Entrepreneurship and Institutional Work in Emerging Markets: Opportunity Recognition and Exploitation, Access to Financing, and Venture Capital Decision-Making

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Abbreviations

ARCS	Alliance for Research on Corporate Sustainability
AOM	Academy of Management
BAs	Business Angel Investors
CSR	Corporate Social Responsibility
CEO	Chief Executive Officer
EE	Entrepreneurial Ecosystem
ETP	Entrepreneurship Theory and Practice Journal
FMCG	Fast Moving Consumer Goods
GIZ	German Agency for International Development
HSG	University of St. Gallen
IADB	Inter-American Development Bank
IPOs	Initial Public Offerings
MNCs	Multinational Corporations
NPOs	Non-Profit Organizations
PE	Private Equity
PMA	Program in Management
SE	Social Entrepreneurship
SMEs	Small and Medium Enterprises
UN	United Nations
VC	Venture Capital
VCs	Venture Capitalists
WEF	World Economic Forum

Abstract

The current cumulative dissertation seeks to explore entrepreneurial decisions in weak institutional environments. The dissertation has a qualitative and inductive approach, collecting data through semi-structured interviews with 99 Latin American actors. The cumulative dissertation addresses its aim through three papers that each explore different factors which foster entrepreneurial decisions in environments with strong institutional voids. Paper I investigates how social entrepreneurs recognize and exploit opportunities in environments with strong institutional voids. Paper II explores how the institutional work carried out by former investors and other institutional actors address the barriers restricting access to entrepreneurial equity financing in developing countries. Paper III enquires into how institutional voids affect Venture Capital decision-making. The dissertation contributes to different literature streams. Paper I responds to the call to use the theory of collective action to advance knowledge at the intersection of social and institutional entrepreneurship. Paper II sheds light on the causal relationship between the cognitive and relational social capital dimensions by proposing a "construed shared expectations" mechanism facilitating access to entrepreneurial financing across structural holes. Paper III contributes to the conversation on the designation of convertible debt as the preferred venture capital investment vehicle by explaining why such instruments are less used in contexts with weak contract-enforcing mechanisms. The dissertation has relevant implications for government agencies and international organizations interested in developing entrepreneurship in developing countries.

Zusammenfassung

Diese kumulative Dissertation untersucht unternehmerische Entscheidungen in einem schwachen institutionellen Umfeld. Die Dissertation verfolgt einen qualitativen und induktiven Ansatz und sammelt Daten durch semi-strukturierte Interviews mit 99 lateinamerikanischen Akteuren. Die Dissertation adressiert dieses Ziel durch drei Beiträge, die jeweils verschiedene Faktoren untersuchen, die unternehmerische Entscheidungen in Umgebungen mit starken institutionellen Lücken fördern. Artikel I untersucht, wie soziale Unternehmer Chancen in Umgebungen mit starken institutionellen Lücken erkennen und nutzen. Artikel II untersucht die institutionelle Arbeit ehemaliger Investoren und anderer institutioneller Akteure. Diese institutionelle Arbeit erleichtert den Zugang zu unternehmerischer Eigenkapitalfinanzierung in Entwicklungsländern. Artikel III untersucht, wie institutionelle Leerstellen die Entscheidungsfindung im Venture Capital beeinflussen. Die Dissertation trägt zu verschiedenen Literaturströmen bei. Artikel I wendet die Theorie des kollektiven Handelns an, und leistet einen Wissensbeitrag an der Schnittstelle zwischen sozialem und institutionellem Unternehmertum. Artikel II beleuchtet den Kausalzusammenhang zwischen der kognitiven und der relationalen Dimension des Sozialkapitals. Er schlägt einen Mechanismus vor, der den Zugang zu Unternehmensfinanzierungen über strukturelle Lücken hinweg erleichtert. Artikel III trägt zu dem Gespräch über die Designation von Wandelschuldverschreibungen als bevorzugtes Risikokapital-Anlageinstrument bei. Er erklärt, warum solche Instrumente in Kontexten mit schwachen Vertragszwangsmechanismen weniger genutzt werden. Die Dissertation ist von hoher Relevanz für Regierungsbehörden und internationale Organisationen, die an der Entwicklung von Unternehmertum in Entwicklungsländern interessiert sind.

1. Introduction

1.1 Relevance

Entrepreneurship is an engine of economic growth that can boost commercial progress in emerging markets (Acs & Szerb, 2006; Wong, Ho, & Autio, 2005). In recent years, leaders of emerging markets of Latin America, in particular, have gained interest in supporting entrepreneurial activities aimed at prosperity, wealth creation, and economic growth (Acs & Amorós, 2008). The support of entrepreneurship in emerging markets is difficult; however, as weak institutional environments adversely affect entrepreneurs and other market actors. Criminal environments, limited rule of law, absent protection of patents, barriers to investment, high exportation costs, poor access to technology and knowledge, and time-consuming and expensive processes to formalize ventures each hampers entrepreneurial activity (Khanna & Palepu, 2010; London & Hart, 2004).

Despite their good intentions, many government programs supporting entrepreneurship have failed in generating innovative startups, jobs, and wealth. Scholars have criticized such programs and called to "stop subsidizing the formation of the typical start-up and focus on the subset of businesses with growth potential" (Shane, 2009). However, trying to replicate the "Silicon Valley" ecosystem in small economies without innovation centers, entrepreneurial financing networks, and robust institutional frameworks makes little sense. For this reason, this cumulative dissertation seeks to shed light on the institutional work needed to generate robust entrepreneurial ecosystems (EE) in emerging markets.

In addition to its potential contributions to the literature, this dissertation can be useful for different stakeholders interested in developing robust EE in emerging markets. Scholars from diverse disciplines have emphasized the role of effective institutions as a precondition for the existence and operation of developed and emerging markets (Campbell & Lindberg, 1990; Fligstein, 2001; Porta & Lopez-de-Silanes, 1998). Therefore, governments, International Non-Government Organizations such as the Interamerican Development Bank, and early-stage investors need to understand how a weak institutional environment affects entrepreneurial decisions in order to foster EE and individual ventures within these complex contexts (Puffer, McCarthy, & Boisot, 2010; Schade, 2010; Shepherd, Williams, & Patzelt, 2015; Ute Stephan, Uhlaner, & Stride, 2015).

1.2 Main Definitions and Positioning

The dissertation focuses on Lawrence and Suddaby´s (2006:217) institutional work concept defined as "the broad category of purposive action aimed at creating, maintaining, and disrupting institutions." Additionally, the dissertation is theoretically underpinned on the two institutional entrepreneur views from Sociology. Some researchers have explored "institutional entrepreneurs" defined as "organized actors with sufficient resources that see in institutions an opportunity to realize interests that they value highly" (DiMaggio, 1988:14). Most authors to date have restricted their vision of an institutional entrepreneur to a powerful agent with sufficient resources (Mair & Marti, 2009), overlooking Fligstein´s (1997) institutional entrepreneur view. The latter author defines institutional entrepreneurs as "strategic actors who have social skills, that is, the ability to motivate cooperation of other actors by providing them with common meanings and identities" (Fligstein, 1997:397). There has been less exploration of how entrepreneurial decisions depend on the institutional, social, and political context in general (Baker, Gedajlovic, & Lubatkin, 2005).

Scholars have paid little attention to entrepreneurial decisions concerning recognizing opportunities within institutional voids (Phillips & Tracey, 2007). The implication is that limited empirical understanding exists of how an emerging market context with significant institutional voids affects decisions of actors involved in entrepreneurial processes (Schade, 2010). Typical actors include entrepreneurs recognizing opportunities in neglected problems of society, institutional actors interested in developing entrepreneurial support institutions, and capital providers with decisions such as whether to invest in a business and/or what exit strategy to pursue (Battilana, Leca, & Boxenbaum, 2009; Bruton, Ahlstrom, & Puky, 2009; Mair & Marti, 2006; Santos, 2012).

Although the institutional entrepreneur concept is well established in Sociology (DiMaggio, 1988; Fligstein, 1997), such a concept is contended within the organization and entrepreneurship literature. Aldrich (2011) considers that the institutional entrepreneur concept depicts a world designed by farsighted and clever humans whose actions always have a purpose and intentionality, when in fact sometimes things "just happen." For Aldrich (2011:2), "institutional entrepreneurship is achieved by entrepreneurs, but through collective action, not omnipotence and clairvoyance." He calls scholars to use the term "institutional entrepreneurship" to refer to the collective action of individuals and other entities that transform institutions (Aldrich & Fiol, 1994). The concept of institutional entrepreneurship is established within the organization literature. Even, *Organization Studies* has devoted a special issue on the subject (Garud, Hardy, & Maguire, 2007). This dissertation seeks to contribute to the literature of entrepreneurship and avoids contended concepts that may undermine the possibilities of publication. Although the dissertation implicitly recognizes the institutional entrepreneur concepts of DiMaggio and Fligstein, it focuses on the institutional work carried out by entrepreneurs and not on entrepreneurs *per se*.

1.3 Research Gap

The current dissertation aims to contribute to the understanding of how institutional voids in emerging markets affect entrepreneurial decisions of entrepreneurs, institutional actors, and entrepreneurial financing providers. It takes a broad perspective on entrepreneurship, bearing in account business entrepreneurs and social entrepreneurs. For the former, the creation of social value is a by-product of the economic value created (Shane & Venkataraman, 2000). For the latter, the creation of economic value is a necessary condition to ensure the sustainability of the creation of social value, the primary objective (Mair & Marti, 2006).

The literature on institutional entrepreneurship has paid little attention to the recognition of opportunities (Phillips & Tracey, 2007), even though the concept lies at the core of entrepreneurship research (Shane & Venkataraman, 2000). To date, researchers have empirically studied institutional voids in developing countries as barriers to development, functioning, and access to markets (Mair & Marti, 2009) but not as sources of opportunities (Khanna & Palepu, 2000). Several authors have offered conceptual frameworks supporting the role of collaboration as a driver of innovation in different branches of the literature such as entrepreneurship (Chesbrough, Vanhaverbeke, & West, 2006; Phills, Deiglmeier, & Miller, 2008; Prahalad & Ramaswamy, 2004), network governance (Koppenjan & Klijn, 2004; Powell, Koput, & Smith-Doerr, 1996), public sector (Hartley, Sørensen & Torfing, 2013) and non-profits organizations ('NPOs') (Austin and Seitanidi, 2012). However, still little is known about how collaboration could drive innovation from the perspective of institutional entrepreneurs in environments with strong institutional voids.

There is a need to understand how agents with limited power and resources (Fligstein, 1997) articulate actors from different sectors to fill institutional voids. The theory of social movements has been suggested as an appropriate lens to advance knowledge at the intersection of institutional and the social entrepreneurship literature. Battilana *et al.* (2009) argued that such theory could contribute to research on institutional entrepreneurship by explaining the "complex collective action that follows institutional entrepreneurs' actions" (p.94). Paper I uses the social movements theory as a conceptual entry point to fill a gap related to collaborative innovation from the perspective of institutional entrepreneurship in environments with strong institutional voids.

The characteristics of some developing countries, such as structural holes (Woolcock & Narayan, 2000) and weak institutional environments that foster necessity entrepreneurship (Amorós, Ciravegna, Mandakovic, & Stenholm, 2017), represent barriers in the cognitive dimensions of social capital. Such obstacles reduce the explanatory power of the theories established in the entrepreneurial financing literature, which assume that entrepreneurs have access to a well-structured network of close and weak ties (Seghers, Manigart, & Vanacker, 2012; Shane & Cable, 2002; Uzzi, 1999).

Even studies in developing countries fail to explain access to financing for non-wealthy entrepreneurs without connections (Batjargal & Liu, 2004; Talavera, Xiong, & Xiong, 2012). Previous authors have highlighted the institutional role assumed by venture capitalists in developing countries, but without explaining how their institutional work improved access to entrepreneurial financing (Ahlstrom & Bruton, 2006; Bruton, Ahlstrom, & Puky, 2009). Our understanding of such mechanisms needs theoretical development. Paper II seeks to address the mentioned gap by exploring how institutional actors address the barriers that restrict entrepreneurial financing in developing countries.

There has been significant investigation into the investment decision-making process of venture capitalists (Fried & Hisrich, 1994; Hall & Hofer, 1993; Tyebjee & Bruno, 1984). However, such models have overlooked the effect of the institutional environment in VC decision-making, even though there is empirical evidence suggesting that institutional voids affect VC activity. Using quantitative methods, scholars found that formal institutions positively affect the country-level volume of VC investment (Li & Zahra, 2012) and that the development of the legal environment affects VC screening (Cumming, Schmidt, & Walz, 2010). Although these studies underpin the mentioned correlations, they fail to explain in depth the causal mechanisms between the variables.

Scholars arguably still need to understand how the institutional voids affect such VC decision-making. Also, there is a discrepancy in the literature concerning the type of security preferred by VCs (see Cumming, 2006; Gompers & Lerner, 2001). According to Burchardt, Hommel, Kamuriwo and Billitteri (2016), such lack of awareness could be explained by differences in taxation regimes, institutional environments, and market conditions (e.g., Cumming & Johan, 2013; Gilson & Schizer, 2003; Kaplan & Strömberg, 2004). Researchers have called for more context-specific research exploring the effect of contextual factors on the type of security selection. To partially shed light on the mentioned gaps, Paper III seeks to explore how institutional voids affect VCs deal sourcing, screening, evaluation, and structuring.

1.4 Overall Research Question with Three Sub-Questions

The following research question guides this dissertation: *What are drivers and limitations of entrepreneurial decisions in contexts with strong institutional voids*?
The first sub-question in Paper I is *how do social entrepreneurs recognize and exploit opportunities in weak institutional environments?*
The second sub-question in Paper II is *Which institutions affect access to entrepreneurial equity financing in developing countries?*
The third sub-question in Paper III is *Which institutional voids affect Venture Capital decision-making?*

1.5 Approach to Each Sub-Question

The use of qualitative methods with the objective of theorizing from empirical data is common in the three papers that compose this cumulative dissertation. However, I used different theory building approaches looking for the most appropriate theory-method fit for each of the research sub-questions (Gehman et al., 2017). The approaches are theorization from process data (Langley, Smallman, Tsoukas, &

Van De Ven, 2013) and grounded theory (Gioia, Corley, & Hamilton, 2013; Suddaby, 2006). **Table 1** summarizes the approach to each sub-question.

Table 1. Approach to Each Sub-Question

Research Question	Interviewees	Conceptual entry point	Main results
How do entrepreneurs recognize and exploit opportunities in weak institutional environments?	66 Latin American social/institutional entrepreneurs	Collective action (Snow & Benford, 1988)	A model explaining how actors without power or resources but with social skills solve the neglected problems of society and fill institutional voids by articulating intersectoral actors
Which institutions affect access to entrepreneurial equity financing in developing countries?	33 Central American actors related to entrepreneurial financing (focus on the institutional work carried out by businesspersons and former investors)	Social capital dimensions (Nahapiet & Ghoshal, 1998);	A model explaining how the activities carried out by institutional entrepreneurs enabled two mechanisms related to the social capital dimensions that facilitated access to entrepreneurial financing in developing countries
Which institutions affect Venture Capital decision-making in developing countries?	33 Central American actors related to entrepreneurial financing (focus on the VCs decision-making)	Principal-agent framework (Jensen & Meckling, 1976)	A model explaining how institutional voids exacerbates three types of risks and how VCs cope with such risks

Paper I explores the first research sub-question within the context of Latin American social entrepreneurs. Professor Jäger obtained access to entrepreneurs within the network of AVINA, a Latin American SE organization. AVINA links about 6,000 SEs working throughout countries of Latin America. A short list of about 300 SEs was created from a database of nearly 2,300 entrepreneurs that participated in AVINA’s annual surveys. From the shortlist of about 300, ten outstanding social entrepreneurs from the AVINA and Ashoka network – which are already legitimized in the SE field – selected those ones with the highest social and environmental impact within the region.

Based on the selection process, 89 SEs were interviewed during the years 2012-2016. The last selection was made during the analysis of the interview transcripts in respect to the question whether the entrepreneurs had addressed or were planning to address an institutional void in partnership with other actors. Of the 89 interviewed entrepreneurs, 66 satisfied the criterion and were included in the final dataset.

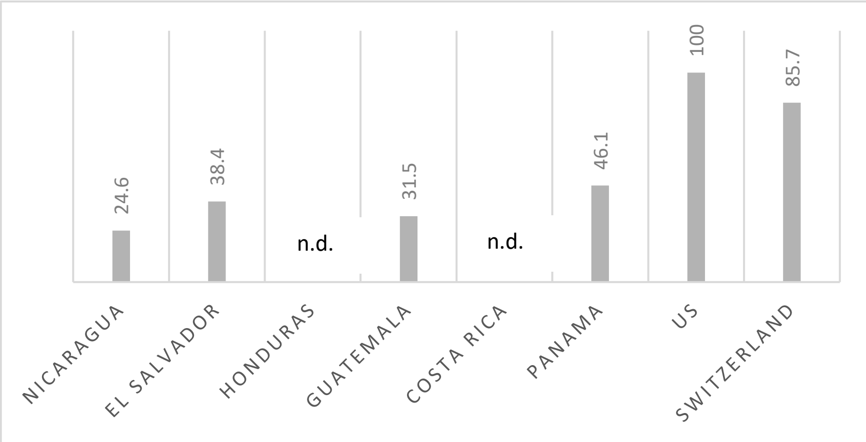
The large number of institutional voids related to existing social/environmental problems in the context of Latin America allowed us to explore in depth the "Collaborative Construction" process that we propose. In our analysis, we used the theorizing from process data approach (Langley et al., 2013) and the framing perspective of the social movements theory (Snow & Benford, 1988) as a conceptual entry point.

Paper II address the second research sub-question within the Central American entrepreneurial ecosystems. Central American countries have a low index of VC/PE attractiveness according to IESE's ranking 2016 (see **Figure 1**), due, among other things, to their low level of institutional soundness according to some related scores of the Global Competitiveness Report (see **Figure 2**).

Central America provides an excellent "laboratory" to explore the second sub-question. Within the entrepreneurial financing literature, several authors have addressed a″funding gap″ issue from a positivist approach, assuming that such ″gaps exist out there″ as a shortage of supply "waiting to be filled" (Lam, 2010:269). Contrarily, Paper II address the second research question from a grounded theory approach, reconstructing reality from the perspective of the "knowledgeable agents" at the supply and demand sides (Gioia, Corley, & Hamilton, 2013; Suddaby, 2006).

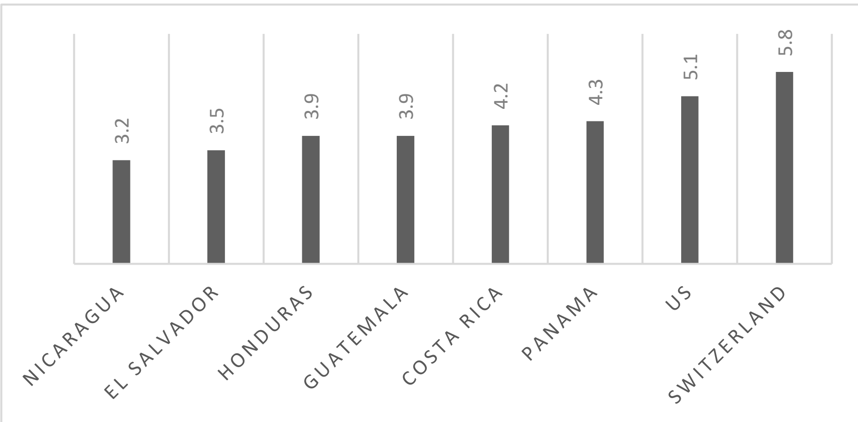
Qualitative data was collected through semi-structured interviews with 33 Central American actors related to entrepreneurial financing: entrepreneurs, business angels (BAs), managing partners of venture capital firms, brokers, incubator/accelerator managers, directors of university entrepreneurship centers, government officials, and executives of second-tier development banks.

Figure 1. IESE's Index of VC/PE Country Attractiveness



Source: IESE Business School. Scale 1-100 (better) http://blog.iese.edu/vcpeindex/ranking/

Figure 2. Institutional Soundness Score



Source: Own elaboration based on Scheela and Jittrapanun (2012) and data from The Global Competitiveness Report 2016-2017 of the World Economic Forum. It was computed as the average score of corruption, protection of property rights, trust in politicians, stock market, and bank soundness. Scale 1-7 (best).

The transcripts of the interviews were analyzed using Corbin and Strauss´ (1990) three-stage coding, in an iterative process between grounded evidence and Nahapiet and Ghoshal´s (1998) social capital framework. According to the framework, social capital is comprised of three dimensions: structural, namely the overall pattern of connections between actors (Burt, 1992); relational, which refers to the strong ties agents develop through a history of interactions (Granovetter, 1992); and cognitive, related to those resources providing shared representations, interpretations, and systems of meaning among parties (Cicourel, 1981).

Paper III provides an investigation of how a weak institutional environment affects the decision-making process of the last investment made by four VCs in Central America. For the mentioned reasons, the region also provides a good "laboratory" to address the third sub-question. The primary information source was semi-structured interviews with the said VCs and 29 additional actors related to entrepreneurial financing in their capacity of "knowledgeable agents" of the institutional environment (Gioia et al., 2013). The interviewees helped to understand the context and provided access to the VCs. The latter was instrumental as capital providers were reluctant to accept an interview request from unknown people given the environment of insecurity in Central America (gangs, kidnappings, organized crime).

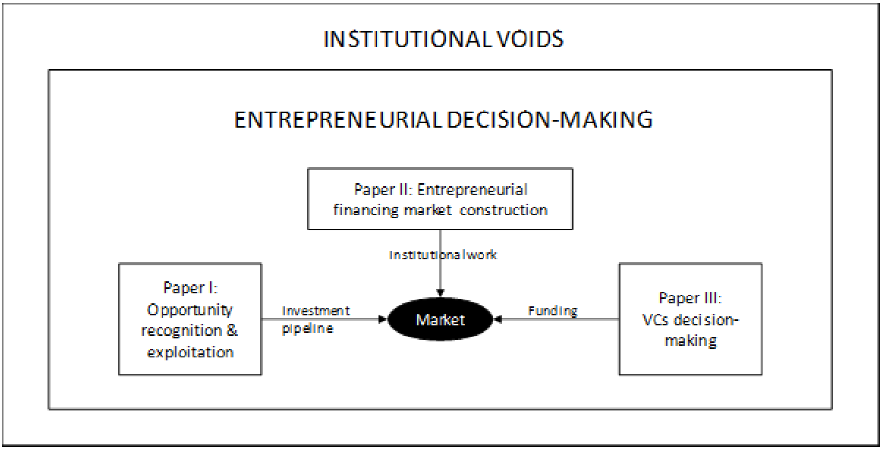
Additionally, documents shared by the VCs (e.g., teasers, investment proposals, documented processes) were used as secondary sources of data. The principal-agent framework was used as a substantive theory to explain the risks exacerbated by the institutional voids, as well as the actions carried out by the VCs to mitigate such risks in the absence of robust contract-enforcing mechanisms.

1.6 Relationship Among the Three Papers

The dissertation will be cumulative in that it will address the question through three papers that each explore different factors which foster entrepreneurial decisions in environments with strong institutional voids. This dissertation uses institutional voids as the overarching construct framing entrepreneurial decision-making. Although the focus is on institutional voids, I explore the research questions from the perspective of social entrepreneurs, institutional entrepreneurs, and entrepreneurial financing providers. These agents are "socially embedded" in the institutional context; thus, they affect and are affected by institutions (Granovetter, 1985).

Figure 3 illustrates the relationship among the three papers integrated in this cumulative dissertation. Paper II serves as the central axis of the dissertation, explaining the institutional entrepreneur role assumed by wealthy individuals interested in developing local entrepreneurial ecosystems to support the economy of their countries. The mentioned paper explains how their *institutional work* enabled two mechanisms that facilitated the meeting of actors of disconnected networks in an entrepreneurial financing informal market. The other two papers explain how institutional voids affect the actors on both sides of the said market.

Figure 3. Relationship Among the Three Papers



Firstly, Paper I explores how institutional voids affect entrepreneurs` opportunity recognition and exploitation. Indirectly, the paper sheds light on the effect of the institutional environment on the *investment pipeline*. Secondly, Paper III explores how such voids affect the process by which entrepreneurs obtain *funding* for their ventures.

