motivations, opportunities and entrepreneurial activity Partial Least Squares (PLS), a variance-based structural equation modeling (Reinartz et al. 2009), was used. This method allows assessment of the reliability and validity of the measures of theoretical constructs and the estimation of the relationships between these constructs. This technique was chosen because it is a strong method of analysis (Chin et al. 2003), and it presents adequate advantages for the research to be carried out (Hair et al. 2017).

Table 2 Measurement of variables and descriptive statistics

Variable	Item	Mean	Standard Deviation
Legitimacy. Legality	Leg_02	75.391	7.962
Legitimacy. Justification	Jus_01	62.647	9.755
	Jus_02	54.393	9.886
	Jus_03	54.224	9.963
	Jus_04	62.347	13.629
	Jus_05	60.412	9.87
	Jus_06	68.806	9.408
	Jus_07	72.078	7.988

	Jus_08	69.515	10.467
Legitimacy. Consent	Con_02	11.121	8.365
	Con_04	15.658	7.362
	Con_05	8.833	8.601
	Con_07	14.538	11.429
Motivations	Mot_01	3.814	3.068
Opportunities	Opport_01	36.178	16.466
Activity	TEA	7.01	2.664

Results

The estimation of a model by means of PLS-SEM requires a two-step systematic evaluation (Hair et al. 2017). In the first step, the relationships between the indicators and the constructs (measurement models) are analyzed, and in the second step the relationships between the constructs (structural model).

Assessment of the measurement model

In Table 3, the information regarding the model's reliability and validity is presented. All Cronbach's alphas surpassed the recommended 0.70 (Cronbach, 1951; Nunnally and Bernstein, 1994), Composite reliability values over 0.60 can be considered appropriate (Bagozzi and Yi, 1988) and all the items in the study exceeded this mark. In addition, the average variance extracted (AVE) values were over 0.50 which is considered acceptable (Fornell and Larcker, 1981). The standardized loadings are presented as well as their significant value ($p < 0.01$) which shows that they were meaningfully linked to their respective dimensions.

Table 3 Measurement model reliability and validity

Variable	Item	Loadings	T-Value	AVE	CR	CA
Legitimacy. Legality	Leg_02	1.000				
Legitimacy. Justification	Jus_01	0.959***	118.60	0.82	0.97	0.96
	Jus_02	0.975***	231.52			
	Jus_03	0.973***	220.46			
	Jus_04	0.918***	54.59			
	Jus_05	0.932***	54.64			
	Jus_06	0.946***	93.45			
	Jus_07	0.750***	16.92			
	Jus_08	0.776***	20.58			
Legitimacy. Consent	Con_02	0.924***	51.76	0.71	0.91	0.87
	Con_04	0.871***	34.62			
	Con_05	0.849***	21.16			
	Con_07	0.736***	11.91			
Legitimacy	Legality	0.769***	58.96	0.73	0.89	0.82
	Justification	0.891***	50.55			
	Consent	0.769***	15.14			
Motivations	Mot_01	1.000	n/a	n/a	n/a	n/a
Opportunities	Opport_01	1.000	n/a	n/a	n/a	n/a
Activity	TEA	1.000	n/a	n/a	n/a	n/a

CA= Cronbach Alpha; CR= Composite reliability; AVE= Average variance extracted

n/a= not applicable

*** $p < 0.01$

Table 4 shows aspects related to discriminant validity. Fornell-Larcker Criterion and HTMT ratio which is a method recently proposed by Henseler et al. (2015) was also applied to assess discriminant validity (Henseler et al, 2015). Since every ratio is lower than 0.85 (Clark and Watson, 1995), the model was considered as validated.