1.7 Compliance with the Regulations of the PMA

This dissertation complies with the Specific Criteria for Cumulative Theses in the Ph.D. Program in Management (PMA). Based on Art. 33, paragraph 4 of the Award Regulations for Doctor's Degrees as of 7 November 2016, the Program Committee stipulated that “all constituent parts of the cumulative thesis must have been published either in conference proceedings, scientific journals, or respectively in the form of a working paper, or have to be presented at a scientific conference where submitted paper are subject to review." The three papers that make up this dissertation meet this requirement, having been accepted in scientific conferences subject to a peer-review. In agreement with Professor Jäger, we decided to request the exclusion of the papers in the conference proceedings so as not to hinder future publication processes in Journals.

Table 2. Conference and Target Journals

Authors	Topic	Conference	Target Journal/Book
Paper I: Urs Jäger & Carlos Martínez	Collaborative Construction: How Institutional Entrepreneurs with Limited Access to Resources Innovate to Fill Institutional Voids in Emerging Markets	3rd New Business Models Conference. Organized by Vrije Universiteit Brussel (Belgium) and hosted by University of National and World Economy (Bulgaria). June 27-29, 2018 ARCS Doctoral Colloquium (MIT, US). June 11, 2018	Entrepreneurship Theory & Practice or Business and Society. Status: To be submitted
Paper II: Carlos Martínez	Construed Shared Expectations: Facilitating Access to Entrepreneurial Financing Across Structural Holes	22st McGill International Entrepreneurship Conference. Organized by McGill University (Canada) and hosted by Halmstad University (Sweden). August 22-24, 2018	Entrepreneurship Theory and Practice. Status: Reviewed and Rejected. Conditionally accepted in the book "New Frontiers in Entrepreneurial Finance Research"
Paper III: Carlos Martínez	Venture Capital Decision-Making in Weak Institutional Environments	3rd Entrepreneurial Finance Conference. Organized and hosted by the School of Management at Politecnico di Milano (Italy). June 25-27, 2018. Accepted in the Academy of Management specialized conference: "From Start-up to Scale-up." Tel-Aviv, Israel. December 18-20, 2018.	Venture Capital: An International Journal of Entrepreneurial Finance. Status: Under Review

Aware of the large number of non-academic and predatory conferences, I was careful in selection to avoid conflicts with the regulations of the Program Committee. The three papers were accepted at conferences organized by prestigious universities in North America and Western Europe. **Table 2** presents the Conferences and Journals in which the papers have been presented and submitted. The New Business Models conference is supported by the Journal "Business and Society" (SAGE, impact factor 2017: 3.3) and by a scientific committee made up of Professors from recognized Western European Universities, such as: ESCP Europe Business School, University of Graz, and Vrije Universiteit Brussel. The Alliance for Research on Corporate Sustainability (ARCS) was launched in January 2009, by a consortium of institutes at leading universities: Dartmouth College, Duke University, Harvard University, University of Michigan, University of Virginia, and University of Western Ontario. The McGill Conference has been held since 1998 and is, arguably, the most prestigious conference in International Entrepreneurship. The scientific committee of the conference organized by Politecnico di Milano was made up of prolific and influential scholars within the literature of entrepreneurial finance such as Sophie Manigart (Ghent University), Douglas Cumming (York University), and Alexander Groh (EMLYON Business School).

2. PAPER I

Collaborative Construction: How Institutional Entrepreneurs with Limited Access to Resources Innovate to Fill Institutional Voids in Emerging Markets

Prof. Dr. Urs Jäger & Carlos Martinez

2.1 Abstract

Recent studies focused on institutional voids (nonexistent or badly functioning institutions) as a limitation of effective entrepreneurship, but we do not sufficiently understand how entrepreneurs recognize and exploit opportunities in environments with strong institutional voids. This article presents results of semi-structured interviews with 66 entrepreneurs acting in Latin American countries. From the data, it deduces the construct “Collaborative Construction” that shows how entrepreneurs with low power and limited access to resources recognize and exploit opportunities within institutional voids by articulating agents and organizations from civil society, business, and government to fill such voids. To describe Collaborative Construction of institutions, the article introduces an innovation process and ends with perspectives on how Collaborative Construction contributes to different research streams.

2.2 Submissions to Conferences and Target Journal

Paper I was co-authored with Professor Jäger currently working at INCAE Business School. The Professor generously shared with me a database of more than 80 interviews with social entrepreneurs that he has been collecting for four years as part of his relationship with the AVINA Foundation. I had the opportunity to have his direct supervision on a daily basis in Costa Rica for about six months in 2017 (February-March, June-October). The first draft of this paper was completed in August 2017, and since then it has been discussed and revised several times. At the beginning of June 2018, the paper was presented at the doctoral colloquium of the ARCS Conference at MIT (Cambridge, US). Participation in this conference involved a peer-review selection process. At the end of June 2018, Paper I was presented at the New Business Model Conference in Sofia (Bulgaria). Participation in this conference also involved a peer-review selection process. The paper received favorable comments from the reviewers of the conference, who even see potential on this paper to be included in a special edition of the Journal "Business and Society." The deadline for the submission of the special edition is December 2018.

2.3 Manuscript

2.3.1 Introduction

Social entrepreneurs who have the "ability to leverage resources that address social problems" (Dacin, Dacin, & Matear, 2010:38) are embedded within markets and civil societies (Grimes, McMullen, Vogus, & Miller, 2013; Seo & Creed, 2002). Some orient their work more strongly toward markets while others more toward civil society (Austin, Stevenson, & Wei-Skillern, 2006). Scholars who highlight the importance of social entrepreneurs' embeddedness call for studies that take a contextual perspective (Arend, 2013; Grimes et al., 2013). Despite this, the literature has not yet sufficiently explored the influence of contextual factors, in general, and of institutional voids, in particular, on social entrepreneurs' opportunity recognition and exploitation (Dacin et al., 2010; Phillips & Tracey, 2007). This paper intends to theoretically contribute to understanding how social entrepreneurs recognize and exploit opportunities in institutional void markets by introducing results of a qualitative study.

In most emerging markets, social entrepreneurs do not often have access to sufficient resources to implement their business models (Yiu & Lau, 2008) and face challenges such as corruption and criminality (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003), which lead to higher entrepreneurial risks than in developed countries where government and market institutions regulate entrepreneurial activities (Mair, Marti, & Ventresca, 2012). Researchers describe weak or absent institutions, such as missing or unreliable institutional rules to formally govern markets (George, Kotha, Parikh, Alnuaimi, & Bahaj, 2016), as markets with "institutional voids" (Khanna & Palepu, 2000; Mair & Marti, 2009). In institutional void markets, social entrepreneurs need to rely on informal social relations. For instance, South African entrepreneurs face high risks since they cannot rely on the rule of law after signing a contract, but instead have to rely on the informal relationship with the contract partner (Atack, 1999; Fafchamps, 2003; Godfrey, 2011; Webb, Tihanyi, Ireland, & Sirmon, 2009). Institutional voids are therefore a source of entrepreneurial inefficiency (Mair & Marti, 2009; Puffer, McCarthy, & Boisot, 2010).

Scholars have empirically studied institutional voids in developing countries as barriers that restrict the development of functioning institutions (Mair & Marti, 2009; Mair et al., 2012); however, no one has studied them as a source of opportunities (Phillips & Tracey, 2007). To study institutional voids as a source of opportunities is relevant since the recognition and exploitation of opportunities – also within institutional voids – are at the core of entrepreneurship research (Shane & Venkataraman, 2000).

Scholars in the field of "institutional entrepreneurship" have contributed rich insights to understand the challenges of how social entrepreneurs become efficient within institutional voids. According to that literature, social entrepreneurs who dedicate time to institutional work are *"*organized actors with sufficient resources*"* who see in the creation or change of institutions an opportunity to realize their "interest that they value highly" (DiMaggio, 1988:14). Based on this broadly used definition, most studies embrace the image of those entrepreneurs, who work in institutions, as being powerful actors with sufficient resources, like Bill Gates (e.g., Garud, Hardy & Maguire, 2007; Levy & Scully, 2007; Lounsbury & Crumley, 2007).

Few scholars, however, explore the institutional work of social entrepreneurs who are less powerful actors (Fligstein, 1997); although in emerging markets, social entrepreneurs with less power and limited access to resources are more the rule than the exception (Mair & Marti, 2009; Mair et al., 2012). We define social entrepreneurs with limited access to resources, who are the focus of our study, as "strategic actors who have social skills, that is, the ability to motivate the cooperation of other actors by providing them with common meanings and identities" (Fligstein, 1997:397). Those social entrepreneurs replace a lack of resources with cooperating with other relevant actors who support them to create institutions that help realize their social or environmental impact. Although theoretically defined, the literature still lacks an empirical exploration of social entrepreneurs with low power and limited access to resources.

To explore how social entrepreneurs recognize and exploit opportunities in institutional void markets, we follow the proposition of scholars to use collective action (Snow & Benford, 1988) as a conceptual entry point (Battilana, Leca, & Boxenbaum, 2009; Dacin, Dacin, & Tracey, 2011; Mair & Marti, 2009). Collective action can be defined as "a network of informal interactions between a plurality of individuals, groups and/or organizations, engaged in a political or cultural conflict, on the basis of a shared collective identity" (Diani, 1992:1). The collective action perspective contributes to investigating the institutional work of entrepreneurs as it explains the "complex collective action that follows (the) actions" of social entrepreneurs who dedicate time to institutional work (Battilana *et al.*, 2009:94). This theoretical lens allows for involving different, and sometimes conflicting, institutional logics from the market, government and civil society sectors, which require social entrepreneurs to approve their activities in different forms, and in respect to different stakeholders (Dacin et al., 2011; Zhao & Lounsbury, 2016).

Focusing on Latin American social entrepreneurs who do not have sufficient resources, and using the collective action lens as a conceptual entry point, we follow the question: *How do social entrepreneurs recognize and exploit opportunities in weak institutional environments?* To answer this question, we executed 89 qualitative, biographical interviews with Latin American social entrepreneurs who aim for profit or social-environmental impact and are challenged by institutional voids. We selected 66 interviews that were focused on institutions and deduced from our data a process we call "Collaborative Construction." This process describes how the social entrepreneurs being studied recognized and exploited opportunities in institutional void markets by synchronizing agents and organizations from civil society, business, and government.

Below, we present literature on social entrepreneurship within institutional voids and present the collective action lens as the conceptual entry point to study our data. We further introduce the method, before presenting the findings, in two steps. Initially, we describe four reasons why social entrepreneurs address institutional voids. Then, we deduce five activities from our data that describe how social entrepreneurs recognize and exploit opportunities in institutional void markets. We then present results on the process in which social entrepreneurs use those five activities, which we call "Constructive Collaboration." We end the paper with a discussion on the theoretical contributions.

2.3.2 Literature Review

As we show in the following, the literature focuses on institutional voids as a limitation of effective business – which includes social entrepreneurs. It calls for using the literature of collective action to further study how social entrepreneurs recognize and exploit opportunities within institutional voids.

Social Entrepreneurship, Institutional Voids and Collaboration

Various social entrepreneurship scholars follow an individualistic approach as they exclude the influence of contextual factors, such as institutional voids. They describe social entrepreneurs as actors with moral values, pro-social motivation, and social agency (Bacq & Alt, 2018; Hemingway, 2005; Miller, Grimes, Mcmullen, & Vogus, 2012), who have attitudes like empathy and moral judgment (Mair & Noboa, 2006), and who are oriented to a mission-related impact rather than wealth creation (Dees, 2007).

Few researchers criticize the focus on individuals or suggest that future research should focus on how the social entrepreneurs' context influences their opportunity recognition and exploitation (Arend, 2013; Dorado & Ventresca, 2013). This is relevant as scholars from various disciplines have emphasized the role of effective institutions as being a precondition for the existence and efficient operation of markets (Campbell & Lindberg, 1990; Fligstein, 2001; La Porta *et al.*, 1998), which affects how social entrepreneurs exploit and recognize opportunities.

Along with the way in which effective institutions affect social entrepreneurs, their ineffectiveness, or absence, also affect social entrepreneurs in respect to regulatory systems and contract-enforcing mechanisms (London, 2009; London & Hart, 2004). On the one hand, scholars have empirically studied institutional voids in developing countries as being barriers that restrict the development of functioning markets but have not studied them as an opportunity for social entrepreneurship. An empirical study used the rural context of Bangladesh to depict the crafting of new institutional arrangements as an ongoing process of bricolage (Mair & Marti, 2009). Other studies uncovered *institutional voids* as a source of exclusion of women from markets (Mair *et al.*, 2012), and observed how microfinance organizations (MFOs) that serve women borrowers are more likely to adopt a written organizational ethics code in contexts where women borrowers are susceptible to abuse (Chakrabarty & Bass, 2014).

On the other hand, scholars have already analyzed challenges of conventional entrepreneurs – which excludes social entrepreneurs – in institutional voids of emerging markets (Bruton, Ahlstrom, & Li, 2010; Ahlstrom, Bruton, & Yeh, 2008). According to this literature, conventional entrepreneurs find a collective identity in a set of social groups and then shape and meet the interests of those groups to get their collaboration. These entrepreneurs do not rely on functioning institutions, but rather attain their goals due to their ability to relate to the situation of the “other” (Fligstein, 1997) and replace institutional work with collective work, respectively. These studies thus highlight the role of collaboration as a driver of innovation within institutional voids.

Collaboration is already an established construct in management, nonprofits, and public sector research. Scholars have introduced various constructs to the literature that emphasize collaboration within entrepreneurship and innovation. While they refer to different contexts, they do not yet refer to the context of institutional voids. "Open innovation" refers to contexts of general markets and assumes that firms can and should combine external and internal ideas into architectures and systems that are defined by a business model. Such a model uses internal and external ideas to create value, while also defining internal mechanisms to capture some portion of that value (Chesbrough et al., 2006). "Co-creation" refers to the base of the pyramid in emerging markets, in which the traditional system of company-centric value creation is becoming obsolete. In such contexts, the role of the consumer has changed from being isolated to being connected. As a result, companies have to interact with consumers to design products, develop production processes, craft marketing messages, and control sales channels with little or no interference from consumers (Prahalad & Ramaswamy, 2004).

"Social innovation" refers to social entrepreneurs and their focus on networks or systems of institutions, and cross-sectoral partnerships (Phills et al., 2008). “Network governance” refers to the markets and emphasizes the role of collaborative networks to find innovative solutions to complex problems (e.g., Koppenjan & Klijn, 2004; Powell, Koput, & Smith-Doerr, 1996). "Collaborative governance" refers to public sectors and emphasizes multi-actor engagement across organizations in the private, public, and nonprofit sectors (Hartley, Sørensen, & Torfing, 2013). And "Collaborative value creation" refers to civil societies and explains how nonprofits and businesses co-create value for society, organizations, and individuals (Austin and Seitanidi, 2012). What is still missing is a construct that focuses on collaboration within the context of social enterpreneurs in institutional void markets.

Collective Action

Corresponding to collaboration, scholars suggest “collective action” as an appropriate lens to advance knowledge on institutional entrepreneurship (Battilana, Leca, & Boxenbaum, 2009; Dacin, Dacin, & Tracey, 2011; Mair & Marti, 2009). Moreover, scholars in the entrepreneurship literature have suggested that drawing on multidisciplinary insights from the literature on pro-sociality can broaden the individual-opportunity nexus to make room for a variety of actors (Branzei, Parker, Moroz, & Gamble, 2018). To explain collective action as a result from structural arrangements and existing ideologies, researchers highlight “framing” as an important activity, which means the construction and maintenance of meaning by certain strategically engaged entrepreneurs (Snow & Benford, 1988).

Deriving from the work of Goffman (1974), scholars define “collective action frames” as interpretation schemes that enable individuals to locate, perceive, identify, and label social events (Benford & Snow, 2016). These frames perform an interpretive function by simplifying aspects in ways that are "intended to mobilize potential adherents and constituents, to gain bystander support, and to demobilize antagonists" (Snow & Benford, 1988:198). Scholars conceptually propose three tasks for framing collective action (Benford & Snow, 2016).

First, related to problem identification and attribution, diagnostic framing seeks to expose problems with current institutionalized activities (Roy Suddaby & Greenwood, 2005). Second, prognostic framing is related to the conceptualization of an integrative institutional project in a way that resonates with the interests of potential allies (Fligstein, 2001). This framing activity seeks to legitimize the project in the eyes of potential partners (Demil & Bensédrine, 2005). Third, motivational framing provides a call to action around a common goal by providing compelling reasons to support the new vision being promoted (Misangyi, Weaver, & Elms, 2008). To motivate the different allies, scholars propose that agents relate to the situation of the "other" (Fligstein, 1997) and possess social skills, including the ability to secure cooperation and act according to their position and the positions of other agents in the field (Fligstein, 2001). Although the diagnostic, prognostic and motivational framings provide useful conceptual lenses to study social entrepreneurship, scholars have not yet studied how collective action relates with institutional voids.

In summary, despite the broad knowledge on entrepreneurship within institutional voids, collaboration and collective action, and although opportunity recognition and exploitation lie at the core of entrepreneurship research (S Shane & Venkataraman, 2000), the literature has paid little attention to how social entrepreneurs recognize and exploit opportunities in institutional void markets (Phillips & Tracey, 2007). Following the call to investigate the forms of legitimacy needed during various phases of the social innovation process (Dacin et al., 2011), and using collective action as a theoretical lens, we aim to theoretically contribute to the literature of social and institutional entrepreneurship.

2.3.3 Method

With this study, we explored how social entrepreneurs recognize and exploit opportunities in environments with strong institutional voids. We used a qualitative method based on narrative interviews with social entrepreneurs. A narrative is a first-person oral telling or retelling of events related to the personal or social experiences of the entrepreneur being interviewed (Miller & Salkind, 2002).

Narrative research was suitable for this study as it seeks to describe the meaning of experiences from the interview partners who construct stories (narratives) about their real lives (Rallis & Rossman, 2003). We focused on the construction of narratives about entrepreneurial life (Van Maanen, 1979; Weick, 1989). While "stories go in circles, they don't go in straight lines. So it (helped us to) listen in stories because there are stories inside stories and stories between stories" (Oliver, 1998:244).

Data Collection

During our data collection with social entrepreneurs of Latin American countries, we collaborated with the interviewees by checking their stories and then double-checking if we understood critical perceptions the right way (Angrosino & Mays de Pérez, 2000). This sort of strengthening led to the production of the narrative report presented in this paper. The context of Latin America is suitable to study institutional voids since these countries are, compared to others, characterized by strong differences between rich and poor, and have a high corruption rate, high numbers of informal markets, low functioning governmental institutions, under-developed democracy structures, and high levels of bureaucracy (Vassolo, De Castro, & Gomez-Mejia, 2011). Within this region, institutional voids are a common challenge for social entrepreneurs (Castellacci, 2015).

We obtained access to entrepreneurs within the network of AVINA, a Latin American SE organization in which one of the authors was involved in research study projects. AVINA has a network of about 6,000 social entrepreneurs working in all the countries of Latin America. From a database of nearly 2,300 entrepreneurs, we selected those who complied with the following criteria: pursuing a social/environmental mission using market-based mechanisms and not primarily dependent on government funds or financing from companies. Based on these criteria, we selected about 300 social entrepreneurs. We then asked 10 outstanding social entrepreneurs from the AVINA and Ashoka networks to select from the list of 300 those social entrepreneurs with the highest social and environmental impact within their region, and who addressed or were planning to address an institutional void in partnership with other actors and institutions.

Based on this selection process, we interviewed 66 social entrepreneurs. The interviewees come from 12 countries in Latin America. Most of the interviewees

(49) are the founder or co-founder of their organization, while the rest have a relevant position as director (13) or manager (4). Most of the interviewees (46) work for a hybrid organization, namely, formed by an NPO and a corporation with profit motives, while the rest (20) work for an organization with a for-profit structure (**see Table 3**).

The first author, along with the collaboration of two researchers, executed the interviews in Spanish during the years 2012 to 2016; most of the interviews (52) were conducted via videophone and the remainder was face-to-face. The first author was always present during all of the meetings. The interviews were conducted based on a narrative, semi-structured technique (Spradley, 1979) in which the interviewees were asked to describe how they recognized and exploited opportunities, and were encouraged to provide "thick" descriptive data. The interviews were audiotaped with the interviewees' consent and transcribed verbatim in Spanish. The preliminary analyses were conducted concurrently and iteratively. We ended the data collection when the interviews stopped providing new insights.

Table 3. List of Interviewees (Paper I)

ID	**Family Name**	**Name**	**Name of organization**	**Country**	**Type of organization**	**Function**	**Date of Interview**	**Present or S[...]**
1	Aguerrebere	Adriana	Impacto	Mexico	NPO	Founder	16.06.09	S
2	Azevedo	Tasso	IMAFLORA	Brazil	NPO	Founder	13.02.02	P
3	Benavides	Carolina	OCASA	Colombia	NPO	Director	13.02.02	P
4	Cárdenas	Diego	Sembrando confianza	Colombia	NPO	Director	16.06.13	S
5	Cruz	Carolina	Naturaleza y Patrimonio	Colombia	NPO	Founder	14.08.11	S
6	Garcia	Liliana	Asosiación Guardagolfe	Colombia	NPO	Director	16.06.10	S
7	González	Andrea	SALTO Perú	Peru	NPO	Co-Founder	16.06.13	S
8	Gutiérrez	Cristian	Evea eco-fashion	Peru	Company	Founder	16.06.13	S
9	Jiménez	Jorge	MARVIVA	Costa Rica	NPO	Director	13.02.02	P
10	Kissling	Alexandra	Unidas Para Crecer	Costa Rica	NPO	Founder	13.02.02	P

11	Mosera	Paula	Socialab Uruguay	Uruguay	NPO	Director	16.06.10	S
12	Nunez	Lina	Recojo	Colombia	NPO	Founder	14.08.14	S
13	Pacheco	Maria	Kiej de los Bosques	Guatemala	Company	Founder	15.06.03	S
14	Perera	Octavio	Fondo Verde	Latin America	NPO	Founder	14.08.14	S
15	Ritzel	Claudia	Fundown	Colombia	NPO	Founder	14.08.11	S
16	Rueda	Vania Alejandra	Actividades OK	Bolivia	NPO	Manager	15.06.03	S
17	Tangarife	Lina	Alianza Social Uniandina	Colombia	NPO	Director	15.06.02	S
18	Tome	Joaquin	Che	Argentina	NPO	Founder	14.08.14	S
19	Truzzi	Renata	NESst Brazil	Brazil	NPO	Director	16.06.09	S
20	Usatinsky	Diego	Fundacion Caminando Juntos	Argentina	NPO	Founder	14.08.11	S
21	Verdugo	Chrishian	Pacto Planeta	Colombia	Company	Founder	16.06.10	S
22	Villafranca	Daniel	Caminos de Osa	Costa Rica	NPO	Co-Founder	16.06.09	S
23	Villers	Renata	ADA	Costa Rica	NPO	Founder	13.02.02	P
24	Werneck	Claudia	Escuela de Gente	Brazil	NPO	Founder	13.02.02	P
25	Zommer	Laura	Chequeado	Argentina	NPO	Director	15.06.03	S
26	Bio	Lucha	Tierra Nuestra	Paraguay	NPO	Founder	13.02.02	P
27	Dijkhuis	Eric	Po Paraguay	Paraguay	NPO	Founder	16.06.06	S
28	Escobar	Andrea	Fundacion Soydoy	Colombia	NPO	Founder	14.08.13	S
29	Ferraro	Fabián	Aulas sin paredes	Argentina	NPO	Founder	13.02.02	P
30	Garcia	Francisco	TECHO Colombia	Colombia	NPO	Manager	15.06.05	S
31	Gronda	Jorge	Sistema Ser	Argentina	NPO	Founder	13.02.02	P
32	Gutierrez	Francisco	Asedemasa	Costa Rica	NPO	Director	14.08.14	S
33	Hernández	Inge	Fundación DEHVI	Costa Rica	NPO	Founder	16.06.09	S
34	Heyd	Marcos	La Escombrera	Argentina	Company	Founder	15.06.01	S
35	Ibarra	María Guadalupe	Universidad Autónoma Indígena de México	Mexico	NPO	Director	15.06.01	S
36	Ignacio	Soto	Actitud Lab	Chile	Company	Founder	16.06.10	S
37	Landini	Pamela	Fundación Equidad	Argentina	NPO	Manager	16.06.06	S
38	Lapetini	Juan	Fundacion Huerta Nino	Argentina	NPO	Founder	14.08.13	S

39	Levy	Adán	Ingeniería Sin Fronteras	Argentina	NPO	Founder	15.06.01	S
40	Lobert	Felipe	Fundación Huerta Niño	Argentina	NPO	Founder	15.06.05	S
41	Merida	Pedro	Nutriplus	Guatemala	NPO	Director	16.06.10	S
42	Piazzesi	Francesco	Échale a tu casa	Mexico	Company	Founder	15.06.05	S
43	Robles	Jose Luis	CPlantae	Mexico	Company	Founder	15.06.03	S
44	Ruiz	Albina	Ciudad Saludable	Peru	NPO	Founder	13.02.02	P
45	Sanabria	Luis Fernando	Fundación Paraguayo	Paraguay	Company	Director	13.02.02	P
46	Szarán	Luis	Sonidos de la Tierra	Paraguay	NPO	Founder	13.02.02	P
47	Uribe	Daniel	Costa Verdes	Costa Rica	NPO	Founder	14.08.14	S
48	Wohlers	Luis	Funcafé	Guatemala	NPO	Director	16.06.13	S
49	Arrieta	Ximena	DonarOnline	Argentina	Company	Manager	16.06.13	S
50	Ballesteros	Carlos	Cultivando futuro	Colombia	Company	Founder	16.06.13	S
51	Buchbinder	Daniel	Alterna	Guatemala	NPO	Founder	14.08.11	S
52	Cavalcanti	Andres	Grupo Terranova	Brazil	NPO	Founder	16.06.06	S
53	Gaitan	Mauricio	Punto Vision	Colombia	NPO	Founder	16.06.13	P
54	Pinto	Thiago	New Hope Ecotech	Brazil	Company	Founder	15.06.03	S
55	Ramírez	Jefferson	Corporación Somos Más	Colombia	NPO	Founder	15.06.03	S
56	Roset	Mario	Wingu	Argentina	NPO	Founder	14.08.11	S
57	Rozo	Andres	Academia de Innovacion para la Sostenibilidad	Colombia	NPO	Founder	14.08.14	S
58	Altenburger	Jessica	xRunner	Germany/ Peru	Company	Founder	15.06.03	S
59	Gonzalez	Mariana	Ilumexico	Mexico	Company	Co-Founder	14.08.13	S
60	Herrea	Camilo	Litro de Luz	Colombia	Company	Founder	14.08.13	S
61	Lomnitz	Enrique	Isla Urbana	Mexico	Company	Founder	16.06.13	S
62	Méndez	Oscar	Conceptos plásticos	Colombia	Company	Co-Founder	16.06.11	S
63	Pino	Rodrigo	Green Habitat	Chile	Company	Founder	14.08.13	S
64	Quintero	Diana	Bive	Colombia	Company	Founder	15.06.03	S
65	Schiffman	Nicolás	Dedo Verde	Argentina	Company	Founder	15.06.03	S
66	Suarez	Juan Nicolás	Diseclar	Colombia	Company	Founder	13.02.02	P

Data Analysis

We used a four-stage procedure of Corbin & Strauss' (1990) open, axial, and selective coding. In the first stage, based on open coding, the two researchers independently analyzed two randomly chosen interviews and later compared the codes found by each to homogenize the codification criteria. We then read the interviews following the general guiding question of: what is interesting that explains the opportunity recognition and exploitation? Based on this, we selected text sequences and created 2,402 *in-vivo* codes.