Table 4 Measurement model discriminant validity

	Leg. Cons.	Leg. Just.	Leg. Legal.	Opport.	Motiv.	TEA
Leg. Consent	0.848	0.494	0.611	0.688	0.321	0.071
Leg. Justification	0.474	0.907	0.767	0.565	0.059	0.111
Leg. Legality	0.584	0.750	1.000	0.682	0.692	0.104
Opportunities	0.664	0.681	0.565	1.000	0.494	0.247
Motivations	0.331	0.684	0.494	0.608	1.000	0.456
TEA	0.031	-0.098	-0.104	0.247	-0.059	1.000

Note: Main diagonal values are square root of the AVE; above the main diagonal: HTMT ratio; below the main diagonal: correlations between constructs

Assessment of the structural model

Finally, the results of the assessment of the structural model can be observed in Table 5. A bootstrapping method (5000 subsamples) was used to generate standard errors and t-statistics. This allows us to assess the statistical significance of the path coefficients. All the relationships in the proposed model were significant and above the recommended values (>0.3).

Table 5 Hypothesis testing

Hypothesis	Path coefficients (standardized β)	T-valor	F ²	Result
<i>H1. State legitimacy</i> → <i>Entrepreneurship Activity</i>	-0.498***	3.34	0.01	<i>Supported</i>
Legality → Entrepreneurship Activity	-0.057	0.31	0.00	
Justification → Entrepreneurship Activity	-0.350***	2.04	0.04	
Consent → Entrepreneurship Activity	-0.229	1.49	0.03	
<i>H2. State Legitimacy</i> → <i>Business opportunities</i>	0.353***	19.01	1.23	<i>Supported</i>
Legality → Business opportunities	-0.124	1.25	0.02	
Justification → Business opportunities	0.548***	6.39	0.34	
Consent → Business opportunities	0.477***	5.65	0.39	
<i>H3. Entrepreneurship Opportunity</i> → <i>Entrepreneurship activity</i>	0.788***	5.68	0.30	<i>Supported</i>
<i>H4. State legitimacy</i> → <i>Entrepreneurship motivation</i>	0.343***	3.22	0.09	<i>Supported</i>
Legality → Entrepreneurship motivation	-0.012	0.11	0.00	
Justification → Entrepreneurship motivation	0.518***	4.19	0.18	
Consent → Entrepreneurship motivation	-0.067	1.46	0.02	
<i>H5. Business opportunities</i> → <i>Entrepreneurship motivation</i>	0.359***	2.86	0.10	<i>Supported</i>
<i>H6. Entrepreneurship motivation</i> →	-0.195	1.56	0.03	<i>Not</i>

*Entrepreneurship activity**supported*R²: TEA = 0.204; Opportunities = 0.605; Motivations = 0.494Q²: Opportunities = TEA = 0.143; 0.572; Motivations = 0.470

*** p < 0.01

The model's predictive accuracy was measured by the coefficients of determination (R² value). This coefficient represents the amount of explained variance of the endogenous constructs in the structural model. The R² values show mean predictive accuracy levels of the model (Hair et al. 2011). State legitimacy account 50% of the opportunities and 49% of entrepreneurial motivations. In addition to evaluating the R² values of all endogenous constructs, the size of the effect (f²) also verified the suitability of the proposed model. This coefficient measures whether an independent latent variable has a substantial effect on a dependent latent variable. The impact effect can be small (from 0.02 to 0.15), medium (0.15 to 0.35) and large (>0.35) respectively (Chin, 1998). The results of the model show that legitimacy have a large effect on the globally and Justification and consent have a high effect on the entrepreneurship opportunities.

Furthermore, the Stone-Geisser test or Q² was estimated using the blindfolding procedure (omission distance D= 7). The larger Q² is, the more relevant the predictive model is. In analogy to the effect-size f², Q² values of 0.02, 0.15 and 0.35 reveal a small, medium or large predictive relevance of a certain latent variable (Hair et al. 2017). The results of the model show a moderate predictive relevance of the legitimacy on the entrepreneurship opportunities and motivations.

Discussion and implications

This research advances in the research on the effect of the institutional context on the entrepreneurial activity of the countries (Raza et al. 2019; Stenholm et al. 2013).

We stand that the state legitimacy can be considered as another condition that must be considered in the development of the entrepreneurial activity of the countries. To do so, this work define a structural model in which state legitimacy, perceived opportunities, motivations and entrepreneurial activity are related. Globally, the results have confirmed these relationships.