In a second stage of axial coding, we deduced from our data four reasons why social entrepreneurs addressed institutional voids. The data showed that the social entrepreneurs being studied addressed institutional voids as a target - for a mission reason (1), or to exploit a business opportunity (2); or, as a means to reach a goal – to increase economic sustainability (3), or to scale impact (4).

In a third stage, we analyzed our data again in respect to the question of how social entrepreneurs addressed institutional voids. After the preliminary analysis of the interviews, and based on an open coding process, we noticed that our results corresponded with the literature on collective action (Snow & Benford, 1988). We therefore used collective action as a conceptual framework to execute a selective coding based on the sub-categories of Snow and Benford's (1988) core framing tasks.

First, diagnostic framing was useful for group citations that explained how the interviewed entrepreneurs recognized opportunities in the neglected problems and institutional voids through the problematization of taken-for-granted norms. Second, prognostic framing was particularly helpful to compare codes on how the interview partners identified the interests of different partners and then constructed a solution that took those interests into account. Third, motivational framing was instrumental to interpret the codes on how the interview partners coordinated inter-sectoral actors in the co-development of solutions for neglected problems and institutional voids. From this process, we deduced five patterns on how social entrepreneurs address institutional voids: recognizing, defining, coupling, strengthening and institutionalizing (**Table 4**).

In a fourth step, we returned to the data and analyzed each interview separately according to the sequence of the actions that social entrepreneurs used to address institutional voids. The interviews showed a high diversity in the sequence of "recognizing," "defining" and "coupling." But all of them showed a common process pattern in that after "recognizing," "defining" and "coupling," then followed "strengthening" and "institutionalizing." We compared these findings with the literature on opportunity recognition and exploitation, and finally deduced from all four of the analytical steps a model we call "Collaborative Construction."

Table 4. Code Structure (Paper I)

Open code	**Sub-activities (first order categories)**	**Activities (second order thermes)**
Finds foreign innovation/patent to adopt	Actively seeks opportunities	Recognizing
Studies and business experience abroad		
They have technical know-how related to solution		
Business/market-based skills		
Seeking business opportunities		
Idea/Solution related to their interests		
For-profit goal		
Research to develop/adapt solution		
Idea related to their previous job/business		
Mission driven	Finds the mission	
Lack of business skills		
Catalyze other's solutions		
Feeling of collaboration, empathy with people		
Identification of a problem neglected by society	Discovers a social/environmental problem	
Discover opportunities in the poor's needs		
Identify the void that generates the problem	Assigns blame: institutional void	
Systematic vision of problems		
Understand causes and consequences of institutional voids		
Opportunity arises from identification of institutional void		
Identifies potential allies' incentives	Identifies allies' incentives: "steps in others' shoes."	Defining
Research before conceptualization		
More efficient solution than public option		
Convenient and integrative solution for all actors		

Steps in others' shoes to understand their interests		
Innovative solution solves problem	Defines a common objective: win-win solution	
Win-win solution		
Complex solution requires multiple actors		
The idea comes from real needs and not clichés: "let's make an app."		
Product accepted by community/beneficiaries		
Solution attacks different fronts		
Preliminary solution development	Iteratively designs a user-based solution	
Iterative design based on users		
Market model based on users' economic possibilities		
Initial solution is very simple/does not solve void integrally		
Redesign based on test and error		
Listening/involving beneficiaries	Creates bonds of trust	**Coupling**
Seeking receptive users/beneficiaries to break resistance		
Creation of links to enter the community		
Identification and formation of leaderships within the community		
Building trust within the community		
Context comprehension		
Sensitization on the importance of the solution		
Networking	Co-develops inter-sectoral solution	
Pro-activity in search of alliances to enter ecosystem		
Early stage funding		
Leverage in local government resources		
Volunteer recruitment		
NPOs provide resources and legitimacy		
Alliances with private companies to access resources		
Articulate diverse actors	Generates alliances for resources and legitimacy	
Articulation generates co-development		
Volunteers are linked with projects		
Solution arises from the interaction of the 3 sectors		
Linking projects with resources		
Generation of productive chains		
Platform that articulates and links the 3 sectors		
Generates alliances between the private and public sector		

Championship: Keeping the goal to match challenges	Maintains goallessness: "Keeps the flame alive."	
Fight against the corrupt system		
Break resistance to change		
Has kept the team motivated and trusting		
Has been persistent to deal with all disagreements		
Address challenges created by the institutional voids		
Partner committed and with multidisciplinary skills	Professionalizes the team	**Strengthening**
Professional team		
Multidisciplinary team		
Committed team with passion		
Non-corrupted team		
Empowered community/beneficiary	Empowers beneficiaries	
Closely involved in solution implementation		
Empowers actors without power to create impact		
Participation of the community/beneficiaries in solution		
Organization of communities/beneficiaries		
Community takes responsibility for the project		
Change mentality: they are not victims		
Training members of the community		
Monetization, self-sustainability	Seeks financial self-sustainability	
No longer wants to depend on state donors/subsidies		
Self-sustaining model before scaling		
Discovers opportunity to monetize		
Achieve sustainability with competitive prices in the market		
Create partnerships with private companies to monetize		
Seeks awareness of the solution	Approve solution effectiveness	
More actors add up after that solution is validated		
Participate in business-plan contests to create awareness		
Need to validate solution before requesting financing		
Accountability: transparent model		
More actors add up after need/demand is validated	Approve existing demand/need	
It is convenient for actors to address the problem		
Project validation with results		
They seek to influence public policies	Influences public	**Institutionalizing**
Seek that the government takes its responsibility		

Seek that state adopts norms/international legislation	policies/law enforcement	
With laws seeks to change people's habits		
Waiting for enactment of law to climb		
Seeks to influence public policies		
Promoting law/ordinance to give legal security solution		
Org. Link entrepreneurs with investors and MNCs	Standardizes and replicates solution	
Networking with investors		
Financing for scaling		
Solution is scalable		
It becomes the taken–for-granted norm		
Standardized methodology		
Standardization of scale/replication methodology		
Other org. To adopt		
Model is replicable		
Expansion toward other countries of Latam		
Possibilities for growth outside Latam		
Platform is used for other products	Shares intermediation platform	
Development of other products using the same channels		
Linking platform for various actors		
Development of other products using the same channels		

2.3.4 Findings I: Why Institutional Voids Should Be Addressed

When analyzing and exploiting opportunities in institutional void markets, 34 of the interview partners addressed institutional voids as a target to realize their social mission or to exploit a business opportunity; and 32 addressed institutional voids as a means to increase their financial sustainability or to scale their social or environmental impact.

Institutional Voids as a Target

We observed that entrepreneurs targeted institutional voids as a way to define their mission or their business model. An illustrative case of defining a mission is María Pacheco (Interviewee #13). María wanted to increase the income of the remote rural communities in Guatemala by improving their agricultural practices. Through her conversations with community leaders, she realized that they had good agricultural practices but lacked an intermediation platform to sell their products.

She identified the incentives of different intersectoral actors such as farmers, CSR programs of local companies, and economic development programs of NGOs, the IADB and the government of Guatemala. María coordinated different productive chains using the resources of NGOs, international cooperation agencies, local governments, and companies such as Ron Zacapa. She obtained legitimacy for the success of these productive chains, for which she was hired as a consultant by the IADB to replicate her model. After several replicas, she realized that it was costly to create a brand and product design for each community, so she created the "Wakami" brand to market the products of several communities. She formed a multidisciplinary team of professionals who helped her in the areas of international finance and marketing. Meanwhile, in 2016, Wakami marketed its products in 17 countries around the world. Maria´s model has become the taken-for-granted solution, which has been replicated by other social entrepreneurs in Latin America.

The case of María Pacheco illustrates the pattern we call "Defining a Mission," which we observed with 25 of the 66 interviewees. All of these entrepreneurs referred to an institutional void when defining their social mission (Interviewees 1-25 in Table 3). In the case of María, she focused on missing institutions that could include products of disfranchised communities into formal luxury markets. To fill this void, she created Wakami as a brand that links the community products with the customers of luxury markets.

Another illustrative case is the one of Thiago Pinto (Interviewee #54). Thiago and his colleague were Brazilian MBA students at Kellogg. Both had experience in relevant companies such as Google and Boston Consulting Group. As a requirement for one of their courses, they had to create a business model. They found an opportunity in a void in Brazil´s recently enacted recycling law. This law stipulated that FMCG companies should take responsibility for the waste generated by their packaging but did not say how this mandate should be operationalized. In the absence of an enforcing mechanism, companies were donating large sums of money to waste pickers' cooperatives, but they had no idea of the impact that the latter were generating. Thiago and his colleague developed an app through which recyclers could measure in real time the amount of waste that was collected and generate reports for the FMCGs. They traveled to Brazil to validate that the waste collectors had access to smartphones and that they would be willing to use the app. Together with a brewer, they developed a pilot program and demonstrated that the solution worked. As a next step, they hired a law firm to try to include their solution as part of the recycling law. With this reform to the law, they sought to become the taken-for-granted solution and offer their app to the FMCG companies in Brazil.

The case of Thiago Pinto illustrates a pattern we call "Modeling Business," which we observed among nine interviewees (#49-57), who modeled a business based on institutional voids. Thiago recognized that the enforcing mechanisms compel companies to allocate financial resources for an issue they were not capable of dealing with. They created a solution for the companies and included this solution within the law, which strengthened their market position.

Both cases -- of María Pacheco and of Thiago Pinto -- illustrate how entrepreneurs address institutional voids as a target. Like María, 38% of all interviewed entrepreneurs aimed for a social impact that focused on filling an institutional void; and similar to Thiago, 14% of all interviewed entrepreneurs recognized a business opportunity within an institutional void that they turned into a business model.

Institutional Voids as a Means

Besides addressing institutional voids as a target, we observed that other entrepreneurs addressed them as a means for increasing the economic sustainability of their social solution or to scale their social impact. An illustrative case for the first example is Albina Ruiz (Interviewee #44). From a very young age, Albina wanted to solve the problem of solid waste in the marginal areas of Lima, Peru.

After a long career in municipal governments and NGOs, Albina designed programs to transform informal poor recyclers into formal and professional micro-enterprises to collect and recycle solid waste. She organized the communities, changing their culture to be responsible for paying for the collection service; and worked with other intersectoral actors, such as local governments and NGOs, that provided primary resources for the initiative. However, the police of Lima persecuted the collectors as criminals and demanded bribes to let them work. This affected the recyclers' economic sustainability since the formal recycling companies were denied buying from them. Albina realized that she had to advocate the creation of a law that would give protection to micro-recyclers and increase their reputation as reliable market actors. After intense lobbying she achieved the implementation of this law.

Albina Ruiz’s case is an illustrative example of a pattern we call “Stabilizing Mission,” which we observed with 23 other entrepreneurs who we interviewed (#26-48). These entrepreneurs filled institutional voids to increase the economic sustainability of their solution. Albina lobbied the Peruvian Government to create a law that formalized the poor recyclers and increased their position within the market as negotiating partners. This supported the recyclers to sell their products and to increase their economic sustainability.

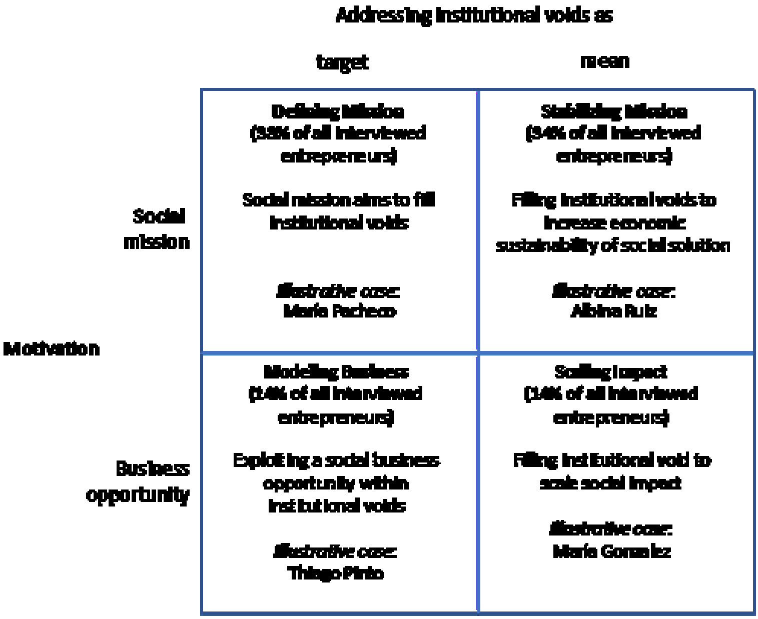
The case of Mariana Gonzalez (Interviewee #59) illustrates another pattern of addressing institutional voids as a means. Mariana and her colleagues were about to graduate as electrical engineers in Mexico and were looking to start a business related to LED lighting. At a conference, they noticed that 3% of the Mexican population lived in remote rural areas without electricity. The entrepreneurs identified incentives from the communities, local governments, company CSR programs, and microfinance institutions. They developed an integrative solution that adapted an LED system powered by solar energy that had been developed by a foreign researcher. Through donations, subsidies from the local government of Oaxaca, and community resources using a microfinance structure, they were able to start a pilot program. Initially, they collected these microloans with the help of a person from the community.

Then, they realized that to scale the project, they needed to create a payment platform so that people could make payments for the electrification system without having to travel hundreds of kilometers to the nearest bank office. They created Ilucentros -- regional offices that collect payments from rural communities. Other companies have shown their interest to offer their products and services to these rural communities and use this payment platform. Mariana´s goal is to operate 50 centers by the year 2020.

The case of Mariana Gonzalez illustrates an example of a pattern we call “Scaling Impact,” which we observed among nine entrepreneurs (#58-66) who filled institutional voids to scale their social impact. Mariana created a payment platform that was not yet established in order to strengthen her business model to scale.

The cases of Albina Ruiz and Mariana Gonzalez illustrate how entrepreneurs address institutional voids to increase the economic stability of social solutions (we observed this pattern in 35% of all interview partners), or to scale social impact (14% of all interview partners correspond to this pattern).

Figure 4. Addressing Institutional Voids as an Object Vs. Strategy



From our data, we deduced four patterns that show different reasons why the interviewed entrepreneurs addressed institutional voids. The majority of the interview partners (72%) followed the motivation of a social mission by the pattern we call "Defining a Mission," where social entrepreneurs look to fill an institutional void; or using the pattern we call "Stabilizing Mission," in which social entrepreneurs fill institutional voids to increase economic sustainability. The minority of all interviewed entrepreneurs (28%) followed either a business motivation that we call "Modeling Business," which stands for exploiting social business opportunities within institutional voids, or what we call "Scaling Impact," which refers to filling institutional voids to scale social impact (see **Figure 4**).

These findings show why social entrepreneurs address institutional voids, but not what they actually do to address them and how they proceed to be effective in institutional void markets.

2.3.5 Findings II: Recognizing and Exploiting Opportunities

In a second step of our study, we analyzed our data regarding what kind of activities the interviewed social entrepreneurs used to recognize and exploit opportunities in institutional voids. From our data, we deduced five patterns of activities.

Activity I: Recognizing

In this activity, the interview partners reported how they recognized the institutional voids they addressed. Some of the interviewees developed *ad hoc* solutions to fill institutional voids, whereas others found an innovation from a foreign entrepreneur or researcher and then adapted it to solve an institutional void in their context:

> *"We try to really understand the best practices of rainwater collection systems in different contexts around the world. From that, we have sought to design a system really adapted to the particular context that we have in Mexico." (Interviewee #61)*

After identifying a social-environmental problem, the interview partners explained how they *recognized institutional voids* that caused problems or prevented other entrepreneurs from addressing them. In some cases, social entrepreneurs found the institutional void to address after investigating the problem in depth. For instance, and referring to one of the previously introduced cases, when dealing with the issue of solid waste in Brazil, Thiago Pinto (Interviewee #54) found that the recently enacted recycling law did not contemplate how to operationalize.

In other cases, the interview partners reported how they solved the social problem and then found an institutional void that put their model at risk. For example, and also referring to a previously introduced example, after Albina Ruiz (Interviewee #44) created micro-enterprises of waste collection, she realized that the police were chasing trash collectors as if they were criminals. Albina had to promote the promulgation of a legal framework that gave protection to the recycling activity in Peru.

Activity II: Defining

From our data, we deduced a second pattern in which the interview partners conceptualized the solution to the neglected problem or institutional voids. We observed that this solution sought to generate a collective identity around a common goal, taking into account the incentives of all of the stakeholders involved in three ways: First, the social entrepreneurs *identified stakeholders' incentives*. One interview partner explained that *"nobody is bad, but all defend his or her sectoral truth"* (Interviewee #9), and they must align the incentives of each of the sectors. Therefore, the interview partners reported that they must identify what each actor was looking for. One of them reported:

> *"You must be able to understand what the interests of the donor are and put yourself in their place .... Based on their interests you can propose solutions that are convenient for both parties." (Interviewee #20)*

Second, the interview partners reported how they *defined a common objective around a win-win solution*. They defined a solution that solved a real need, and that generated *"cohesion and identity within the community"* (Interviewee #22) for obtaining internal legitimacy. This solution had to have a broad scope to achieve the involvement of a vast number of actors. For instance, Interviewee #62 said: *"We want to give it a collective, community approach to involve many people so that together we can give solutions."* This win-win solution requires economic and social aspects, as expressed by Interviewee #64, who replicated a health system targeted at the BoP*: "At Bive, we are looking for a win-win from the economic side and a win-win from the social aspect." (Interviewee #64)*

Third, the interview partners also explained how they *iteratively designed a user-based solution*. Interviewee #7 said that, *"one mistake we make in NPOs and social entrepreneurship is to believe that we know best what the community or the beneficiaries need."* Although the interview partners arrived in the field with a preliminary idea of the solution, their plan was modified based on the needs of the recipients. The innovation of Interviewee #50, an intermediation platform that links farmers with restaurant owners, illustrates this process:

> *"First, we thought farmers needed a 'Swiss army knife' of applications to solve many problems ... (an application) that had weather information, supplies, and raw material prices, road traffic information.... When trying to validate the whole process by visiting farmers, we realized that it was not a problem that could be (solved) completely digitally, but that required a service. That is why (we designed) a platform that solves the biggest problem, which was not weather forecasting or traffic on roads, but commercialization." (Interviewee #50)*

Activity III: Coupling

This activity shows a pattern whereby the social entrepreneurs coordinated actors from different sectors to develop an integrative solution. To achieve this coupling, the entrepreneurs created bonds of trust, generated alliances for obtaining resources, co-developed inter-sectoral solutions, and maintained the motivation of the stakeholders for achieving the goal in an adverse environment. First, the interview partners explained how they *created bonds of trust* with the beneficiaries that allowed them to implement the solution; as stated by Interviewee #34: *"Young people are tired of politicians making promises they do not fulfill. You have to generate a bond of trust with them."*

To create these trust links, the interview partners sought to first obtain the support of community members who were most receptive to the idea, in order to overcome the resistance to change by the most adverse ones. For example, Interviewee #50 asserted that he first sought the support of young farmers who were more receptive to his idea. After they obtained good preliminary results, *"the message spread and the old farmers that had said to us, 'No, how are you guys going to change that?' then said, 'Ah, well, tell me more'...."* Second, the social entrepreneurs explained how they *generated alliances for obtaining legitimacy and accessing resources*.

Mainly when the beneficiary communities were isolated, the entrepreneurs needed to establish an association with an NPO or an international cooperation agency to obtain legitimacy and be able to generate bonds of trust. For instance, Interviewee #8 worked with a community in the Amazon rainforest, which he was able to access thanks to the German Cooperation Agency (GIZ):

> *"When I went to the community that is more into the jungle, it helped a lot that the German Cooperation (Agency) had already worked with the communities for some time. As I was close to the 'Cooperation,' I could approach the community without an initial barrier." (Interviewee #8)*

In addition to facilitating the creation of bonds of trust, alliances with civil society organizations promoted partnerships with public and private sector entities to access resources. Interviewee #20 commented on the impact of the affiliation with the United Way International Foundation in order to obtain donations from multinational companies:

> *"You know how difficult it is to get donations. Contacting a multinational company that is already part of United Way in other countries facilitates access to the local subsidiaries. We have direct and personal access to the multinational companies' managers in different countries through organizations affiliated to United Way, which facilitates the direct contact with the managers of the subsidiary in our country and vice-versa." (Interviewee #20)*

Third, the social entrepreneurs highlighted how they *co-developed an inter-sectoral solution* with NPOs, local firms, and municipal governments. For instance, Interviewee #53 conceptualized an application for blind people and made a strategic alliance with a local software company to develop it. In some cases, the solution was co-developed jointly by more than two allies:

> *"At the beginning, there was nothing more than a passion shared by us, the IADB, and the municipality of San José. We worked with them even before we formed our team and had the infrastructure. We worked cooperatively because of the passion that we share and that we have managed to keep until now." (Interviewee #33)*

Fourth, the interview partners explained how they *overcame* “goallessness”; namely, keeping the motivation of the stakeholders around the goal and overcoming the peculiar challenges of environments with strong institutional voids. For example, Interviewee #27 stated: *“Keeping the team motivated without receiving a salary during the first 10 months of operation was a big challenge.”* Motivation toward the project goal should also be reinforced among the beneficiaries, as suggested by Interviewee #55: *"When the community is consolidated, we help them to keep the flame alive."* In addition to maintaining stakeholder motivation, the interview partners dealt with corruption and internal frictions of local governments in environments with strong institutional voids. For example:

> *"We do many projects collaborating with local governments, and we have to face all kinds of problems, from corruption to internal fights among different government agencies that can interfere greatly in the project’s execution." (Interviewee #34)*

Activity IV: Strengthening

This activity shows how the interviewed social entrepreneurs proved in front of their stakeholders that their solution solved a relevant problem for society. They did this before approaching investors or multinational companies to get the resources they needed to scale their impact or business, and also before seeking to influence public policies or legal frameworks related to an institutional void. To obtain this strengthening, they proceeded in four ways.

First, prior to scaling the enterprise, the social entrepreneurs formed a professional, passionate and honest team, so that “*the system was consolidated when I professionalized it” (Interviewee #31).* The teams also included actors from outside of the nonprofit world, as one of the interview partners explained: *“My team is made of people who also come from the corporate side, from McKinsey, Deloitte, the World Bank, etc., and they come because they were not happy with their previous life” (Interviewee #51)*. Building a team with integrity was the key: *“I started to identify people who had values: I got the head of the cleaning department; I got a guy with studies in architecture, and someone who could help in mechanics. They were all honest people” (Interviewee #41).*

Second, the social entrepreneurs also *empowered beneficiaries*. Although this empowerment was a condition to approve the solution, the empowerment started before the implementation, when entrepreneurs *“identified and strengthened leadership within the community"* (Interviewee #52). The interview partners influenced the collective mindset of the whole community: *"They have to stop seeing themselves as victims of the environment and shift to a mindset of power"* (Interviewee #22). The social entrepreneurs sought to empower the community to *“make them take ownership of the project"* (Interviewee #47). They trained the community members to carry out the solution independently in the long term: *"We seek that the community can do replicas and maintenance without us having to be always there"* (Interviewee #60). In this way, the community itself took responsibility for maintaining the solution: *"Installers who live near the catchment systems support the facilities"* (Interviewee #61). They closely monitored the implementation to achieve the technological adaptability of the beneficiaries. Without this accompaniment, the beneficiaries would not have been aware of the value of the solution:

> *“We have identified that when you arrive with a ready-to-use prefabricated innovation without explaining how it works, what it serves, how it is given maintenance[...] after a week, a month, (the community) steals it, destroys it, or does not use it” (Interviewee #55).*

Third, when the interview partners sought legitimization before the institutions that promote social entrepreneurship (e.g., AVINA, Ashoka), the latter influenced them to develop market-based mechanisms.

> *“(In a business plan competition organized by Ashoka), we won second place with our business plan to generate micro-enterprises. In the business plan, we thought to charge a fee to the people. Later, we realized that we worked with those who were in extreme poverty and who would not be able to pay our services. Then, we decided to form a consulting firm, owned by the NPO.” (Interviewee #44)*

Fourth, the interview partners explained how they *approved their solution*. First, they convinced other strategic allies that the need they addressed was legitimate.

For example, Interviewee #53 got the financial support of government agencies until it could validate that the need existed and that it was convenient to address it. In addition to legitimizing the need, the interview partners explained how they generated success cases that demonstrated that the solution efficiently solved the problem, and how they generated awareness by participating in business plan competitions, forums, and conferences.

For example, Interviewee #20 participated in a business plan competition organized by AVINA, seeking *"brand recognition that is very important to get donors."* And Interviewee #32 has been a speaker at several CSR conferences which *"have provided visibility and recognition from clients and company managers of the effort achieved."* Once the social entrepreneurs demonstrated that their idea solved a need in a self-sustaining way, they used this legitimacy to influence public policies and institutionalize their solution, and to get funding and resources from “big players” to scale. For example, interviewee #52 stated: *"When we found a way to make poverty reduction a good business, many people wanted to join us, and we got a lot of financial support."*

Activity V: Institutionalizing

The social entrepreneurs reported three ways in which they institutionalized their solutions. The first was the most formal and sought to *influence public policies* to establish a regulatory or contract enforcement mechanism. This form of institutionalizing illustrates the cases of Albina Ruiz (Interviewee #44), who promoted a law to protect recyclers in Peru, and Thiago Pinto (Interviewee #54), who sought to include their innovation within Brazil’s recycling law. The other two forms of institutionalizing did not attempt to establish a regulatory mechanism, but instead aimed to become the "taken-for-granted" norm.

One of the mentioned forms was the *standardization and replication of the model.* For example, the IADB and other private initiatives throughout Latin America have replicated the productive chains mechanism developed by Maria Pacheco (Interviewee #13). Another example of this form of institutionalizing was the replica of the health care system for poor people developed by Jorge Gronda in Argentina (Interviewee #31), which was adapted by Bive in Colombia (Interviewee #64).

The interview partners reported another form of institutionalizing that we describe as the *use of an intermediation platform for different purposes than for what it was initially developed*. For example, Maria Pacheco established the program "Communities of the Earth." This program used the same platform as Kiej de Los Bosques to sell basic appliances to artisans that would improve their quality of life. Also, Mariana Gonzalez from Ilumexico (Interviewee #59) established agreements with other companies to use the "Ilucentros" as a channel for other projects:

> *"We are experts in solar energy, and we are not losing our focus. However, we are making alliances with other organizations for using our distribution channels to bring new projects, such as water or energy-saving stoves." (Interviewee #59)*

The previous results introduce five activities – recognizing, defining, coupling, strengthening and institutionalizing – that the interview partners mentioned with varied frequency (see **Table 5**).

Table 5. Number of Interviews with Codes Related to Each of the Sub-Activities

Activity	Sub-activity	Percentage
Recognizing	Addressing a social/environmental problem	100%
	Finds the mission	73%
	Actively seeks opportunities	27%
	Assigning the blame to an institutional void	100%
Defining	Identifying allies´ incentives: "steps in other's shoes"	67%
	Defining a common objective: win-win solution	70%
	Iteratively designing a user-based solution	68%
Coupling	Creating bonds of trust	56%
	Generating alliances for resources	80%
	Co-developing intersectoral solution	68%
	Keeping the flame alive	67%
Strengthening	Professionalizing the team	68%
	Empowering beneficiaries	50%
	Seeking financial self-sustainability	82%
	Proving the solution's effectiveness and the existence of a	88%
Institutionalizing	Influencing public policies/law enforcement	47%
	Standardizing and replicates solution	64%
	Building intermediation platform	23%

In “recognizing,” all of the interviewed social entrepreneurs addressed a social or environmental problem and all blamed an institutional void to be the cause of the problem. With “defining,” the interview partners explained that they identified allies’ incentives by “stepping in others’ shoes,” in addition to defining common objectives that they described as “win-win solutions” and iteratively designing user-based solutions. In “coupling,” they created bonds of trust, generated alliances to get access to resources, co-developed intersectoral solutions, and “kept the flame alive” by regularly reactivating the involved partners. “Strengthening” involved professionalizing the team, empowering beneficiaries, seeking financial self-sustainability, and proving the solution’s effectiveness and the existence of a demand. Finally, the social entrepreneurs institutionalized their solutions by influencing public policies and law enforcements, standardizing and replicating solutions, and by building intermediation platforms.

We further analyzed these five activities in respect to their sequence and found that the interviewed social entrepreneurs practiced the first three activities – recognizing, defining and coupling – in different sequences. This strong irregularity was juxtaposed by an equally strong regularity among all of the interview partners who followed a sequence of “strengthening” before “institutionalizing” after the first three activities. The four cases – on María Pacheco, Thiago Pinto, Albina Ruiz and Mariana Gonzalez - presented in Findings I, illustrate this pattern.

The case of María Pacheco (see **Table 6a**), for instance, starts with “recognizing.” Using her knowledge as a biologist, she aimed to mitigate poverty from rural communities by improving agriculture. She then entered into the activity of “defining” solutions during her conversations with communities, and realized that the problem was caused by the lack of a link between markets and the community. She therefore returned to the activity of “recognizing” and re-defined the problem as the lack of a commercialization platform. Then, she repeated the activity of “defining” to find an integrative solution of a productive chain and a strong brand to fill the institutional void identified before. After this, she focused on “coupling.”

Maria built trust ties with peasant community leaders, generated alliances with the Guatemalan government and international NGOs to obtain initial resources, and co-developed various productive chains in conjunction with civil society, the government, and local large firms. She then began "strengthening" the initiative by forming a professional and multidisciplinary team, and the governments of Mexico and Guatemala started collaborating with her to replicate her model. She finally entered the phase of "institutionalizing" by standardizing the chains under the brand of "Wakami." Large firms and the governments replicated her model and she shared her intermediation platform of Wakami with other firms to offer basic applications to the peasants.

Table 6a. Flowchart of the Illustrative Cases

Entrepreneurs	Recognizing	Defining	Coupling	Strengthening	Institutionalizing
Maria Pacheco	Using her knowledge as a biologist, she aimed to mitigate poverty from rural communities by improving agricultural practices. Re-defines problem as the lack of a commercialization platform.	In the conversations with communities to define a solution she realizes that the problem is caused by the lack of a link with markets. Defines integrative solution to fill the void: firstly, *ad hoc* productive chains, and then a brand that integrates all of them.	Builds trust ties with peasant community leaders. Generated alliances with the Guatemalan government and international NGOs to obtain initial resources. Co-developed various productive chains in conjunction with civil society, government, and local large firms (e.g., Zacapa Rum).	Formed a professional and multidisciplinary team with financial, operational, marketing and design capabilities. The IADB and the governments of Guatemala and Mexico recognized her capabilities as a developer of productive chains and hired her as a consultant to replicate her model.	Standardized the different productive chains under the brand Wakami; and thanks to her strengthening, obtained funding (Pomona Impact) to scale. Large firms and governments replicated her model. The intermediation platform created by Maria is used also by other firms to offer basic appliances to the peasants.
Thiago Pinto	Two MBA students from Kellogg with experience in IT industries, looking for a business opportunity in their native Brazil. Identified a void in the recently enacted recycling law in Brazil, which did not stipulate its operationalization	Identified the incentive of FMCGs donating money to recyclers' cooperatives in order to gain legitimacy but had no idea about the impact of these donations. Formulated a solution based on an app for smartphones that allowed to know the amount of trash (packaging) that was being collected, which was convenient for both recycling cooperatives and FMCGs.	Went to Brazil to do field research along with the recycling cooperatives. Got initial resources through donations and business plan contests. Did a pilot test along with the recycling cooperatives and a brewery	Formed a team with professionals specialized in the financial, operational and technological areas of the business. FMCGs firms asked them for actual data demonstrating that the idea could be operationalized. With the results of the pilot project, they validated the idea.	Once the idea was validated, he started lobbying to include the solution into Brazil's recycling law. Then, he intends to commercialize the solution with all Brazilian FMCGs companies and replicate in countries facing similar problems, such as Egypt and Thailand.

The four cases illustrate the different sequences of the first three activities, and also that the social entrepreneurs decided to address institutional voids in different stages. The social entrepreneur decided to focus on the institutional void after she discussed her solution with communities ("defining") and recognized the missing link between the communities and markets.

Table 7b. Flowchart of the Illustrative Cases

Entrepreneurs	Recognizing	Defining	Coupling	Strengthening	Institutionalizing
Albina Ruiz	From a young age, she was committed to addressing the problem of waste in marginal areas of Lima.	Identified incentives and defined a win-win solution: recycling companies generate jobs and solve the waste problem Re-defined solution, including the law enactment	Articulated actors to foster recycling microenterprises. Identified a void in Peruvian legislation that hampers the work of recyclers, who were persecuted as criminals.	Built a multidisciplinary, professional team to address the problem holistically. To generate more impact, she creates her own NPO. Empowered waste collectors: improved their self-esteem. Became an Ashoka Fellow and member of the AVINA network.	Got the Swiss fund (LGT) to invest in her consulting firm to replicate her model in other municipalities in developing countries. Influenced the creation of the first law in the world that supports and formalizes the work of recyclers.
Mariana Gonzalez	Five recently graduated electronic engineers looked for business opportunities related to LED illumination technologies. They noticed that 3M of Mexicans lived in remote rural areas without electricity.	They found a foreign innovation based on solar energy. Iteratively, adapted the system to make it user-friendly. Designed a holistic solution based on the incentives of different actors. It included a microfinancing structure. Redesigned solution, including a payment structure they called "Ilucentros."	Received a grant from Banco Santander and got support from other companies to conduct electrification pilot projects. During the pilot project, they collected the microloans fees but realized that they needed a payment platform to make the project scalable.	Achieved financial sustainability: beneficiaries partially paied for the systems through microfinance credits. Beneficiaries adopted the solution in the long-term because of the training and the responsibility acquired with the loans. In similar programs, people sold the solar panels. Demonstrated that their solution has demand and was effective. They had installed 3,600 systems.	Designed a mechanism to collect the microfinancing payments through local offices (Ilucentros). Ilumexico partnered with other companies interested in offering their products through the mentioned intermediation platform. They had 4 Ilucentros and wanted to scale up to 50 by 2020, which would benefit about 50,000 families.

Thiago Pinto started his business model ("recognizing") by building on the institutional void that resulted from the new recycling law missing guidelines for enacting the law. When trying to link informal recyclers with companies as potential buyers of the recyclers' products ("coupling"), Albina Ruiz recognized that companies and other stakeholders perceived the informal recyclers as criminals – because of their informality. She saw a cause in a missing law that could formalize recyclers (see **Table 6b**). Finally, Mariana Gonzalez collected microloan fees during a pilot project with beneficiaries and realized that a payment platform was missing ("coupling"). All of the social entrepreneurs identified the institutional voids during the first three activities, which supported them to define their business model so that they could "strengthen" and "institutionalize" afterwards.

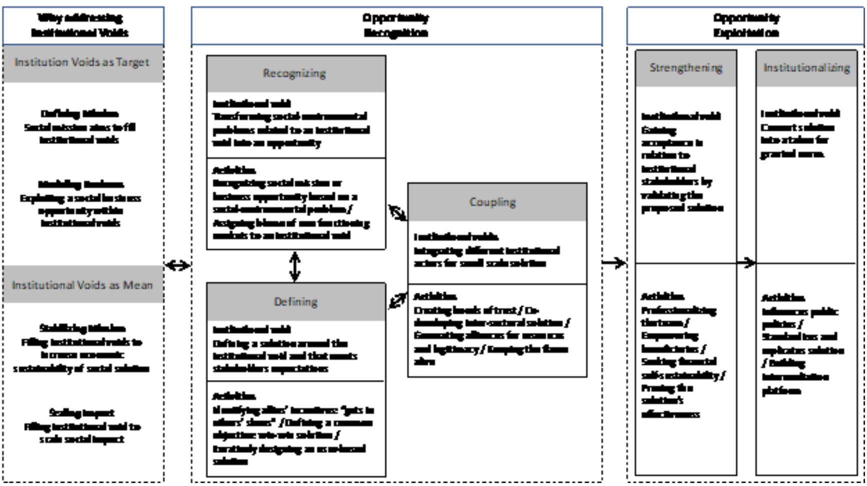
2.3.6 Theorizing: Collaborative Construction

The previous findings present the sequence of the activities we identified in two different phases: The first concentrates on opportunity recognition that aims to identify the reason why social entrepreneurs focus on insitutional voids, and to construct a preliminary solution to address institutional voids. This includes an iterative process between the activities of "recognizing," "coupling" and "defining." These activities generate a collective understanding around the institutional void addressed by the social entrepreneur. The second phase focuses on opportunity exploitation and aims to institutionalize the outcomes of "opportunity recognition." In this phase, we observed a sequential process from "opportunity recognition" to "strengthening" and then to "institutionalizing" (see **Figure 5**).

Why Institutional Voids Should be Addressed

Our data show four reasons why social entrepreneurs addressed institutional voids. These reasons respond to a logic based on a motivational framing (Fligstein, 1997), in which social entrepreneurs make a call to action around an institutional void to support a vision being promoted (Misangyi et al., 2008). Some of the social entrepreneurs followed the mission to fill institutional voids ("Defining Mission"); others filled institutional voids to increase economic sustainability ("Stabilizing Mission"); some exploited social business opportunities within institutional voids ("Modeling Business"); and a group of them addressed institutional voids to scale their social impact ("Scaling Impact"). They all identified the institutional void they addressed when executing activities of recognizing, defining and coupling. We call this first phase of the process opportunity recognition in institutional void markets.

Figure 5. Collaborative Construction Process Model



How Institutional Voids Should be Addressed

Phase I – Opportunity Recognition (Iterative Process)
Although social entrepreneurs have different reasons why they address institutional voids, they all lack sufficient resources and power of influence to immediately address those voids (Fligstein, 1997). They coordinate with other actors who have resources and power of influence by aligning interests around a common goal, and they include a limited number of stakeholders that use three activities, albeit in varying sequences, depending on each context.

In the activity “recognizing,” social entrepreneurs transform a social-environmental problem related to an institutional void into an opportunity. This is in line with “diagnostic framing” that seeks to expose problems with current institutionalized activities and assign blame (Roy Suddaby & Greenwood, 2005). To do so, social entrepreneurs recognize their social mission or their business opportunity based on a social-environmental problem, and they assign the blame for non-functioning markets to institutional voids.

In the activity “defining,” social entrepreneurs define a solution, which is congruent with the prognostic framing that includes the conceptualization of an institutional project in a way that resonates with the interests of potential allies (Fligstein, 2001). This framing seeks to make the project become accepted by potential partners (Demil & Bensédrine, 2005). To be able to design a solution, social entrepreneurs must have the ability to "step in the other’s shoes” (Fligstein, 1997); that is, to identify the incentives of the different actors and thus be able to design a solution that is suitable for the diverse interests. Also, they demonstrate that their solution was designed in such a way that the beneficiaries would be willing to adopt it.

The "framing resonance" and acceptance are necessary to coordinate NGOs, local governments, and companies with corporate social responsibility programs around a common institutional void. In the activity “coupling,” social entrepreneurs do not seek to maximize their utility function (Douglas & Shepherd, 2000) but to generate a "frame alignment," linking the different incentives of potential intersectoral allies that could provide resources for the venture around a small-scale solution. They bring together different intersectoral actors at the local level, such as beneficiaries, volunteers, NGOs, local governments, and businesses, to obtain resources and carry out a pilot program or startup. In addition to the small-scale solution, social entrepreneurs search for an acceptance of that solution to strengthen the call to action.

Once social entrepreneurs get the endorsement of beneficiaries and recognized organizations, they obtain resources and even co-develop the solution with local governments and companies. During the coupling of the actors, social entrepreneurs create bonds of trust, co-develop intersectoral solutions, generate allies for resources and legitimacy, and "keep the flame alive" when dealing with many obstacles, such as corruption of local governments and strong resistance to change among beneficiaries.

Phase II – Opportunity Exploitation (Sequential Process)

While opportunity recognition involves a number of stakeholders around their small-scale solution, opportunity exploitation involves a broader audience as it publicly addresses often visible institutions. Another difference from Phase I is that the activities follow a sequential path in which “opportunity recognition” follows the activity to strengthen the preliminary solution and then the institutionalization of the solution.

After Phase I, social entrepreneurs begin the activity of “strengthening.” They aim to get acceptance in relation to institutional stakeholders by validating the proposed solution. To gain the acceptance of institutional stakeholders, social entrepreneurs professionalize their teams, empower beneficiaries, seek financial sustainability, and prove their solutions’ effectiveness. They validate, at least at the level of a pilot program, that the solution has been adopted by the beneficiaries and that they are empowered to carry it out independently. With this, they seek to get acceptance to influence public policies.

Finally, once social entrepreneurs have validated that their solution effectively addresses a social-environmental issue, they have the necessary acceptance to institutionalize their solution, namely, to convert it into the taken-for-granted norm. This acceptance allows them to negotiate with impact investors and multinational companies interested in social-environmental issues in order to obtain resources for scaling the solution and achieve more impact for their mission or growth for their business. It gives them the power to influence public policies, standardize and replicate solutions, and build intermediation platforms. In this way, social entrepreneurs can ensure the long-term sustainability of their impact. Those motivated by profits can change the rules of the game in their favor to create competitive advantages or entry barriers for potential competitors.

2.3.7 Theoretical Contributions

Our study responds to calls by previous research. First, we followed the call to study the embeddedness of social entrepreneurs (Seo & Creed, 2002; Grimes *et al.*, 2013; Grimes *et al.*, 2013; Dacin et al., 2010) by exploring how social entrepreneurs recognize and exploit opportunities in institutional void markets. Second, we respond to the call for using the theory of collective action to advance knowledge at the intersection of social and institutional entrepreneurship. Battilana *et al.* (2009) suggested that such an approach could contribute to research on institutional entrepreneurship by explaining the "complex collective action that follows institutional entrepreneurs' actions" (p.94). Third, our results also respond to the call of Dacin *et al.* (2011: 1206) for more research linked to "institutions, social movements, and social entrepreneurship;" specifically, for advancing knowledge on the different forms of legitimacy for divergent institutional logics (e.g. social, public-sector, commercial) required during the entrepreneurial process. Out of our findings and using collective action (Snow & Benford, 1988) as a conceptual lens, we deduce a model that we call "Collaborative Construction" that includes the reason why social entrepreneurs address institutional voids, how they recognize and exploit opportunities that emerge out of institutional voids, and what activities they use to do so.

The theoretical contributions of these findings should be assessed in light of their limitations. First, the study follows a qualitative research design, which falls under the general limitation on generalizing results of qualitative studies. Second, our database is composed exclusively of Latin American entrepreneurs, which could limit the generalizability of our results to other contexts with strong institutional voids. Third, the interviews with social entrepreneurs were in Spanish and we needed to translate the original data into English, which slightly changes the original words of our interview partners and might lead to slight changes of information. Despite these limitations, our findings contribute threefold to the literature on social entrepreneurship, institutional entrepreneurship and collective action.

First, we introduce the construct of "Collaborative Construction," which differs from other innovation models in at least three ways. First, Collaborative Construction is based on the phenomena of entrepreneurs that have little or no access to power and resources (Fligstein, 1997). In contrast, other authors have studied the phenomena from the perspective of multinational companies (Webb, Kistruck, & Ireland, 2010) and nonprofit organizations (Austin & Seitanidi, 2012). Second, Collaborative Construction focuses on institutional voids and not on market needs, as in many of the studies on the base of the pyramid. Focusing on market needs, Hart and Christensen (2002) argue that before the Schumpeterian process of "creative destruction" occurs, an extended period of "creative creation" by individuals is typically discerned.

We argue that Collaborative Construction occurs even before individuals enter into a process of creative creation in filling institutional voids, such as legal frameworks and intermediation platforms, which require a collective effort and not just an individual creation. Therefore, we argue that Collaborative Construction precedes creative creation and destruction. The difference lies in the collaborative element emphasized in our study, a necessary factor given the entrepreneurs' constraints of power and resources (Fligstein, 1997).

Second, we show how opportunity recognition works within institutional voids. Phillips and Tracey (2007: 313) asserted that the links between entrepreneurship and institutional theory *"have yet to be adequately explored"* and made a call for more research to advance knowledge in the institutional entrepreneurship literature. They emphasized the importance of recognizing opportunities as one of *"the most important abilities of a successful entrepreneur"* (Ardichvili, Cardozo, & Ray, 2003:106).