The state legitimacy affects the entrepreneurial activity of the countries, as well as the perception of entrepreneurship opportunities. These results are in line with previous research about the institutional context effect on the entrepreneurship activity. When the actions of a state are accepted and validated by the society, the generated stable and trustful context supports commercial activity and business creation. This is one of the essential characteristics of the legitimacy (Deephouse et al. 2017)

Current theories explain that uncertainty generate lower rates of entrepreneurial activity for different reasons, all of them related to a lower access to the resources necessary for business success, for example, lower access to financing (Harms and Groen, 2017; Mueller and Thomas, 2001). Legitimacy is useful to explain these facts. When the states (their norms, laws and behaviors) are stable and reliable, an environment of trust is generated between the owners of the resources (investors, clients, employees), because they keep the likelihoods of harvesting the fruits of their resources. On the contrary, when the state is not a reliable institution, an efficient and impartial operation cannot be expected and an environment full of uncertainty is generated. In this context, resources providers prefer not to risk their assets. In this second case, there is a greater propensity towards informal business activity (Assenova and Sorenson, 2017).

The positive relationship between the state legitimacy and entrepreneurial activity also helps us explain why states with strong regulations are not capable to improve their entrepreneurial activity (Harms and Groen, 2017). Our results are aligned with this theory. In fact, the legality dimension does not show a significant influence on entrepreneurial activity. Although there are many rules, society must accept and validate them (Hayek 1973). To positively influence the entrepreneurship activity a balanced mix of formal and informal rules is needed (Sautet 2005). Actually, these rules have to be accepted as appropriate and they will be applied efficiently and impartially (Dobrev, 2001). Therefore, increasing the complexity of the legal framework or applying rules that have worked in other states to favor entrepreneurial activity, does not guarantee that this new legal context will work in new environments. Hence the importance of the state legitimacy. The legitimized states generate stability, while adapting to the changes (Diez-de-Castro et al. 2015; Greenwood et al. 2002). This stability guarantees the society's approval and support.

According with previous research, our results also identify a relationship between the institutional context and the entrepreneurship motivations (Puente et al. 2019). Specifically, our research shows that,

the greater the state legitimacy, the more entrepreneurship opportunity. When society trusts more its institutions, government and democracy, opportunity-driven entrepreneurship improves. In fact, a higher level of education in a state (which reflects greater legitimacy) corresponds to a higher number of persons coalified to identify entrepreneurship opportunities and options (Liñán et al. 2011). Previous research shows results aligned with this conclusion: weak states are characterized by necessity-driven business creations (Amorós, Ciravegna, et al. 2019; Krasniqi and Desai, 2016).

Further, it has been pointed out that entrepreneurship driven by necessity is cyclic (Martiarena, 2019), which is explained not only by the economic situation, but also by the grade of state legitimacy. State legitimacy is not always stable and guaranteed (Gilley, 2006). In an economic crisis scenario, uncertainty and distrust in institutions increase, causing more entrepreneurial initiatives driven by necessity.

Comparing with previous research, (Assenova and Sorenson, 2017; Díez-Martín et al. 2016; Stenholm et al. 2013), the assessing model used in this paper approach the state legitimacy measurement in a new fashion, linking it to the entrepreneurship activity, motivations and opportunities. This model has been previously proven in the field of political science and legitimacy research, and, in this study, we found its appropriateness to measure the state legitimacy.

Managerial implications

The study presents new insights to policymakers. State legitimacy has shown to be a key element to obtain favorable performance in entrepreneurial activity.