The construct of Collaborative Construction sheds light on how institutional entrepreneurs recognize opportunities in environments with strong institutional voids. And it acknowledges different reasons why social entrepreneurs address institutional voids: some social entrepreneurs do so with a for-profit approach and entrepreneurial mindset (Davis, Hall, & Mayer, 2016; Pryor, Webb, Ireland, &

Ketchen, 2016), while others have an approach related to social mission (Mair & Marti, 2006). The former group identifies a market opportunity to exploit (Dutta & Crossan, 2005); and the latter, rather than recognizing an opportunity, finds a mission often derived from a life experience (Batson & Shaw, 1991) that led to a commitment to alleviate others' suffering (Miller, Grimes, Mcmullen, & Vogus, 2012).

Third, we link collective action and institutional work. Although to a lesser extent than DiMaggio's (1988) perspective, Fligstein's (1997) perspective had already been used to empirically study institutional entrepreneurs (Mair & Marti, 2009; Mair, Martí, & Ventresca, 2012). However, the previous studies have not explained the link between institutional work and the collective action required by social entrepreneurs without resources. The two phases of the proposed Collaborative Creation model help to explain this link. The first phase of the model explains how social entrepreneurs carry out an iterative process of collective action (Snow & Benford, 1988) in which they synchronize different intersectoral actors to obtain the necessary resources to establish a viable startup or minimum viable product.

The second phase of the model explains how social entrepreneurs carry out institutional work in a sequential way: first by validating that their solution solves the social problem in an effective and self-sustainable way, and then using that legitimacy to obtain resources to scale their solution and influence public policies to institutionalize their solution.

2.3.8 Conclusion

Collaborative Construction seems interesting in the light of the Schumpeterian "Creative Destruction." Where institutions are not working or are missing, entrepreneurs likely do not "destroy" but need to "construct" structures. And where low-functioning public administrations and corruption (among other factors) affect entrepreneurial decisions, entrepreneurs likely cannot rely on their personal or team-oriented "creativity" but need to "collaborate" with others to address institutional voids. Collaborative Construction seems, therefore, particularly important in developing countries where institutional voids affect social entrepreneurs' decisions, and where grand needs such as extreme poverty or low access to education and health care affect large parts of the populations.

A large portion of the literature studies how international nongovernmental organizations, like the Interamerican Development Bank, and philanthropists such as Bill Gates, and multinational corporations such as Starbucks, address those grand needs. Obviously, those organizations make large contributions, which explain why research on them makes sense. However, this research excludes the possibly larger number of social entrepreneurs who have less power and less money. We therefore call for extending the research on those actors since they have a significant impact on filling the institutional voids in developing countries.

3. PAPER II

Construed Shared Expectations: Facilitating Access to Early-Stage Equity Financing Across Structural Holes

Carlos Martinez

3.1 Abstract

This paper aims to understand access to early-stage equity financing in environments with structural holes among social classes, a common characteristic in developing countries. Previous studies have overlooked the effects of the inequalities between vertical structures on access to entrepreneurial equity financing; therefore, they fail to explain how entrepreneurs from the low and middle classes develop trust and connections with business angels, who are generally wealthy individuals. The grounded theory method was used to analyze 33 semi-structured interviews with Central American actors related to entrepreneurial financing. Based on the grounded evidence and the social capital dimensions framework, the study proposes a model explaining how the institutional work carried out by investors, businesspersons, and other actors improved access to entrepreneurial financing in developing countries by enabling two social capital mechanisms. The contribution to social capital theory is twofold. Firstly, the paper illuminates the causal relationship between the cognitive and relational social capital dimensions by explaining how trust ties are generated between actors from disconnected networks. Secondly, the paper extends the bridging brokerage mechanism: It explains the role of the broker not only as an information gatekeeper between two disconnected networks but as a promoter of the strong ties between the members of such networks. The study has practical

implications for organizations interested in promoting high-growth entrepreneurship in developing countries.

3.2 Submissions to Conferences and Journal

The data collection of Paper II and III began in June of 2017, during my visit as an external and *ad honorem* researcher at the Latin American Center for Entrepreneurs in Costa Rica, where Professor Jager works as academic director. Although my stay in Costa Rica lasted until October, I continued actively collecting interviews via Skype from El Salvador until January 2018, and then sporadically from St. Gallen until May of the same year. The first draft of Paper II was completed at the end of January 2018 and submitted to the Third Conference on Entrepreneurial Financing hosted by the School of Management at Politecnico di Milano (Italy). Acceptance to the conference involved a peer-review process, and it was held in June 2018.

In addition to presenting Paper II, I was the discussant of the paper "Structuring and security selection in venture contracts: evidence from India" co-authored by Kuruva Ramesh and Thillai Rajan from the Indian Institute of Technology Madras. Coincidentally, the paper addressed a theme similar to that explored by Paper III, which is why the conference was particularly enriching. To my surprise, in mid-July of 2018 I received an email from the Chair of the session, Professor Yan Alperovich from EMLYON, inviting me to contribute in the book "New Frontiers in Entrepreneurial Finance Research" with a simplified version of this paper.

The second draft of Paper II draft was completed at the beginning of March 2018 and submitted to Entrepreneurship Theory and Practice (ETP), a journal included in the prestigious Financial Times FT50 list. My intention in doing a submission at such an early stage was to obtain feedback from experienced and versed scholars that would help me legitimize my work and frame the potential contribution. Although my expectations about the version were low, the paper was not desk-rejected and Professor Johan Wiklund (Syracuse University, US), the editor-in-chief, assigned Professor Susan Marlow (Univesity of Nottingham, UK) as associate editor. At the end of April, I received the notification of rejection, accompanied by the high-quality constructive feedback from three anonymous scholars. It was not the first time I received a rejection from a Journal, but unlike previous occasions, I felt encouraged to continue advancing the potential contribution after reading constructive comments from high-quality scholars. The reviewers highlighted the importance of the research question in the context studied, the richness of the qualitative data, and the relevance of the potential contribution to the cognitive dimension of social capital. However, all agreed that the paper needed further development to be considered in a Journal of such high prestige.

The constructive comments received from the ETP reviewers helped me to write the third draft of Paper II. I completely rewrote it, highlighting the theoretical contribution and delimiting it from that of previous authors. I presented the third draft in the "Paper Clinic in General Management," one of the two obligatory colloquia within the dissertation phase of the doctoral program. I decided to present the Paper II in that colloquia not by chance but because of the experience and research skills of Professors Grichnik and Zellweger, both specialized in Entrepreneurship. With the feedback received by the ETP reviewers and the aforementioned Professors, I wrote the current version of the paper.

3.3 Manuscript

3.3.1 Introduction

This paper investigates access to early-stage equity financing in developing countries. In some of these countries, entrepreneurial equity financing works as “Closed Clubs” to which only the closest to the wealthy families have access. In Central America for instance, the colonial heritage, class struggles during the Cold War, and current situation of gangs and organized crime have generated a barrier among actors from different social classes. Such barrier hinders access to early-stage equity financing for those entrepreneurs away from the trust circles of wealthy families (from now on "non-wealthy entrepreneurs"). Government agencies that promote entrepreneurship have tried to bring non-wealthy entrepreneurs and potential angel investors (BAs) closer through business plan competitions and other programs. However, such initiatives have failed, mainly due to the discrepancies between the expectations of actors from disconnected networks. On the one hand, entrepreneurs do not understand how the BAs model works and believe that it is similar to a bank loan. Also, they are afraid that investors will steal their ideas or take full control of the startup due to previous bad experiences with “not-so-angel” investors. On the other hand, potential investors complain that entrepreneurs lack a scaling-up mindset and a culture of accountability. They said that the latter had been promoted by the government programs that grant seed capital without requiring anything in return.

The structural and cognitive barriers described above undermine the explanatory power of previous research related to early-stage financing in environments with structural holes. According to Burt (1992), a structural hole between two parties exists when the parties do not attend to each other and, fail to exchange information in the course of social interaction. Previous studies in non-developed countries have pointed out that due to the weak institutional environment in such contexts, investors have had to replace formal institutions with networks and other informal institutions (Ahlstrom & Bruton, 2006; Bruton & Ahlstrom, 2003). For this reason, connections and trust are particularly relevant for accessing entrepreneurial funding in non-developed countries (Batjargal & Liu, 2004; Talavera et al., 2012). However, previous research has ignored possible effects of the inequities between vertical structures (Kwon & Adler, 2014), assuming that entrepreneurs can generate trust and connections with the members of the "Closed Clubs" regardless of their social class.

Previous research has overlooked the lack of a common understanding between non-wealthy entrepreneurs and the potential BAs from the wealthy families. This last problem is common in the literature of entrepreneurial financing, which has prioritized the relational and structural dimensions of social capital and ignored the cognitive one (Jonsson & Lindbergh, 2013). Bruton, Ahlstrom and Puky (2009) highlighted the institutional entrepreneurship role carried out by some providers of capital in non-developed countries; nonetheless, they did not explain how their institutional work improved access to financing. Lawrence and Suddaby (2006:217) define institutional work as "the broad category of purposive action aimed at creating, maintaining, and disrupting institutions." To address the mentioned gaps, this research seeks to answer the question: *Which institutions affect access to early-stage equity financing in developing countries?*

Within the entrepreneurial financing literature, several authors have addressed a ″funding gap″ issue from a positivist approach, assuming that a shortage of supply "exist out there″ "waiting to be filled" (Lam, 2010:269). In contrast, this paper addresses the research question from a grounded theory approach, reconstructing reality from the perspective of the "knowledgeable agents" at the supply and demand sides (Gioia et al., 2013). Qualitative data was collected through semi-structured interviews with 33 Central American actors related to entrepreneurial financing: entrepreneurs, business angels, managing partners of venture capital firms (VCs), brokers, incubator/accelerator managers, directors of university entrepreneurship centers, government officials, and executives of second-tier development banks. The transcripts of the interviews were analyzed using Corbin and Strauss´ (1990) three-stage coding, in an iterative process between grounded evidence and Nahapiet and Ghoshal´s (1998) social capital framework. According to the framework, social capital is comprised of three dimensions: structural, namely, the overall pattern of connections between actors (Burt, 1992); relational, referring to strong ties agents develop through a history of interactions (Granovetter, 1992); and cognitive relating to those resources providing shared representations, interpretations, and systems of meaning among parties (Cicourel, 1981).

The current study proposes a model explaining how the institutional work carried out by investors and other actors improved access to early-stage equity financing in developing countries by enabling two social capital mechanisms. At the cognitive dimension, such institutional work reconciled the expectations of both groups by inducing a scaling-up and accountability mindset in entrepreneurs and by forming a network of BAs committed to the economic development of their nations. At the structural level, the mentioned institutional actors served as mediators of the nascent bond of trust between actors at both sides of structural holes. The paper´s contribution to the social capital theory is twofold. Firstly, the model illuminates the relationship between the cognitive and relational social capital dimensions on access to entrepreneurial financing. According to Jonsson and Lindbergh (2013), the cognitive dimension has received considerably less attention than the other social capital dimensions in the entrepreneurial financing literature.

The paper proposes the concept "construed shared expectations" defined as the development of a common understanding of critical aspects that make actors believe that counterparts will act for mutual benefit. Such tacit reciprocal commitment allows the creation of trust bonds between actors of disconnected networks. Secondly, the study extends Burt´s (2001) the bridging brokerage mechanism. The paper explains the role of the broker not as an information gatekeeper between two disconnected networks (Ahuja, 2000; Inkpen & Tsang, 2005; Reagans & McEvily, 2003) but as a promoter of the strong ties between the members of such networks. In addition to the theoretical contributions, the study has practical implications for investors, government agencies, and other organizations interested in the development of high-growth entrepreneurship in developing countries.

The paper is organized as follows: Section Two presents the related literature. Section Three provides the research method, including data collection and analysis. Following such, Section Four proposes a grounded model of access to entrepreneurial financing in developing countries. Finally, Section Five presents the theoretical contributions and implications for the entrepreneurial financing literature and practitioners, describes limitations of the research design, suggests areas for further investigation, and summarises the main findings.

3.3.2 Literature Review

Entrepreneurial Financing in Non-Developed Countries

Previous research has investigated entrepreneurial financing in emerging markets, such as China, India, and Russia. These countries have some characteristics of developed markets, without being considered as such. The current study uses data from Central American countries, which are less developed. Kiss, Danis, and Cavusgil (2012) used a broad scope of the term emerging markets in their literature review and called for more research on ‘how’ and ‘why’ questions in under-investigated regions. We respond to that call but feel more comfortable framing our research within the context of developing countries. We use the term non-developed countries to label this subsection, aware that the majority of the literature presented corresponds to emerging markets.

Studies in non-developed countries have highlighted deficiencies in the contexts that restrict high-growth entrepreneurship and access to financing. Such countries are characterized by fragile states and undeveloped economies, variables that positively influence necessity-based entrepreneurship (Amorós et al., 2017). Conversely, high-growth entrepreneurship is correlated with access to financial and human capitals, regulatory protection, and economic growth (Bowen & De Clercq, 2008; Wong et al., 2005).

Also, non-developed countries are characterized by a weakness or complete absence of supportive institutions, such as legal frameworks, intermediation platforms, and specialized intermediaries, which restricts access to markets and resources (Khanna, Palepu, & Sinha, 2005; Mair & Marti, 2009; Mair, Martí, & Ventresca, 2012). Such weak institutional framework affects entrepreneurs and investors. Entrepreneurs cannot rely entirely on formal institutions and have to develop a balance between formal and informal ones that better fit their circumstances (S. M. Puffer et al., 2010). They have to develop trust and connections to access bank financing and private equity (Batjargal & Liu, 2004; Talavera et al., 2012). At the same time, financing providers have to use networks and other informal institutions to supplement or replace formal institutions when they are weak (Ahlstrom & Bruton, 2006a; Bruton & Ahlstrom, 2003). Such absence of institutions supporting entrepreneurial endeavors has led capital providers to adopt an institutional entrepreneurship role in non-developed economies (Bruton et al., 2009).

Previous researchers (Armanios, Eesley, Li, & Eisenhardt, 2017; Teegen, Doh, & Vachani, 2004) have explored the role of intermediaries in helping new ventures overcome institutional hurdles. The studies have shown how intermediaries such as nonprofit economic development agencies, business incubators and accelerators, and government support institutions foster entrepreneurship in non-developed countries (Amezcua, Grimes, Bradley, & Wiklund, 2013; Gonzalez-Uribe & Leatherbee, 2017; Mair et al., 2016; McDermott et al., 2009). Such support is conducted through activities such as mentoring new businesses (Amezcua et al., 2013), building market infrastructure (Dutt et al., 2016) and legitimating new organizational forms and practices (Armanios et al., 2017).

In addition to their weak institutional framework, some developing countries are distinguished by structural holes between social strata (Woolcock & Narayan, 2000), hindering entrepreneurs´ access to BAs, generally wealthy individuals (Morrissette, 2007). According to Burt (1992), relational networks often contain missing links or “holes” in the flow of information. A structural hole between two parties exists when the parties do not attend to each other and, fail to exchange information in the course of social interaction. Also, the weak institutional framework and political hazards discourage foreign capital inflows, which is instrumental for capital providers (Khoury, Junkunc, & Mingo, 2015; Martinez, Cummings, & Vaaler, 2015). These factors originate an entrepreneurial financial market failure that prevents investment matching (Naudé, 2009).

Due to the mentioned contextual variables, previous studies in the literature are insufficient to explain access to financing in developing countries. Entrepreneurs require a well-articulated network of entrepreneurial finance, which is non-existent in developing countries. Earlier research in developed countries most likely took such network for granted given the robust institutional frameworks and financial markets in such contexts. Furthermore, the mentioned studies focused on the horizontal structuring of societies, ignoring possible effects of the inequities between vertical structures (Kwon & Adler, 2014). Previous research in non-developed countries has underscored the institutional work carried out by capital providers. Nonetheless, these studies have not explained the effect of such work on access to entrepreneurial financing. This paper intends to contribute to this topic by investigating whether and how capital providers and other actors facilitated access to entrepreneurial financing in weak institutional environments.

Social Capital Dimensions and Access to Financing

Nahapiet and Ghoshal (1998:243) define social capital as the "sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit." According to the authors, social capital comprises both the network and the assets mobilized through it. The pair proposed three dimensions of social capital: structural, relational, and cognitive.

Nahapiet and Ghoshal (1998) drew on Granovetter´s (1992) discussion of structural and relational embeddedness in making the distinction between the structural and relational dimensions of social capital. According to Granovetter (1992), structural embeddedness concerns the properties of the social system and the network of relations as a whole. For them, the structural dimension is the overall pattern of connections between actors, namely, whom and how you reach them (Burt, 1992). This dimension is related to network configuration or morphology (Tichy, Tushman, Fombrun, & Tushman, 1979) and the absence or presence of network ties between nodes (Burt, 1992; Wasserman & Faust, 1994).

The relational dimension concerns the personal relationships agents develop through a history of interactions (Granovetter, 1992). Nahapiet and Ghoshal (1998:244) use the relational dimension to refer to "those assets created and leveraged through relationships." Among the key facets in the relational dimension are identity and identification (Håkansson & Shenota, 1995) trust and trustworthiness (Fukuyama, 1995; Putnam, 1995), norms and sanctions (Coleman, 1990; Putnam, 1995) and obligations and expectations (Burt, 1992; Coleman, 1990).

The cognitive dimension is related to those resources providing shared representations, interpretations, and systems of meaning among parties (Cicourel, 1981). These shared norms, values, attitudes, and beliefs contribute to cooperative behavior and stimulate collective action (Liñán & Santos, 2007). According to Nahapiet and Ghoshal (1998), the cognitive dimension has been less discussed in the social capital literature, but it is salient in the strategy domain (Conner & Prahalad, 1996) and the creation of intellectual capital through shared language and narratives (Cicourel, 1981; Orr, 1990).

Within in the sociology literature, Burt (2001) has criticized the social capital concept as metaphorical and loosely tied to distant empirical indicators. According to the sociologist, scholars should focus on the network mechanisms responsible for social capital instead of discussing such metaphorical definitions. He proposed two network mechanisms related to the relational and structural dimensions of social capital: network closure and brokerage across structural holes. In network closure, namely a dense cluster of strong connections, competitive advantage comes from the "sanctions that make it less risky for people in the network to trust one another" (p. 351). In bridging brokerage, Burt (2001:347) argues that competitive advantage comes from early access to, and control over, information. He believes social capital is more a function of brokerage across structural holes than closure within a network.

Most of the previous research in entrepreneurial financing has used an structural and relational perspective. At the structural level, entrepreneurs with an extensive network within the financial community are more likely to obtain financing due to their higher exposure to financial alternatives (Seghers et al., 2012). At the relational level, entrepreneurs that manage to establish close ties with capital providers are more likely to obtain financing and at a lower cost (Uzzi, 1999). At a bi-dimensional level, entrepreneurs are more likely to obtain financing when they establish relationships with capital providers that belong to networks with arm-length and embedded ties (Scott Shane & Cable, 2002). Arm's-length ties facilitate access to information, while embedded ones motivate network partners to share resources and information with each other. The information transfer diminishes information asymmetry, making investors more prone to grant financing at a lower cost.

Some researchers have recognized the relevance of the cognitive dimension in explaining entrepreneurs' social capital. De Carolis and Saparito (2006) used it to explain entrepreneurs' risk perception and exploitation of opportunities. Also, Maurer and Ebers (2006) used a multidimensional social capital approach to explain the entrepreneurs' acquisition of resources in biotechnology firms. According to the pair, the cognitive dimension develops as actors learn new cognitive schemes that facilitate access to new ties and the knowledge transfer within them.

Interest in the theory of social capital has increased among entrepreneurship scholars; however, the understanding of how social capital relates to entrepreneurship "remains incomplete" (Gedajlovic, Honig, Moore, Payne, & Wright, 2013:456). Except for Jonsson and Lindbergh (2013), scholars in the entrepreneurial financing literature have ignored the cognitive dimension of social capital. According to Jonsson and Lindbergh (2013), a shared system of meaning enables entrepreneurs access to information and resources that they could not obtain without such cognitive capital. More theoretically development is needed to understand how the cognitive dimension of social capital affects access to entrepreneurial financing. Such is particularly relevant for entrepreneurs in non-developed countries, who in most of the cases have educational deficiencies and little understanding about entrepreneurial financing issues.

3.3.3 Method

Based on the literature gaps mentioned, this study seeks to answer *Which institutions affect access to early-stage equity financing in developing countries?* Previous research has addressed the "funding gap" from a positivist perspective, assuming that it exists out there and must be filled (Lam, 2010). Contrarily, this study uses grounded theory (Glaser & Strauss, 1967), a method based on social construction (Berger & Luckmann, 1966). The approach overlooks established assumptions and builds theory from the perspective of the "knowledgeable agents" (Gioia et al., 2013; R Suddaby, 2006); therefore, it is an approach appropriate to determine from the perspective of such agents the barriers/mechanisms that hinder/facilitate access to entrepreneurial financing in developing countries.

Data Collection

The primary source of data was 33 semi-structured interviews with agents related to entrepreneurial financing in the Central American countries: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. The interviewees were directors of entrepreneurship centers and university incubators, VCs, BAs, entrepreneurs, government officials, and an executive of a second-tier development bank. Interviews were carried out between June 2017 and May 2018. **Table 7** presents the list of interviewees. Other sources of qualitative data were the documents provided by the interviewees (e.g., “maps” of local entrepreneurial support organizations, program evaluation reports) and direct observation at events organized by the interviewees (e.g., business plan contests and entrepreneurial “retreats”).

The mentioned Central American countries provide an ideal "laboratory" to address the research question. Firstly, these countries are in low positions in the VC/PE attractiveness ranking prepared by IESE Business Schoool (A. Groh, Liechtenstein, Lieser, & Biesinger, 2018). Secondly, they have weak institutional environments. According to the Global Competitiveness Report, these countries have a lack of formal institutions providing reliable information, embryonic stock markets and investor networks, weak regulatory frameworks, high wealth concentration in a few powerful and politically connected families, and low level of property rights (WEF, 2016).

As researchers, we experienced first-hand the difficulties of accessing potential early-stage investors, because we did not have close ties to approach them, and further we could not find from public sources who they were. Consequently, interview candidates were identified and approached through a snowball sampling technique (Biernacki & Waldorf, 1981). The research began by contacting the directors of the entrepreneurship center of the leading business school in Central

America, who provided contacts within the school´s alumni network. The preliminary analysis and selection of interviewees were conducted concurrently and iteratively, consistent with the grounded theory methodology (Corbin & Strauss, 1990; R Suddaby, 2006).

Table 8. List of Interviewees (Paper II)

ID	Description	Primary	Contacted	Date
1	Consultant of an International Cooperation Agency	El Salvador	Skype	20/09/17
2	Consultant of a Seed-capital Program	El Salvador	Skype	13/09/17
3	Deputy Minister of Economy	Guatemala	Skype	12/09/17
4	Entrepreneurship Center former director	El Salvador	Skype	22/08/17
5	Entrepreneurship Center director	Costa Rica	Face-to-face	16/08/17
6	Entrepreneurship Professor and Consultant	Guatemala	Skype	23/08/17
7	Entrepreneur	El Salvador	Face-to-face	26/10/17
8	Government BA network consultant	Guatemala	Skype	06/12/17
9	Government seed-capital program consultant	Guatemala	Skype	19/09/17
10	Second-tier development bank executive	Costa Rica	Telephone	30/08/17
11	Stock Exchange Executive (SMEs program)	Costa Rica	Skype	06/09/17
12	Entrepreneur and IE (Coworking)	Honduras	Skype	18/08/17
13	Entrepreneur and IE (Coworking)	Panama	Skype	25/08/17
14	IE (accelerator and BA network) and Broker	Costa Rica	Skype	14/12/17
15	IE (accelerator and BA network) and Broker	Guatemala	Telephone	01/09/17
16	IE (incubator) and Broker (impact investment funds)	Guatemala	Skype	07/12/17
17	IE (incubator and BA network) and Broker	Honduras	Telephone	08/09/17
18	IE (incubator)	Honduras	Skype	12/09/17
19	IE (incubator) and former VC	Nicaragua	Skype	14/12/17
20	IE (BA network) and Broker	Panama	Telephone	18/09/17
21	IE (coworking, incubator, BA network) and Broker	El Salvador	Telephone	21/09/17
22	IE (coworking, accelerator) and VC	Guatemala	Skype	30/08/17
23	IE (coworking, accelerator) and VC	Guatemala	Skype	28/11/17
24	BA, Broker, and former social entrepreneur	Guatemala	Skype	29/11/17
25	BA and former PE associate	El Salvador	Skype	28/08/17
26	BA and former M&A/PE associate	Costa Rica	Telephone	06/09/17
27	M&A/PE Managing Partner	Panama	Telephone	12/09/17
28	VC/PE Managing Partner	Costa Rica	Telephone	29/08/17
29	VC/PE Managing Partner	Costa Rica	Telephone	18/08/17
30	VC/PE Managing Partner	Costa Rica	Skype	28/01/18
31	VC/PE Managing Partner	Guatemala	Skype	28/08/17
32	SMEs financial provider	El Salvador	Face-to-face	22/09/17
33	Entrepreneur	Costa Rica	Skype	04/05/18

IE: Institutional Entrepreneurship actor; M&A: Merger and Acquisition; PE: Private Equity

Initially, we were looking for BAs, VCs, and entrepreneurs who had received financing. However, based on the findings of the first interviews, we noticed a common pattern in different countries: former investment banking associates and wealthy businessmen were developing entrepreneurial support organizations and BAs networks and linking non-wealthy entrepreneurs to such networks. We asked our first interviewees to introduce us to these actors in order to interview them.

Some of the interviewees were collaborative and even agreed to answer additional questions that arose from the previous interviews (Gioia et al., 2013). However, wealthy individuals were reluctant to accept an interview request from unknown people given the insecurity in Central America (e.g., gangs, kidnappings, organized crime). Even their acquaintances were reticent to share their contact information. For instance, the director of the entrepreneurship center at a university, a European Ph.D. with research experience, refused to provide information about her contacts due to "previous bad experiences." Conversely, wealthy individuals in El Salvador and Guatemala agreed to be interviewed after a previous interviewee introduced them to us. Given this context of wariness, it was essential to create bonds of trust before approaching potential capital providers.

The interviews were conducted based on a narrative semi-structured technique (Spradley, 1979). The guiding question of the interview was: *If you had a magic wand, what things would you change in the entrepreneurial support organizations, institutions, government policies, or other factors to improve access to entrepreneurial financing?* This question avoided the use of constructs established in the literature (e.g., institutional voids, entrepreneurial ecosystem, structural holes) so as not to limit the answers.

Interviewees were encouraged to provide "thick" descriptive data: As they made observations, we asked them questions to elicit rich details in order to help explain how such observations were important (Isabella, 1990). The interviews were conducted in Spanish, audiotaped with the consent of interviewees, and transcribed verbatim. We conducted all the interviews, and a research assistant with experience in qualitative methods transcribed them. After each interview, we immediately made annotations and prepared a summary. Data collection ended at saturation, namely, when the interviews stopped providing new insights.

Data analysis

The transcripts were analyzed using Corbin and Strauss´ (1990) three-stage coding**.** The process was done in Spanish. In the open coding, transcripts were analyzed without any theoretical guidance looking with an open mind for those extracts that were interesting to understand the issues that restricted the access to financing and the actions carried out for addressing such issues**.** The selected extracts were summarized in 949 open codes, using words similar to those said by the interviewees trying to keep these labels as close to the ground as possible. Examples of these codes are: "How do you contact investors if they do not have a label on their heads?" and "For security reasons, wealthy people only invest in their relatives´ startups."

In the axial coding, 33 first-order categories were established by gathering several of the open codes into labels that summarized similar issues or activities, without making significant conceptual abstractions**.** Examples of these subcategories are: "The worlds of entrepreneurs and investors are disconnected" and “Closed Clubs: Financing restricted to startups in the family circle.” Before moving on to selective coding, we iterated between the analysis of grounded evidence and the search for theoretical and conceptual lenses that would help us to transform static subcategories into a dynamic grounded theory model (Gioia et al., 2013).

Nahapiet and Ghoshal´s (1998) social capital dimensions was selected from the mentioned iterative process as the “substantive theories” which would help to “lift the data” (Suddaby, 2006:634). The social capital dimensions served as the “theoretical glue” among the second-order themes. Based on the substantive theories, we grouped the first-order categories into eight second-order themes and connected them accordingly. **Table 8** provides transparency to the study by presenting the data structure.

The second-order themes include three barriers restricting access to entrepreneurial financing and three institutional activities to address such barriers, each one of them related to a social capital dimension. For instance, the categories for the structural dimension are “Structural hole between non-wealthy entrepreneurs and wealthy potential BAs” and “Bridging brokerage across the structural hole.” The two remaining second-order themes are the mechanisms that facilitate access to entrepreneurial financing, each of which is related to two social capital dimensions.

Finally, a preliminary version was presented to two of the capital providers interviewed (ID# 23 and 24) for obtaining their feedback.

Table 9. Data Structure (Paper II)

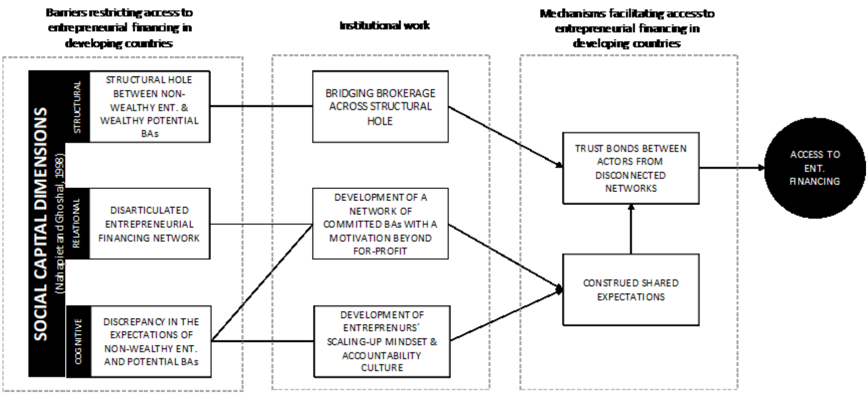
1st Order Categories	2nd Order Themes	Aggregate Dimensions
The worlds of entrepreneurs and investors are disconnected	STRUCTURAL HOLE BETWEEN NON-WEALTHY ENT. & WEALTHY POTENTIAL BAs	BARRIERS THAT RESTRICT ACCESS TO ENTREPRENEURIAL FINANCING
Entrepreneurs need financing but cannot find investors		
Investors with appetite but cannot find entrepreneurs		
Investors remain anonymous for security reasons		
Closed Clubs: Financing restricted to startups in the family circle		
Lack of an entrepreneurial financing network	DISARTICULATED ENTREPRENEURIAL FINANCING NETWORK	
Lack of regulatory frameworks and policies to support ent. financing		
Lack of articulation among the nascent entrepreneurial support org.		
Entrepreneurs do not understand BAs´business model	DISCREPANCY IN THE EXPECTATIONS OF ENTREPRENEURS AND POTENTIAL BAs	
Poor education in business and finance		
Subsistence startups without innovation or scaling-up potential		
Seed-capital programs foster a culture of lack of accountability		
An actor with a motivation beyond profit-seeking	BRIDGING BROKERAGE ACROSS STRUCTURAL HOLE	INSTITUTIONAL WORK
An actor with strong ties to the wealthy families		
An actor with contacts within the entrepreneurial community		
Linkage between non-elite entrepreneurs and wealthy individuals		
Development of BAs networks with friends and acquaintances	DEVELOPMENT OF NETWORK OF COMMITTED BAs WITH A MOTIVATION BEYOND FOR-PROFIT	
Members are interested in their nations economic development		
Not only investors but business coaches & networking enhancers		
Local network grows through references among members		
IDB supports the creation of a regional network of BAs		
References through regional network increase investment matching		
Pipeline development as there are not "investment ready" ent	DEVELOPMENT OF ENTREPRENEURS´ SCALING-UP & ACCOUNTABILITY CULTURE	
Institutional ent. create incubators, accelerators, co-working spaces		
Mentoring for the development of a scaling-up mindset		
Development of accountability culture		
Wealthy individuals have a close relationship with the broker		MECHANISMS TH

Ent. recognize that broker has good intentions and wants to help	TRUST BONDS BETWEEN ACTORS FROM DISCONNECTED NETWORKS	
Brokers mediation creates a trusted environment for wealthy ind.		
Entrepreneurs understand BAs´ entrepreneurial financing model	CONSTRUED SHARED EXPECTATIONS	
Entrepreneurs recognize the high risk of early-stage investment		
BAs are willing to coach, provide networking, and face a potential loss		
Brokers link parties only until entrepreneurs "are ready"		

3.3.4 Results

From the grounded evidence and substantive theories, we propose a model explaining access to entrepreneurial financing in developing countries. **Figure 6** presents the relationships among the second-order themes connected using the social capital dimensions as “theoretical glue.” The model helps to explain how investors and other actors addressed three barriers restricting access to entrepreneurial financing through three activities that enabled two mechanisms that facilitated the linkage between actors of disconnected networks. Following, evidence and detailed explanation of the model are presented.

Figure 6. Model of Access to Entrepreneurial Financing in Developing Countries



Structural hole between non-wealthy entrepreneurs and wealthy potential BAs

The first barrier is related to the structural dimension of social capital. Various interviewees highlighted the disconnection between entrepreneurs and investors as one of the leading barriers for obtaining funding. The interviews provide evidence that there is as much need for financing as appetite for investment, but the "worlds" of entrepreneurs and investors are disconnected.

> *"The ecosystems are fragile and weak, but their biggest void is the disconnection between investors and entrepreneurs. The problem is not the lack of financial resources or entrepreneurial skills[...] The problem is that the worlds of entrepreneurs and investors are disconnected. There is no way to bring them all to the table." (*Interviewee #24).
>
> *"After you come up with a super idea, how do you get to the person who is going to finance it? because nobody has a sign on their head that says ´I will give you the money´" (*Interviewee #21).
>
> *"Many entrepreneurs in Latin America have what the investors want; simply, the two groups do not know each other" (*Interviewee #19).

The interviewees said that there were BAs in Central America; however, only entrepreneurs close to the wealthy families could reach them. One of the interviewees mentioned that entrepreneurial financing in Central America worked as "Closed Clubs" where only young generations of wealthy families can enter. According to him, there was not a bridge between such families and non-wealthy entrepreneurs:

> *"Wealthy families operate in a closed manner; the new generations have business ideas which are different from the families´ established companies. These ideas are financed with the capital generated by the previous generation. So early-stage financing becomes a ´Closed Club´ issue. There is no connection, no bridge connecting entrepreneurs with these wealthy families"* (Interviewee #6).

According to the interviewees, BAs only invested in ventures of acquaintances due to security reasons, given the extortion and organized crime situation in Central America:

> *"Some wealthy individuals, who for security reasons do not make themselves known, occasionally invest in ventures of friends or close acquaintances"* (Interviewee #12).

Disarticulated Entrepreneurial Financing Network

The second barrier is related to the relational dimension of social capital. Some interviewees asserted that due to the embryonic state of the ecosystems, there was no entrepreneurial financing network linking BAs, VCs, and incubators/accelerators. They mentioned that there were several institutional deficiencies, such as the lack of regulatory frameworks and policies, which hindered the creation of an entrepreneurial financing market.

> *"(Program´s name) sought to address some voids in the Costa Rican entrepreneurial ecosystem and was financed by the (second-tier development bank) investment fund. One of those voids was the lack of a BAs network"* (Interviewee #14).
>
> *"The early-stage financing market is underdeveloped. Developing such market should be the role of the government. However, governments are not investing enough and do not have policies to create a market that facilitates the connection between investors and entrepreneurs"* (Interviewee #19).
>
> *"Costa Rica has investors with significant capital, but it lacks an adequate regulatory framework. The Stock Exchange tried to create an alternative financial market for SMEs, but it did not work [...] Entrepreneurial financing needs to mature and deepen a lot. Maybe the creation of local or regional investment networks could be an option"* (Interviewee #29).

The interviewees asserted that different support programs for entrepreneurs were emerging from both public and private initiatives; however, there was a lack of articulation between the different initiatives, a role in which government agencies could help:

> *"In El Salvador, there are outstanding entrepreneurs, but there is not an entity that articulates and creates synergy among all the emerging initiatives" (*Interviewee #21).
> *"Beyond mapping the ecosystem, Guatemalan government agencies should articulate and link the different initiatives [...] As the ecosystem begins to emerge naturally, the government must rush to articulate such initiatives such as one would do on a chessboard" (*Interviewee #9).

Discrepancy in The Expectations Of Non-Wealthy Entrepreneurs and Potential BAs

The third barrier is related to the cognitive dimension of social capital. One of the problems that restricted access to entrepreneurial financing was that entrepreneurs did not understand BAs expectations and business model. According to the investors, most of the startups in Central America did not have the scaling-up potential they were looking. Furthermore, they said that some entrepreneurs thought that BAs worked like banks and failed to understand the specialized language used by investors (e.g., exit, due diligence, teaser):

> *"We looked for projects with scaling potential, but it was tough to find them. Most of the projects we financed were from necessity entrepreneurs. The projects were consistent with the entrepreneurs´ subsistence motivation: they lacked innovation"* (Interviewee #9).
> *"Entrepreneurs tell investors: ´I want US$10,000 and offer to pay you the money back.´ They still see them BAs as banks and fail to understand how angel investment works"* (Interviewee #4).
> *"We (investors) ask them (entrepreneurs) for a teaser, but they do not know what a teaser is, and that is why we ask them to send us a non-confidential executive summary. [...] They believe that our fund provides debt, but our fund gives equity"* (Interviewee #31).

The interviewees suggested three causes for the mentioned barrier. The first one was the entrepreneurs´ poor education. According to the interviewees, the entrepreneurs had severe deficiencies in accounting, finance, human resources, and time management. Some of the capital providers asserted that they had to invest significant time in training entrepreneurs. However, in their opinion, tertiary education providers should address that deficiency.

> *"Entrepreneurs have serious deficiencies […] in human resources, accounting, and time management issues […] I believe that the cause of these problems is that the education in the country is bad […] When we analyzed their poorly prepared financial statements, w96e thought: we are going to have to train them"* (Interviewee #25).

Secondly, interviewees asserted that most entrepreneurs did not have a scaling-up mindset. According to them, entrepreneurs did not have a global approach but instead focused on the small local markets. Also, the projects lacked innovation and were related to basic industries such as handicrafts.

> *"To get access to financing, firstly, there is much work to do on the side of entrepreneurs. We have to train entrepreneurs and change their mindset because, especially in El Salvador, we have a low collective self-esteem: we do not believe that anything is possible. Entrepreneurs must have a global approach to convince an investor. If you came to me with an ′app′ that solves a problem in El Salvador, I would not fund you as I am not interested in such a small market" (*Interviewee #21).

Thirdly, interviewees asserted that government agencies and organizations that promote social entrepreneurship foster an unaccountability culture. They affirmed that some government programs provide seed capital without demanding anything in return. Moreover, some social entrepreneurship programs foment the misconception that social impact is a sufficient argument for obtaining financing:

> *"Entrepreneurs do not have a culture of accountability. The lack is due to the various business plans contests promoted by government agencies, which grant seed capital without demanding anything in return. The lack of early-stage investment culture hinders financing"* (Interviewee #4).
>
> *"There are organizations such as (International cooperation agency) that try to encourage entrepreneurship, especially social*

> *entrepreneurship, and measure results only by the number of people positively affected. We realized this practice left a misunderstanding of what entrepreneurship is"* (Interviewee #25).

Some interviewees argued that investors also have a misconception about early-stage financing. According to the interviewee #6, some investors sought to obtain full control of the companies, and in extreme cases steal the business idea of the entrepreneurs. Such attitude had generated an atmosphere of distrust among the entrepreneurs, many of whom avoided business model competitions for fear that investors would take away their ideas. An official of the Ministry of Economy of Guatemala commented how a government initiative failed precisely due to entrepreneurs and BAs´ misconception of entrepreneurial financing:

> *"In 2011, we carried out a program of BAs that unfortunately did not work because there was ignorance on that part of investors and entrepreneurs. On the one hand, the entrepreneurs did not know the different types of investment vehicles and capital structures that could be used to incorporate investors in the business. On the other hand, many of the BAs turned out to be not-so-angels: they acquired large equity stakes, with unfavorable valuations for entrepreneurs. Moreover, several of them ended up taking over the whole business. Investors failed to fully understand what it means to be an angel"* (Interviewee #8).

Institutional Work Addressing the Entrepreneurial Financing Barriers

The interviews provided evidence of three institutional activities addressing the entrepreneurial financing barriers in Central America. Such institutional work was carried out by former investment bankers and wealthy businesspersons who sought to improve the economy of their countries by supporting high-growth entrepreneurship. Initially, they sought to invest in local ventures but then realized that they had arrived too early. Given their motivation beyond profit-seeking, they "rolled up their shirts" and decided to carry out activities aimed at strengthening the institutions related to entrepreneurial financing. Firstly, they created entrepreneurial support organizations where they induced in entrepreneurs a scaling-up and accountability culture. Secondly, they fostered the creation of local

BAs networks. Thirdly, they served as bridging brokers to connect non-wealthy entrepreneurs with BAs.

Development of Entrepreneurs´ Scaling-Up & Accountability Culture

Several of the interviewees affirmed that initially, they had been investors attracted by the idea that in Central America many startups could not scale-up due to lack of financing. After looking for investment opportunities, the former-investors realized that there was not such a pipeline of ventures with scale-up potential ready to receive investment. Those agents with a motivation beyond profit-seeking decided to develop the pipeline, creating entrepreneurial support organizations:

> *"Finding a pipeline in the region is complicated because in Central America there are few companies ready to receive investment [...] We are investors, and we do many activities to strengthen the entrepreneurial ecosystem to have more startups in which to invest eventually. In 2012 and 2014, we opened two coworking spaces [...] In 2016, we started working on ´bootcamps´ and an acceleration program for early-stage entrepreneurs"* (Interviewee #22).

According to the interviewees, the entrepreneurial support organizations sought to address two deficiencies. The first one was the lack of a scaling-up mindset. The mentioned initiatives sought to improve business models and train entrepreneurs in matters of strategic planning and sales:

> *"When entrepreneurs entered the program, they only had the prototype; they had no clients or business planning. During the first months, we focused on orientating the inexperienced entrepreneurs, establishing the target market, and doing research on whether the product solved the problem they had established.[...] Then, the prototype was refined, and the business model was developed using the lean business canvas.[...] Inside the incubator, we have a sales and marketing specialist, who assists entrepreneurs: he generates leads from potential clients and tracks sales* (Interviewee #18).

Interviewees mentioned that these programs also sought to fill the educational deficiencies of the entrepreneurs and induce on them an accountability culture. For that reason, they trained entrepreneurs in accounting, legal, fiscal, and corporate governance issues.

> *"In conjunction with (Undisclosed Think Tank), we organized a couple of conferences where we trained entrepreneurs in finance and strategy. Also, we had a group of young lawyers, also entrepreneurs with small law firms, who provided training in legal matters"* (Interviewee #25).
> *"The program includes advice, training, linkage with financing providers, and activities aimed at developing an accountability culture among entrepreneurs."* (Interviewee #2).
> *"All those (startups) that have gone through (Undisclosed program) adopted corporate governance practices, improved their business models, and attracted the attention of investors"* (Interviewee #11).

Development of a network of committed BAs with a motivation beyond for-profit
Some interviewees mentioned that before connecting entrepreneurs with investors, they used their family and professional networking with wealthy people to form local BAs networks:

> *"(Undisclosed name) called a group of friends, myself included, and we formed the first board of directors of (BAs network): a group of businesspersons who thought that in Panama we needed to promote and help entrepreneurship by providing financing to young entrepreneurs"* (Interviewee #20).
> *"We formed a network of 40 investors; about two-thirds were from Costa Rica and the rest from outside. We knew most of them through our personal and social networks, and a minority was referred by members who thought that their friends met the requirements"* (Interviewee #14).

A second-tier development bank also noted the lack of an entrepreneurial financing network in Central America and has encouraged the creation of local BAs networks and the articulation of such networks in a regional platform. This platform sought that BAs shared knowledge and investment opportunities:

> *"(Interviewee #14) participates in one of our programs, called ′Platform to catalyze early-stage investments.′ It is a Latin American platform where we work with different national and regional networks of angel investors, mainly to share lessons learned and investment projects"* (Interviewee #10, Executive of a second-tier development bank).

Interviewees provided evidence of an incipient network of accelerators and capital providers that begins to derive investment opportunities among members.

> *"We are part of different organizations and have partnerships with accelerators and other investment funds, so we are part of this network of networks that are constantly sending us investment opportunities. We analyze them, and when we find something that is convenient for us, we contact them. Then, there is a constant flow of ventures looking for investment"* (Interviewee #22).
> *"When we discard a good project because it does not comply with our guidelines, we ask the entrepreneurs for permission and refer it to a friend fund. We say them: maybe this fund is interested in what you are doing"* (Interviewee #31).

Bridging Brokerage Across Structural Holes

Interviews provided evidence of seven bridging brokers connecting entrepreneurs with BAs networks (Interviewees #14, 15, 16, 17, 20, 21, and 24). We found a pattern among this agents: Firstly, these brokers had a beyond profit-seeking motivation and were interested in improving the economies of their respective countries by fostering high-growth entrepreneurship. Secondly, they had strong ties with the wealthy families of the region, either because they were members of these families or because of professional/business relationships. Thirdly, they were directly or indirectly connected with the community of entrepreneurs. The brokers interviewed asserted that after helping to create networks of BAs, they connected them with the entrepreneurs who had already gone through an incubation/acceleration program. In most of the cases, brokers asserted they were directly related to such programs. In other cases, they made partnerships with actors related to entrepreneurial support organizations:

"(Brokerage firm) is like angel investment. Firstly, (Brokerage firm) helps entrepreneurs to improve their business model. Then, if they have an interesting business model, we put them in touch with investors" (Interviewee #15).

"The problem with (Incubator) was that when entrepreneurs finished the program, they did not have access to finance. On the one hand, we were a group of businesspersons that wanted to help entrepreneurs by providing financing. On the other side was the incubator with the pipeline of entrepreneurs [...] We knew (name of the incubator's director) as Panama is small and because we both studied at (Name of business school)" (Interviewee #20).

The interviewee #33 commented on how the organization of interviewee # 14 connected him to a network of BAs who invested in his company. He also provides evidence about the generation of a direct link between the entrepreneur and the BA:

"Accessing investors is difficult for a middle-class entrepreneur who is just beginning. Now, entrepreneurship is in vogue, and there are accelerators like (Organization of Interviewee #14). However, some years ago the investor ecosystem was not as organized as it is now [...] (Organization of Interviewee #14) supported me before introducing me to investors. They significantly helped me with the ′pitch′ and business model. I ′pitched′ to their BAs network, and some of them invested in my project. (Organization of Interviewee #14) got some shares as compensation for their work. I keep contacting them when I have doubts about strategic issues, and occasionally, I still use their offices" (Interviewee #33).

Mechanisms that facilitate access to entrepreneurial financing

The three activities described enabled two mechanisms that facilitated access to entrepreneurial financing: construed shared expectations and trust bonds between actors of disconnected networks. Below, we explain and provide evidence on how these mechanisms improve access to entrepreneurial financing.

Construed Shared Expectations

The first mechanism, "construed shared expectations," is related to the cognitive and relational dimensions of social capital. The mechanism is defined as the development of a common understanding of critical aspects that make actors believe that counterparts will act for mutual benefit. Such tacit reciprocal commitment allows the creation of trust bonds between actors of disconnected networks. The critical aspects include an accountability and scaling-up mindset from the side of the non-wealthy entrepreneurs and a genuine interest in support startups as a minority investor from the side of the BAs.

The institutional work described above helped to construct such shared expectations on the actors of both disconnected networks. The entrepreneurial support organizations fostered the culture of accountability and scaling-up mindset of non-wealthy entrepreneurs. The change of mindset allowed entrepreneurs to understand the level of risk assumed by the BAs when investing in their start-ups. An entrepreneur who participated in the acceleration program of Interviewee #14 commented:

> *"Before meeting (Interviewee # 14), I did not understand what entrepreneurial financing was. I am a 42-year-old civil engineer and wanted to be an entrepreneur since I was young. However, I never had formal training in entrepreneurship and did not know anything about raising capital and firm valuation. These concepts are in vogue now, but you did not listen about them 25 years ago [...] Shareholders take all the risk in the initial rounds; therefore, it is fair that they choose the investment instrument that suits best for them. As an entrepreneur, I would like to choose what is best for me, but this would not be fair for the level of risk assumed by the investor"* (Interviewee #33).