Legitimacy provides a framework for decision-making that is different from other rational methods. Legitimacy comes from the perceptions of the individuals who observe and evaluate the actions of the organizations (Ruef and Scott, 1998). In this specific case, we applied this concept to the states. If citizenships consider the state policies and activities as undesirable, incorrect and inappropriate, they will not support governmental institutions (Deephouse and Suchman, 2008), reducing the politics success. Policy makers can develop strategies to increase the state legitimacy (Suchman, 1995). However, the state legitimacy is a perception that depends on social values. Societies change just like their values. In order to maintain a reliable context that stimulates entrepreneurship, the rules makers must be aware about the factors that transform social values such as: globalization; populisms; the perception of injustice (Rodrik 2018). Reports about social values and attitudes trends, such as the “Estudio Internacional de Valores Fundación BBVA” may be very useful for policy maker to understand social changes, trends and drivers.

Specifically, the justification dimension of legitimacy has emerged as the dimension with a more significant influence on the entrepreneurship of the different countries. Thus, to guarantee the state legitimacy, policy makers should devote more efforts to creating and maintaining citizen satisfaction towards the government, the economic situation, education, and health assistance. This would generate an environment of trust that would affect positively the perception of entrepreneurial opportunities, as well as entrepreneurial activity. Access to resources, such as financing, is one of the most highlighted findings in the literature about the benefits of legitimacy (Deephouse et al. 2017).

Improving the state legitimacy should also be a priority for rulers interested in reducing the creation of informal enterprises. In legitimate environments, entrepreneurs find more benefits with the creation of formal business (Assenova and Sorenson, 2017).

Furthermore, to achieve entrepreneurial initiatives with growth aspirations that have a greater economic effect on the country, policy makers should improve the legitimacy of the state. Studies have indicated that opportunity entrepreneurship has a more positive effect on the states' economy. Entrepreneurial initiatives aimed to growth and success are the ones which affect more positively the countries prosperity. Increasing this kind of entrepreneurial projects should be a priority for policy-makers who may success improving the state legitimacy. Studies have indicated that entrepreneurship by opportunity has a more positive effect on the economy of the states (Galindo-Martín et al. 2019). This type of entrepreneurship is more common in the most legitimate states.

In summary, improving the perception of the state legitimacy must become one of the objectives of the policy-makers in order to generate a stable institutional environment. For this purpose, communication is a key factor of success (Camilleri, 2018). Communication is one of the essential elements in the legitimization process due to its ability to influence individuals' evaluations (Bitektine and Haack, 2015).

Limitations and future lines of research

This study also has some limitations that suggest future research projects. The measurement we used for assessing the state legitimacy is different from the ones used in previous research (e.g. Assenova and

Sorenson, 2017). We have tried to combine the knowledge related to legitimacy produced in the field of political science with the field of business. Given the relevance of measuring the state legitimacy, this research highlights the need to establish a similar and integrative measurement model, which can be used to compare results among researchers. Future research could use this measurement model and verify the hypotheses applying the method to a larger sample. For example, it could be used to analyze the institutional influences on entrepreneurial behaviors in the family entrepreneurship (Randerson et al. 2020)

The obtained are not applicable to all countries. For the study, only European countries have been selected. Future research could show whether the state legitimacy produces these same effects in countries with a different grade of development or from different geographic areas.

The entrepreneurs' motivation has been measured using two types of dimensions: entrepreneurship by opportunity or by necessity. This approach limits the explanatory capacity of the variable. Recent research suggests that these variables can be better explained by adding a transition variable which consider the coexistence of the two conditions: entrepreneur and employee (Puente et al. 2019). The reality of the entrepreneurs' motivations is more complex, and there are other motivational factors that can be overshadowed when using a dichotomous and simplistic measurement (Anderson and Gaddefors, 2016). Future research could investigate the relationship between the state legitimacy and the entrepreneurship motivations, using a more complex overview of this phenomenon.

This research uses the GEM indicators to measure entrepreneurial activity, opportunity perceptions and entrepreneurial motivations. Previous researchers have questioned this instrument (Valliere, 2010). Future researches could verify the model we have proposed with indicators from other sources of qualified data set, for example from the Global Entrepreneurship Index developed by the GEDI Institute. Moreover, future research could be addressed to the measurement of the state legitimacy by different approach out of political science and law Theories, for example, improving former models (e.g. Stenholm et al. 2013)

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