At the same time, the institutional work helped to construct a tacit reciprocal commitment from the side of investors. The BAs network was formed only with those investors who fulfilled a specific profile: they must have financial resources, have a genuine interest in supporting entrepreneurs, and feel comfortable in a minority investor position. Such characteristics were aimed at generating trust in entrepreneurs. Interviewee #14 explains the characteristics that he looked for in the potential BAs of the network that he formed:

> *"A network of angel investors in an emerging market is something completely new. We look for investors with sufficient assets so that such a risky investment would not significantly impact their finances. They must have experience in high-risk investments such as startups or private equity, or at least as minority investors. They must feel comfortable not having total control over the firm. Also, they must have a genuine interest in supporting startups in commercial aspects and networking. They have to be willing to coach entrepreneurs in order to increase their investment´s value and mitigate risks in areas in which they have expertise"* (Interviewee #14).

The construed shared expectations foster trust bonds and long-term relationships between the non-wealthy entrepreneurs and investors. Firstly, a scaling-up mindset facilitates the alignment of interests between entrepreneurs and investors: both want to scale-up and generate significant returns that offset the high investment risk implicit in startups. Secondly, an accountability culture improves the relationship and fosters information sharing between both parties: entrepreneurs will be more receptive to get feedback and more eager to share periodic results with investors. Thirdly, BAs´ motivation beyond profit-seeking and genuine interest in supporting startups as a minority investor gives entrepreneurs confidence that BAs will not just take their ideas. Some interviewees asserted that the necessary conditions for linking non-wealthy entrepreneurs with investors were generated only until the institutional actors aligned the expectations of both groups:

> *"We could not find entrepreneurs with high-growth potential, so we had to develop their ideas from scratch before introducing them to investors"* (Interviewee #15).
>
> *"After addressing the problems of entrepreneurs and earn their trust, we were ready for the next phase: integrate investors and mentors in our model. If you only have the entrepreneurs without the committed investors, the model does not work"* (Interviewee #19).

Bonds of Trust Between Actors of Disconnected Networks

The second mechanism is related to the relational and structural dimensions of social capital. The mechanism contains two critical aspects. The first aspect, "actors of disconnected networks," emphasizes the role of the institutional actors as a bridging broker, who builds a link over a structural hole. The second one, "trust bonds," implies that the relationship is not merely a transfer of funds from investors to entrepreneurs but importantly a close and long-term partnership.

The construction of this bridge of trust over the structural hole was possible thanks to the previous institutional work. The bridging brokers built bonds of trust within both disconnected networks and then used this close ties to foster a nascent link between the actors of such networks. On the investors' side, the brokers already had strong ties within the network as in most cases they were wealthy individuals. In one of the cases (e.g., Interviewee #14), the broker acquired such strong ties from his previous job interactions as an investment banker.

Brokers also established strong ties within the non-wealthy entrepreneurs´ network. They directly collaborated in the formation of co-working spaces, accelerators, and incubators and gained the entrepreneurs' trust. Many of the entrepreneurs distrusted in participating in business plan contests for fear that the investors would steal their ideas. However, the brokers managed to demonstrate to the entrepreneurs their good intentions, and their implicit socio-economic development motivation in supporting potential successful ventures:

> *"We are not investors; we invest in people. We have iterated and improved our services for entrepreneurs, which helped us to earn their trust. When the entrepreneurs talk to each other, they say: you can trust in (organization of Interviewee #19) because they want entrepreneurs to be successful"* (Interviewee #19).

Once brokers established strong links within the non-wealthy entrepreneurs and BAs networks they served as a bridge of trust to generate a nascent link between actors from such networks. One of the interviewees, a broker, BA, and former social entrepreneur mentioned that both investors and entrepreneurs felt trust when she established the link between both parties. Such feeling was so due to the bonds of trust that she had built in both networks:

> *"Entrepreneurs trust me because they know that I was an entrepreneur and understand them. Also, investors believe me when I present them an investment opportunity because they know me. So, I believe that this bridge generates trust between people from two disconnected worlds"* (Interviewee #24).

3.3.5 Discussion

The primary purpose of this study was to better understand how the institutional work carried out by investors and other actors address the barriers that restrict access to entrepreneurial financing in developing countries. The characteristics of some developing countries, such as structural holes (Woolcock & Narayan, 2000) and weak institutional environments that foster necessity entrepreneurship (Amorós et al., 2017), represent barriers in the structural and cognitive dimensions of social capital. Such barriers reduce the explanatory power of the theories established in the entrepreneurial financing literature, which assume that entrepreneurs have access to a well-structured network of close and weak ties (Seghers et al., 2012; Scott Shane & Cable, 2002; Uzzi, 1999). Even studies in developing countries fail to explain access to financing for non-wealthy entrepreneurs without connections (Batjargal & Liu, 2004; Talavera et al., 2012). Previous authors have highlighted the institutional entrepreneurship role assumed by venture capitalists in developing countries, but without explaining how their institutional work improved access to entrepreneurial financing (Bruton et al., 2009). Therefore, our understanding of such mechanisms needs theoretical development.

The study identified three main barriers that hinder access to early-stage funding in developing countries: structural holes between non-wealthy entrepreneurs and potential BAs; disarticulated entrepreneurial financing networks; and discrepancies in the expectations of the actors at both sides of the hole. The paper described three activities carried out by wealthy businesspersons and former investment bankers to address the mentioned issues. The mentioned actors sought the economic development of their countries through the spillover effect of entrepreneurship. Due to the institutional deficiencies in their countries, they assumed an institutional entrepreneurship role (Bruton et al., 2009), developing entrepreneurial support organizations, BAs networks, and bridging brokerage firms.

The study explains how the mentioned institutional activities enabled two mechanisms that improved different social capital dimensions, facilitating access to entrepreneurial financing (Nahapiet & Ghoshal, 1998). In the cognitive/relational dimension, the institutional work fostered the construction of shared expectations between non-wealthy entrepreneurs and BAs. The shared understanding facilitated the linkage of actors who previously distrusted one another. In the structural/relational dimension, investors and businessperson assumed a briding broker role, fostering the formation of strong ties between the actors of disconnected networks. Below, the two contributions of the study to the theory of social capital are elaborated.

Construed Shared Expectations

The proposed concept "construed shared expectations" adds to social capital theory by illuminating the causal relationship between the cognitive and relational dimensions among actors from disconnected networks. As noted by Jonsson and Lindbergh (2013), scholars have investigated in depth the relational dimension, but our understanding of the cognitive one needs further development. Albeit to a limited extent, previous research has found some evidence of the causal relationship between the cognitive dimension and one of the forms of relational social capital: trust and trustworthiness (Fukuyama, 1995; Putnam, 1995). For instance, a shared company vision among employees within multinational companies leads to trust and trustworthiness among them (Tsai & Ghoshal, 1998). The findings of this paper indicate that a shared understanding of the entrepreneurial financing key concepts and a tacit reciprocal commitment are prerequisites for the formations of trust bonds between entrepreneurs and investors from different social classes. The suggestion is a causal relationship between the cognitive dimension and another form of social capital classified by Nahapiet and Ghoshal (1998) in the relational dimension: obligations and expectations (Coleman, 1988).

This study proposes an explanation for the creation of expectations and trust among disconnected network actors, which differs from the established theory. According to Coleman (1988:107), network closure is instrumental for the existence of norms and trustworthiness that allow "the proliferation of obligation and expectations." Instead, this study argues that in the case of disconnected networks, the causal relationship between expectations and trust goes in the opposite direction. That is to say; the construed shared understanding lays the foundations for a reciprocity commitment that precedes the formation of the bond of trust (see **Figure 7**).

Figure 7. Effects of Cognitive Social Capital in the Formation of Relational Social Capital Between Actors from Disconnected Networks

The grounded evidence underpins the argument above: As entrepreneurs and investors belonged to disconnected networks, there were no norms, trust, or common understanding between them; an external actor was required to reconcile the misconceptions and *construct a common understanding*. On the one hand, after their training in the entrepreneurial support organizations, non-wealthy entrepreneurs understood the level of risk associated with startups and the high return rate expected by the BAs. In exchange for such rate, they expected that the BAs would support them without attempting to take full control of the startup.

On the other hand, BAs networks were formed exclusively with wealthy individuals interested in the economic development of their countries and willing to add value to the entrepreneurs without taking full control of the startup. In exchange for their financial resources and coaching, the BAs expected that the non-wealthy entrepreneurs would be accountable and develop scalable business models that would compensate for the level of risk assumed. The evidence suggests a *tacit reciprocal commitment* that was absent prior to the institutional work carried out by investors and businesspeople. The necessary conditions for the construction of the *bond of trust* between the disconnected network actors were generated only until both parties perceived that their counterparts were willing to meet their expectations.

Information Gatekeepers Vs. Bonds of Trust Architects

The proposed model also contributes at the intersection of the structural and relational dimensions of social capital by extending Burt´s (1992, 2001) bridging brokerage mechanism. Previous research in structural holes theory emphasized the role of the bridging broker in knowledge transfer across the hole (Ahuja, 2000;

Inkpen & Tsang, 2005; Reagans & McEvily, 2003). Contrarily, the bridging brokers in the proposed model are not information gatekeepers but architects of the bonds of trust between actors of disconnected networks.

According to Burt (1992), structural holes create a competitive advantage for an individual whose networks span the hole. Such gap is "an opportunity to broker the flow of information" and "control the projects" across the disconnected networks (Burt, 2001:208). In the proposed model, brokers have a motivation beyond profit-seeking and are not interested in controlling the flow of information and projects. They want to create a direct link between people from opposite sides of the hole. To achieve this goal, brokers generate bonds of trust with the members of each of the networks (Smith & Lohrke, 2008), and then they use such bonds to mediate the nascent link between the formerly disconnected network (Levin & Cross, 2004). The extension of the said mechanism together with the "construed shared expectations" have relevant implications for the understanding of entrepreneurial financing in developing countries, as elaborated below.

Implications for the Entrepreneurial Financing Literature

Previous entrepreneurial financing research emphasized the relational dimension of social capital and assumed that entrepreneurs could access distant nodes in a well-structured network, notwithstanding their social status (Seghers et al., 2012; Scott Shane & Cable, 2002; Uzzi, 1999). Even research in non-developed countries emphasized the explanatory power of connections and trust, but without explaining their construction among disconnected network actors (Batjargal & Liu, 2004; Talavera et al., 2012).

This study explains how structural holes, abundant in developing countries, limit access to financing especially for those non-wealthy entrepreneurs without connections in the isolated networks of wealthy families, the potential BAs. Moreover, the extension of the bridging brokerage mechanism proposed by this study is useful to understand the construction of trust bonds over the structural holes, which allowed investment matching between disconnected networks. Such extension is instrumental given the importance of the bonds of trust in the BAs` decision-making process (Bammens & Collewaert, 2014; Maxwell & Lévesque, 2014). Future research could test the explanatory power of this extended mechanism by comparing the effect of bridging brokers on BAs´ deal selection in sub-samples of developed and developing countries.

The second mechanism proposed by this study, namely "construed shared expectations," also helps to answer the mentioned question. According to Lam (2010), scholars have explored access to entrepreneurial financing focusing on the supply side and from a positivist perspective, assuming that the "funding gap" is something that exists out there and must be filled. An exception to this trend is the study of Mason and Harrison (2001), who explained the shortcomings in demand for entrepreneurial capital, arguing that many of the entrepreneurs lack "investment readiness." Due to their restricted perspectives, previous studies addressing similar questions from the supply and demand side overlooked the marked cognitive barrier in developing countries between necessity entrepreneurs and "not-so-angel" investors. The proposed construct offers an explanation that takes into account the cognitive discrepancies between both parties.
Future research in developing countries could apply the proposed cognitive-relational mechanism in entrepreneurial financing topics. The effects of government programs aimed at economic development through entrepreneurship have been sharply criticized (Scott Shane, 2009). The proposed mechanism could explain why some of these programs are successful and others are not. Future research could test the explanatory power of the proposed concept as a mediator between the mentioned programs and access to early-stage financing. Moreover, "construed shared expectations" could underpin hypotheses related to the effects of accelerators and incubators on investment matching in developing countries, extending the findings of previous research (Dutt et al., 2016; Gonzalez-Uribe & Leatherbee, 2017).

Limitations and Future Research

Although this study is based on rich qualitative data, it has a geographic focus limited to Central America. The structural hole in several of the Central American countries can be stronger than in other non-developed countries due to the colonial heritage, processes of class struggle, and the current situation of gangs and organized crime in some of the mentioned countries. Another limitation of the study is related to the snowball sampling process. This process began with the director of an entrepreneurship center at a business school, who then provided contacts from the Alumni network. Although 19 of the 33 interviewees were outside of this Alumni network, we recognize that the mentioned starting point may have biased the results. Future studies could address these limitations and investigate similar research questions in other developing countries in Asia and Eastern Europe, starting their snowball sampling with root-level actors.

As argued by Gioia et al. (2013), a reasonable question arises concerning the transferability of grounded theory models to broader domains. However, the proposed mechanisms could have some explanatory power even in developed markets, where structural barriers and economic inequality mean that many good ideas lie fallow because nascent entrepreneurs neither have the means nor the networks necessary to pursue them. Future research could evaluate the model´s explanatory power by studying access to entrepreneurial financing in, for example, the Latino communities in the United States, or in the nascent refugee community in Western Europe.

Although far from its original aim, the current study could serve as a starting point for the development of a model explaining how entrepreneurial ecosystems arise in developing countries. Previous research in developed markets suggests that such ecosystems emerge around innovation centers, such as Universities and anchor companies, when successful spin-offs attract the interest of investors (Mack & Mayer, 2016). Contrarily, the results of the current paper highlight the institutional work carried out by investors and other actors in developing markets, who seek to construct "artificial" ecosystems to foster the economic development of their countries. This insight could motivate future research in this nascent stream of the entrepreneurship literature.

Implications for Practice

In addition to the theoretical contributions, the current study has practical implications for various actors interested in improving access to financing in developing countries. Firstly, universities could help to construct proper shared expectations between entrepreneurs and investors by impregnating an accountability and scaling-up mindset among their students. Secondly, government agencies with seed capital programs could reinforce the projects´ follow-up and change policies to foster an accountability culture in entrepreneurs. Finally, agents with strong ties in the networks of wealthy families and non-wealthy entrepreneurs could exploit this source of competitive advantage by serving as bridging brokers between disconnected networks.

3.3.6 Conclusions

The current study contributes to the theoretical development of entrepreneurial financing in contexts with structural holes and weak institutions. Most of the previous research has addressed the funding gap issue from a positivist and supply-side perspective. From a dual supply/demand and social construction perspective, this study has extended and complemented mechanisms of the social capital theory. These contributions have implications for the entrepreneurial financing literature, opening promising research opportunities.

4. PAPER III

Venture Capital Decision-Making in Weak Institutional Environments

Carlos Martinez

4.1 Abstract

This paper aims to explore venture capital (VC) decision-making in weak institutional environments. The study has a qualitative and inductive approach and analyses how an environment with strong institutional voids affects the pre-investment decision-making process of VC fund managers in Central America. Countries in such region provide a proper "laboratory" to address the research question as they have weak institutional environments and low VC attractiveness indices. A grounded model is presented describing the institutional voids exacerbating adverse selection, liquidity risk, and moral hazard and the respective activities used by venture capitalists (VCs) to mitigate such risks. The study contributes to the literature on security design in VC contracts by explaining how VCs use security selection and capital structure to cope with the risks derived from weak institutional environments. This contribution sheds light on the discussion regarding the designation of convertible securities as the optimal investment vehicle for ventures. In addition to the mentioned contributions, the study has practical implications for governments and stock exchanges.

4.2 Submissions to Conferences and Journal

Paper III shares the same qualitative database as Paper II. The difference is that Paper III analyzes the decision-making process of Venture Capitalists in depth, while Paper II prioritizes the institutional work of actors interested in improving access to entrepreneurial financing. Paper III was accepted to be presented at the McGill Conference hosted by Halmstad University (Sweden). Paper III was presented at the doctoral colloquia "Publication Skills: From Good Research to Success with Academic Journals" as part of the dissertation phase of the doctoral program. In the colloquia, Professor Steven Floyd and colleagues gave me valuable recommendations that I incorporated in the version presented in this document. Additionally, Paper III was accepted in the specialized conference of the Academy of Management: “From Start-up to Scale-up” to be held in Israel on December 18-20, 2018.

Initially, the paper lacked a clear focus and aimed to describe all the effects of the institutional voids in the VC pre-investment decision-making process. However, several of these effects had already been established in previous studies (Ahlstrom & Bruton, 2006a; Bruton et al., 2009). For this reason, I decided to frame the contribution on a recent call for more context-specific research related to VC security selection (Burchardt et al., 2016). Professor Floyd was honest and recommended I submit the paper to a Journal focused on emerging markets where the potential contribution could be appreciated. According to him, the "big" Journals are not interested in phenomenon-driven research. Aware of the low probability of being accepted, I submitted Paper III to Venture Capital: an International Journal of Entrepreneurial Finance. I hope to receive constructive feedback that will help me to continue developing the paper. After submitting, Professor Colin Mason (University of Glasgow, UK) sent me an acknowledgment message, and I am still waiting the decision and feedback. If rejected, I will submit the paper to the Journal of Entrepreneurship in Emerging Economies.

4.3 Manuscript

4.3.1 Introduction

Emerging markets are characterised by weak institutional environments that hinder the activities of Venture Capitalists (VCs). Some of these countries lack the institutions required to facilitate exits through Initial Public Offers (IPOs) or to enforce the control and exit rights included in term sheets. Such deficiencies have not impeded VCs to seek investment opportunities in the mentioned markets, which according to a recent survey are of great interest to Limited Partners (Ernst&Young, 2017). However, VCs have had to adopt certain risk mitigation strategies to cope with the institutional voids of emerging markets. Their decisions regarding deal sourcing, screening, evaluation, and structuring differ from those of their peers from developed countries documented by previous research (e.g., Fried & Hisrich, 1994; Tyebjee & Bruno, 1984).

In the entrepreneurial finance literature, there is disagreement concerning the type of security preferred by VCs. Some authors designate convertible preferred securities as the optimal investment vehicle for ventures (e.g., Bergemann & Hege, 1998; Berglof, 1994; Marx & Simon, 1998; Schmidt, 2003; Trester, 1998). Other scholars assert that VCs mitigate agency risks by adequately designing contracts based on entrepreneurs' incentives, regardless of the type of security selected (e.g., Cumming, 2006; Cumming & Johan, 2013; Manigart, Baeyens, & Van Hyfte, 2002). Empirical studies have failed to offer closure to the discussion, and on the contrary, tend to show that the global preference for convertible instruments (54%) is significantly lower than in the United States (Kaplan, Martel, & Strömberg, 2007). Scholars asserted that such discrepancy could be explained by differences in institutional environments, market conditions, and tax regimes and made a call for more context-specific research (Burchardt, Hommel, Kamuriwo & Billitteri 2016). Partially responding to this call, this research seeks to address *Which institutions affect VC decision-making?*

The study uses a qualitative and inductive approach to investigate how a context with strong institutional voids affected the decision-making process of the last investment made by four VC managing partners in Central America. Another 29 actors related to entrepreneurial financing in Central America were interviewed in their capacity as "knowledgeable agents" of the context (Gioia et al., 2013). The countries in the region have a low VC country attractiveness (Groh et al., 2018) and a weak institutional environment (WEF, 2016). Thus, they provide an appropriate "laboratory" to evaluate the research question. Institutional voids are defined as the lack or poor functioning of regulatory systems, contract-enforcing mechanisms, and specialised intermediaries (Khanna & Palepu, 2000). The paper argues that institutional voids reduce VCs preference for equity and convertible instruments. In addition to difficulties for exiting through IPOs, weak regulatory systems and contract-enforcing mechanisms exacerbate the entrepreneur´s moral hazard during the equity exit process.

The paper proposes a model explaining how institutional voids exacerbate adverse selection, liquidity risk, and moral hazard risk. Also, it describes how the VCs cope with such risks through various activities used in the different phases of their decision-making process. Some of these activities, such as the relevance of the network of contacts in the origination phase and the preference for companies with trade-sale potential had already been mentioned by previous authors (Ahlstrom & Bruton, 2006; Bruton, Ahlstrom, & Puky, 2009). The current study contributes to the security design in VC contracts literature by explaining how VCs cope with the risks derived from weak institutional environments through the security selection and capital structure. This contribution sheds light on the discussion regarding the designation of convertible securities as the optimal investment vehicle for ventures by explaining why VCs experienced in US-style contracts use fewer convertible instruments in deals outside the United States.

The paper is organised as follows: Section Two defines key concepts and outlines the related literature. Section Three provides the research method, including the data collection and analysis. Section Four presents the findings from the qualitative analysis. Following such, Section Five proposes a middle-range model explaining VC security selection in contexts with strong institutional voids. Finally, Section Six presents implications for the entrepreneurial financing literature and practitioners, describes the limitations of the research design, suggests areas for further investigation, and summarises the main findings.

4.3.2 Literature Review

This section defines the fundamental concepts of the paper, namely, institutional voids and the risks faced by VCs from the perspective of the principal-agent framework. It also presents the two literature streams where this study is positioned: VC activity in emerging markets and VC security selection.

Institutional Voids and Principal-Agent Framework

Emerging markets typically suffer from institutional voids such as limited bureaucratic functioning or even missing institutions. Scholars define institutional voids as the lack or poor functioning of regulatory systems, contract-enforcing mechanisms, and specialised intermediaries (Khanna & Palepu, 2000). In recent years, the leaders of the emerging markets of Latin America, in particular, have gained interest in supporting entrepreneurial activities aimed at economic growth, prosperity, and wealth creation (Beck & Demirgüç-Kunt, 2008).

The support of entrepreneurship in emerging markets is difficult; however, as institutional voids undermine the actions of entrepreneurs and other market actors. Criminal environments, the limited rule of law, absent protection of patents, barriers to investment, high exportation costs, poor access to technology and knowledge, and time-consuming and expensive processes to formalise their venture each hamper entrepreneurial activity (Khanna & Palepu, 2010; London & Hart, 2004). Governments, International Non-Government Organisations such as the Interamerican Development Bank, investors, and entrepreneurs need to understand how institutional voids can affect entrepreneurial decisions to foster entrepreneurial ecosystems and individual ventures within these complex environments (Puffer et al., 2010; Stephan, Uhlaner, & Stride, 2015).

Institutional voids often exacerbate the information asymmetry between entrepreneurs and investors. The principal-agent framework has been widely used to study the VC industry mainly due to the information asymmetries between investors and entrepreneurs (e.g., Arthurs & Busenitz, 2003; Sapienza & Gupta, 1994). The two primary informational problems within the principal-agent framework are known as hidden information (asymmetric information), and hidden action (moral hazard) (Amit, Brander, & Zott, 1998; Bergemann & Hege, 1998). Asymmetric information problems exist when an agent is privy to something that the principal has not observed, which could lead to the selection of investments adverse to the interests of the principal. Moral hazard problems arise when entrepreneurs act inappropriately give themselves private benefits at the expense of the investors.

The limited partnership organisational structure has become the vehicle of choice in venture capital investments as it helps to mitigate information asymmetries and moral hazard problems (Gompers & Lerner, 1999). The trend is so because VCs have the time and expertise necessary to conduct due diligence in selecting investments and monitoring the start-up funds following the investment. Also, VCs have developed mechanisms, such as convertible instruments and staging, to mitigate the various agency risks inherent in the industry. Theoretical models have highlighted the advantages of convertible instruments over any combination of debt and equity by allowing VCs to exit the investment when it is efficient to do so (Cornelli & Yosha, 2003). Staged investments are also useful to address adverse selection and moral hazard problems as they induce entrepreneurs to disclose information truthfully and to align interests with VCs (Bergemann & Hege, 1998; Yong Li, 2008; Wang & Zhou, 2004).

The literature on VC activity is mature and previous studies have investigated the VC decision-making process, especially in developed countries (e.g., Fried & Hisrich, 1994; Guler, 2007; Hall & Hofer, 1993; Kirsch, Goldfarb, & Gera, 2009; Zacharakis & Shepherd, 2001). However, institutional voids in developing could exacerbate certain risks related to information asymmetries. Such voids could also undermine the effectiveness of the mechanisms, such as convertible instruments, used in strong institutional environments to mitigate the said asymmetries. Therefore, VC decision-making in contexts with strong institutional voids still requires exploration and theoretical development.

VC Activity in Emerging Markets

Although the VCs literature has emphasised research in the United States and Western Europe, some scholars have provided insights on how VCs operate in emerging markets, specifically in China. Using institutional theory, scholars argued that the differences on VC operations between developed and emerging markets respond, at least in part, to the weak institutional environment of the latter (Bruton & Ahlstrom, 2003). According to researchers, VCs operating in environments with weak formal institutions used social networks and other informal institutions to supplement them and built entrepreneurial support organisations (Ahlstrom & Bruton, 2006a; Bruton et al., 2009).

Empirical evidence from several studies suggests that the institutional environment significantly affects VCs' investment determinants. Groh and Wallmeroth (2016) explored the investment determinants of VCs in 118 countries with 78 being considered emerging markets. The pair found statistically significant differences in such determinants between the developed and developing countries. The results of other quantitative studies also suggest that formal institutions affect both the country-level volume of VC investment (Li & Zahra, 2012) and that the development of the legal environment affects VCs' screening (Cumming, Schmidt,

& Walz, 2010). Moreover, empirical evidence from China suggests that institutional trust mitigates the adverse effects of geographic and cultural distance in cross-border VCs investment from developed to emerging economies (Hain, Johan, & Wang, 2016).

Scholars of entrepreneurial financing literature have evidenced the effect of the institutional environment on investment selection and investment exit. Using data from 35 emerging markets, Johan and Zhang (2016) found that managing partners are more likely to successfully exit investments in countries with robust business and legal environments. Recognising the difficulties for IPOs in emerging markets, Wang and Wang (2017) developed a theoretical model and provided empirical evidence of buybacks as an efficient exit strategy in China.

Earlier studies have provided evidence on the effect of the institutional environment on the VC activity in emerging markets. However, these investigations have focused on exploring the factors, but not the causal mechanisms, of the mentioned relationship. With few exceptions (e.g., Ribeiro & De Carvalho, 2008; Silva, 2004), most investigation on VCs decision-making in emerging markets has been limited to China. However, there are other emerging markets with similar or even weaker institutional environments that could help scholars to understand the contextual effect on VC decision-making. The mentioned gaps are in line with the call of Kiss et al. (2012) for more research on "how" and "why" and" in under-investigated geographic regions in the literature of entrepreneurship in emerging markets.

VC Security Selection

The VC literature has widely addressed the question of how the choice of financial instruments gives rise to adverse selection problems. According to Burchardt et al. (2016), work in the area emerges in three streams: (1) seminal work that explains why different offers of securities attract distinct types of entrepreneurs, (2) theoretical work addressing how security design can be adjusted to mitigate agency problems, and (3) studies of how contract design is applied in practice.

Seminal work argues that entrepreneurial firms with low expected returns (or "lemons") are attracted to common equity as they face low opportunity costs of relinquishing ownership (DeMeza & Webb, 1987). Entrepreneurial firms with high variability in returns and high potential of value increase face high opportunity costs of giving up ownership and are attracted to nonconvertible debt and preferred equity (Stiglitz & Weiss, 1981). Firms with low variability in returns are attracted to convertible securities (Brennan & Kraus, 1987). The mentioned studies highlight that agency problems differ across entrepreneurs, who will prefer different contract offers based on their different risk/return profile.

From the seminal work, two theoretical literature branches arose. The first branch designates convertible preferred securities as the optimal investment vehicle for ventures (e.g., Bergemann & Hege, 1998; Berglof, 1994; Marx & Simon, 1998; Schmidt, 2003; Trester, 1998). The second branch suggests that convertible securities fail to be uniquely optimal (e.g., Cumming, 2006; Cumming & Johan, 2013; Manigart, Baeyens, & Van Hyfte, 2002). Authors of the second branch assert that VCs could mitigate agency risks, by adequately designing contracts based on incentives of the entrepreneur, regardless of the type of security selected.

Several empirical studies attest that convertible preferred equity is the most used financing instrument by VCs in the United States (Bengtsson & Sensoy, 2011; Kaplan & Strömberg, 2003; Sahlman, 1990; Trester, 1998). The mentioned preference was caused by the U.S. tax policies, as ventures using convertible-preferred equity can offer tax treatment on their incentive compensation payments to founders and employees (Gilson & Schizer, 2003). Contrarily, studies of investments of Western European VC funds revealed mixed evidence on the choice of investment vehicles and the distribution of control rights (Bottazzi, Da Rin, & Hellmann, 2008; Cumming, 2008; Hege, Palomino, & Schwienbacher, 2009). In the said region, common stock was used more than convertible preferred equity, followed by mixed debt equity and straight debt or straight-preferred debt. Using an international sample, scholars found that although most investments were financed with convertible preferred equity (53.8%), the global preference for this investment vehicle was significantly lower than in the United States (Kaplan et al., 2007). The latest study provides empirical evidence on the ability of experienced VCs to promote US-style contracts abroad.

Based on these findings, the securities choice explanation relates primarily to the nature and extent of agency problems rather than to different financial structures being used as functional equivalents. Such agency risk could be more relevant in environments with weak institutional environments. For example, the theoretical models that defend the advantages of convertible securities make the assumption that VCs can mitigate entrepreneurs` moral risk through contractual clauses, such as the right of the VC firm to sell parts of the allotted shares in an IPO (Bienz & Walz, 2010). However, the scenario would be improbable in contexts with incipient stock markets and weak contract-enforcing mechanisms, regardless of VCs experience in the implementation of US-style contracts abroad. For this reason, Burchardt et al. (2016) call for more context-dependent empirical work exploring the effects of institutional frameworks on security design.

4.3.3 Method

Based on the literature gaps mentioned, this study seeks to answer the question: *How do institutional voids affect VC pre-investment decision-making?* The study uses a qualitative and inductive approach to evaluate the question. Such an approach allows for the analysing of how an environment with strong institutional voids affects VC activity from the perspective of the "knowledgeable agents" (Gioia et al., 2013).

Data Collection

As the purpose of the research is to develop theory, not to test it, theoretical sampling is appropriate. The Central American countries provide an ideal "laboratory" to address the research question. On the one hand, such countries have a low PE/VC country attractiveness according to the ranking prepared by IESE Business School (Groh et al., 2018). The ranking considers relevant factors in VCs decision-making such as economic activity, size, and liquidity of capital markets, taxation, investor protection and corporate governance, the human and social environment, and entrepreneurial culture and opportunities.

On the other hand, the mentioned countries also have strong institutional voids that restrict the development of the entrepreneurial ecosystem (EE). According to the Global Competitiveness Indicators, the countries of Central America have a lack of or weak formal institutions providing reliable information, embryonic stock markets and investor networks, weak regulatory frameworks, concentration of wealth in a few powerful and politically connected families, and low level of property rights (WEF, 2016). Therefore, we selected VCs operating in these contexts because they were "unusually revelatory" and "extreme exemplars" of the phenomenon of interest (Eisenhardt & Graebner, 2007).

The unit of analysis of the study is the institutional environment in which the VC managing partners make their decisions. For this reason, the study analysed not only VC managing partners but also another 29 actors related to Central American entrepreneurial financing such as entrepreneurs; directors of accelerators, incubators and university entrepreneurship centres; officials from government and international cooperation agencies; and other entrepreneurial financing providers. **Table 9** presents the list of interviewees.

Although three additional self-declared VCs were interviewed, they were not analysed as such because their business model was more similar to that of bridging brokers and business angel investment funds. To be consistent with the structure and governance of VC organisations described in the literature (Sahlman, 1990), the current study takes as a unit of analysis only those VC firms where the functions of the managing and limited partners were defined clearly. The managing partners constructed and managed the portfolio whereas the limited partners provided most of the funds. Also, only those firms that managed funds with a defined investment and liquidation period were selected (e.g., 10-15 years).

Table 10. List of Interviewees (Paper III)

	ID	Description	Primary	Contacted	Date
Venture Cap	VC1	VC Managing Partner	Costa Rica	Telephone	18/8/2017
	VC2	VC Managing Partner	Guatemala	Skype	28/8/2017
	VC3	VC Managing Partner	Costa Rica	Skype	28/1/2018
	VC4	VC Managing Partner	Costa Rica	Telephone	29/8/2017
Entrepreneur	5	Entrepreneur	Costa Rica	Skype	4/5/2018
	6	Entrepreneur	El Salvador	Face-to-face	26/10/2017
	7	Former social entrepreneur and consultant	Guatemala	Skype	29/11/2017
	8	Entrepreneur (Coworking space)	Honduras	Skype	18/8/2017
	9	Entrepreneur (Coworking space)	Panama	Skype	25/8/2017
Expert of the local EE	10	Former Ent. and Entrepreneurship Center	Costa Rica	Face-to-face	16/8/2017
	11	Second-tier development bank executive	Costa Rica	Telephone	30/8/2017
	12	Consultant of an Int. Cooperation Agency	El Salvador	Skype	20/9/2017
	13	Former Entrepreneurship Center director	El Salvador	Skype	22/8/2017
	14	Deputy Minister of Economy	Guatemala	Skype	12/9/2017
	15	Entrepreneurship Professor and Consultant	Guatemala	Skype	23/8/2017
	16	M&A/PE Managing Partner	Panama	Telephone	12/9/2017
Incubator/Accelerator	17	Accelerator director and BA	Costa Rica	Skype	14/12/2017
	18	Director of a Coworkings space	El Salvador	Telephone	21/9/2017
	19	Accelerator director and BA	Guatemala	Telephone	1/9/2017
	20	BA, Director of a Coworkings space	Guatemala	Skype	7/12/2017
	21	Accelerator/Impact Investment fund	Guatemala	Skype	30/8/2017
	22	Accelerator/Impact Investment fund	Guatemala	Skype	28/11/2017

	23	BA and Incubator director	Honduras	Telephone	8/9/2017
	24	Incubator manager	Honduras	Skype	12/9/2017
	25	Accelerator director and former VC	Nicaragua	Skype	14/12/2017
Other entrepreneurial finance providers	26	Stock Exchange Executive (SMEs	Costa Rica	Skype	6/9/2017
	27	BA and former M&A/PE associate	Costa Rica	Telephone	6/9/2017
	28	Consultant of a Seed-capital Program	El Salvador	Skype	13/9/2017
	29	BA and former PE associate	El Salvador	Skype	28/8/2017
	30	SMEs financial provider	El Salvador	Face-to-face	22/9/2017
	31	Government BA network consultant	Guatemala	Skype	6/12/2017
	32	Government seed-capital program	Guatemala	Skype	19/9/2017
	33	Co-founder of the local BA network	Panama	Telephone	18/9/2017

Qualitative data was collected through semi-structured interviews with Central American VCs. As researchers, we experienced first-hand the difficulties of accessing VCs. We did not have close ties to approach them, and further we could not find from public sources who they were. Consequently, interview candidates were identified and approached using a snowball sampling technique (Biernacki & Waldorf, 1981). **Table 10** describes the characteristics of each of the four VCs analysed.

In a first phase, experts on the Central American (EE) were contacted to identify the potential entrepreneurial financing providers to be interviewed. Based on the expert recommendations, the author contacted and interviewed investors who had financed at least one high-growth venture in the Central American region.

Table 11. Description of the Managing Partners Interviewed

VC1 is an investment management firm part of a regional financial group with banking and insurance operations in Central America, the Dominican Republic, and Colombia. The VC firm targets small and medium-sized companies with high growth potential in various industries: food processing, logistics, education, software, renewable energy, and light manufacturing. Among the limited partners were several European Sovereign Wealth Funds (SWF), three second-tier development banks, and the financial group of which VC1 is part. VC1 had three venture capital funds. The first one started in 2005 and was already closed. All the investments of the first fund were through equity. The second fund started in 2006 and invested $35MM in 15 companies in six countries. Its strategy was to invest approximately 50% in debt and the other 50% in convertible instruments or equity. This second fund started its liquidation process in 2017. The third fund started at the end of 2014 and was still in the investment period. This third fund will invest 75% in debt and the rest in convertible instruments or equity.

VC2 manages a fund of US $ 15MM. The fund invested in Central American companies with high growth potential in various industries, although it had a particular interest in the medical device industry. Although the fund had only been in operation for a few years, its managing director had had more than 25 years of experience in investment banking, private equity, and consulting. He has made M&A and corporate finance transactions for more than $2,700MM, private equity investments for about $160MM, and had executed more than 240 strategic advisory projects. The limited partners of the fund were European SWF, second-tier banks, and patrimonial funds of Central American wealthy families. Mostly, the fund invested through convertible instruments.
VC3 managed a fund of $63MM that invested in clean energy and energy efficiency companies. It was run by a group of seasoned professionals with experience in clean energy and energy efficiency investment portfolios in Latin America and the Caribbean. VC3 sought investment opportunities in small and medium-sized projects and companies in the Caribbean Basin and offered risk capital to help leverage bank debt. VC3 invested through different mechanisms such as convertible subordinated debt, preferred shares, and common shares of investee project companies. For energy efficiency projects, it offered financial leasing mechanisms, indexed or not to energy savings. VC3 combined investment capital from a group of private investors from the United States and Central America with other institutional sources, such as second-tier development banks and, clean energy foundations, and environmental investment funds.
VC4 did not disclose its fund size. The firm invested in small and medium-sized Central American companies with high growth potential, most of them Costa Rican light manufacturing companies. Its managing partner was a professional with extensive experience in private equity and VC firms in New York. Together with American colleagues, she decided to start her VC fund, in which the majority of LPs were affluent people from the US. The fund had invested in start-ups but due to bad experiences, it currently only financed running businesses with a proven track record and an experienced management team. Although they were open to different investment mechanisms, they preferred to invest through (nonconvertible) debt.

There were two reasons to interview the EE experts first instead of looking directly for the capital providers. The first one was due to methodological reasons for ensuring that the VCs interviewed were legitimate actors within the ecosystem, which provides validity to the study. Secondly, due to the environment of insecurity in Central America (e.g., gangs, kidnappings, organised crime), wealthy individuals are reluctant to accept an interview request from unknown people. In fact, the director of the entrepreneurship centre at a university in Guatemala, a Polish Ph.D. with research experience, refused to give us information about her contacts due to "previous bad experiences." Conversely, wealthy individuals in El Salvador and Guatemala agreed to be interviewed after a previous interviewee introduced them to us. Given this context of wariness, it was essential to create bonds of trust before approaching VCs.

The interviews were conducted based on a narrative semi-structured technique (Spradley, 2016). Consistent with previous empirical studies in the VCs literature, the author addressed possible concerns about the biases inherent in retrospective accounts by asking each interviewee to focus on their most recent investment (Fried & Hisrich, 1994). The approach yields several methodological advantages such as eliminating problems associated with hypothetical responses, enabling sequential decision making to be examined, and minimising self-reporting bias.

Interviewees were encouraged to provide "thick" descriptive data: as they made observations, the author asked them questions to elicit rich details and descriptions and to learn why such observations are important (Isabella, 1990). For instance: "Could you give me examples of the criteria you used to choose the entrepreneurs you decided to meet?," and "Could you delve into how [the lack of reliable sources of information, weak regulatory framework] affected your [origination, screening, structuration process]?" With the consent of the interviewees, the interviews were audiotaped and transcribed verbatim. After each interview, the researcher immediately made annotations and prepared a summary of the sequential process described. Documents provided by the VCs (e.g., teasers, investment proposals, documented processes) were used as sources of secondary data.

Data Analysis

Transcripts were analysed using Corbin and Strauss' (1990) three-stage coding. In the open coding, transcripts were analysed without any theoretical guidance looking with an open mind for those extracts that were interesting to understand the issues that restricted the access to financing and the actions conducted for addressing such issues. The selected extracts were summarised in 972 open codes, using words similar to those said by the interviewees trying to keep these labels as close to the ground as possible. Examples of these codes are: "I do not know any successful exit through IPOs in Central America" and "Due to tension during the buyback process, we began to use convertible instruments."

In the axial coding, 35 first-order categories were established by gathering several of the open codes into labels that summarised similar issues or activities, without making significant conceptual abstractions**.** Examples of the subcategories are: "Stock markets are not robust enough for IPOs exits" and "Incentive to obtain majority position to have control over the exit." Before moving on to selective coding, an iterative process between the analysis of grounded evidence and the search for theoretical lenses was conducted. Such substantive theories aimed to support the shift from the static categories into a mid-range theory.

During the open coding of the interviews, we realised that the institutional environment was affecting VC´s information environment and contracts, generating incentives for entrepreneurs to act adversely to the interests of investors. We also noted how the latter conducted certain strategic actions to mitigate such risks. From the empirical observations, we selected the principal-agent framework to theoretically underpin the effects of the lack of regulatory frameworks, specialised intermediaries, and contract-enforcing mechanisms on VCs´ adverse selection and entrepreneurs' moral hazard, and the mechanisms used to mitigate such risks.

Based on the mentioned theoretical lens, the analysis shifted from an inductive to an abductive approach. The author grouped the 35 first-order categories into 12 second-order themes: four types of institutional voids, three types of risks (liquidity, adverse selection, and moral hazard) and five mechanisms used by the VCs to mitigate such risks. **Table 11** provides transparency to the study by presenting the first-order categories, second-order themes, and aggregate dimensions. Finally, a preliminary model was presented to the interviewed VCs to obtain their feedback.

Table 12. Data Structure (Paper III)

First-order categories	Second-order themes	Aggregate Dimensions
Initiatives for SMEs securitization have failed	Undeveloped stock exchanges	Institutional Voids
Stock markets are not robust enough for IPOs exits		
Unreliable non-regulated brokers	Lack of reliable third-party information providers and brokers	
The lack of benchmarks generates conflicts in the valuation		
Credit bureaus are unreliable		
The lack of clear rules generates uncertainty	Weak regulatory systems	
Blurred taxation rules		
Inappropriate laws force the creation of investment vehicles abroad		

Lack of rigor in the application of the law	Weak contract-enforcing mechanisms	
Weak contract-enforcing mechanisms protecting minority investors		
Lack of stock market hinders exits	Liquidity risk	Risks exacerbated by institutional voids
The exit is important because funds have short investment periods		
Liquidity Risk is discounted in valuation		
Entrepreneurs operate very informally, even outside the law	Adverse selection	
Lack of transparent and reliable financial information		
Entrepreneurs do not want to sell when the start-up becomes successful	Entrepreneurs´ moral hazard during the exit process	
Buyback exit creates a conflict of interests		
Difficult to force exit from minority position		
Investors are interested in the legal and tax status of the entrepreneur	Preference for entrepreneurs on the close network	Effects of institutional voids on VCs decision-making
Origination through local scouts		
References through network of contacts		
Discard good startups because they lack trade sale potential	Preference for startups with trade sale potential	
Most of exits are through trade sales		
Trade sale potential is decisive during the screening		
They hire investment banks to help during the trade sale exit		
VCs investigate entrepreneurs before releasing funds	Relevance of the entrepreneur´s perceived honesty	
Evaluate entrepreneur´s honesty along with the business model		
Entrepreneurs perceived honesty is instrumental in decision-making		
The prefer debt due to the difficulties during the exit	Preference for nonconvertible debt	
Due to bad experiences recovering assets, they prefer debt		
Registering convertible instruments abroad is complex		
It's not worth monitoring and adding value to small startups		
Difficult to enforce exit rights for minority investors	Preference for majority equity position	
Incentive to obtain majority position to have control over the exit		
Difficulty in resolving legal conflicts from a minority position		

4.3.4 Results

From the analysis of the interviewees, a pattern in the investment decision-making of the VCs operating in contexts with strong institutional voids was found. Institutional voids exacerbated three types of risks, namely adverse selection, liquidity risk, and moral hazard during the exit phase. To cope with such risks, VCs operating in contexts with strong institutional voids incorporated some risk mitigation activities in the four stages of the decision-making, namely origination, screening, evaluation, and structuring. Following, we provide evidence and elaborate in the institutional voids´ moderation effect on risks and the strategies used by VCs to cope with such risks.

Adverse Selection

The first risk associated with institutional voids is the adverse selection of ventures with legal and taxation issues which could result in potential lawsuits or hidden liabilities. Two types of institutional voids increase the likelihood of adverse selection. The first one is the lack of reliable information providers. The interviewees mentioned that the information provided by the credit bureaus was restricted and unreliable, which increased the chances of being scammed:

> *"I investigate the entrepreneurs in the (undisclosed credit bureaus), though this (information) does not guarantee anything. They will only tell you if people have savings accounts and the quality of their credit record. In fact, the person who cheated me had an excellent record in such bureaus because he had savings accounts in several banks"* (Interviewee VC4).
> *"My business is to manage the risk: I must measure it completely, and I cannot simply take for granted what a credit bureau says [...] These bureaus are stiff (rigid, standardized), they get the information from the banks, they process it and give you a standard report. Contrarily, each one of our investments is rather a tailored suit"* (Interviewee VC1).

The interviewees also mentioned that the lack of an entity that regulates the activity of intermediaries cause a situation of informality as anyone can define themselves as a "broker." One of the VCs interviewed mentioned that he had had issues with real estate brokers who offered him investments without having the legal mandate of the companies to do so. According to the interviewee, this level of informality in the intermediaries did not add certainty to the selection of investment opportunities, but on the contrary, hindered them:

> *"Unlike the United States, in Central America, there is no entity regulating the activity of brokers. Therefore, there are brokers of all types, formal and informal: even real estate agents want to be investment bankers. We are very careful because sometimes they help us and sometimes they do not. We are respectful and kindly ask them if they are truly representing the founders. Many times, the broker is just fishing: looking if we are interested in a company and then go to talk to the founders and tell them that we are interested in them. They try to play this game. I dislike that they want to get involved in the transaction without having the appropriate legal representation"* (Interviewee VC2).

The lack of regulatory systems also fosters the legal risk derived from adverse selection. The lack of proper laws or rigour in their application encourages the informality of the entrepreneurs, which exposes them to future fines and demands, putting the business continuity at risk. For example, interviewees mentioned that they had evaluated companies that prepared two or three sets of accounting statements, ignored social security responsibilities, or used the same collateral to obtain financing from different providers. Due to the potential legal risks of these companies, several of the interviewees desisted from investing in them:

> *"In Costa Rica, Honduras and El Salvador we have seen several cases where the business model sounds good, but entrepreneurs present different pictures of the same company. They tell you: these are the financial statements that we present to the Treasury, these are the ones that the shareholders analyse, and here are the financial statements that we give to the banks. This informality frightens us because we do not know what the real financial information is"* (Interviewee VC1).
>
> *"Typically, companies in Central America are not ready to receive investment: they do not have audited financial statements, complete accounting books, and documented processes. Also, they operate informally: they pay managers outside the payroll to avoid social security. I would tell you that 99% of companies have these issues. They think they are ready, but an institutional investor cannot invest*

in companies with debts in the social security institute” (Interviewee VC2).

The lack of robust regulatory systems increases the moral hazard of entrepreneurs to operate outside the framework of legality and also hinders the resolution of conflicts through legal means, as expressed by the interviewees:

> *“The entrepreneur used as collateral invoices from (undisclosed state company) that he had also used as collateral in a bank. As Costa Rican laws are so lax, the person did not even go to jail for the scam [...] The little money I could recover in court barely covered the attorney's fees”* (Interviewee VC4).
> *“Solving conflicts by legal means depends on the instrument in which one participates. If it is a trust fund, the process is relatively simple because the trust itself has a certain mandate that in situations of non-compliance, you can just take control of the assets. If the guarantees are different, for example, a mortgage, a pledge, then there is little chance of recovering something”* (Interviewee VC3).

Liquidity Risk

According to the interviewees, a second institutional void affecting their decision-making process was the lack of robust stock exchanges, which restricted exits through IPOs. One of the interviewees mentioned that there are investors with significant capital in the region, but the adequate legal framework is lacking to develop stock markets with the capacity to "absorb" a company.

> *“In the region, we do not have deep stock markets to exit through IPOs, nor the legal framework to do so. As far as I know, in Central America, there has never been an exit through the stock market. There are investors with significant capital, but there is not an adequate framework. In Costa Rica, there was an attempt to create an alternative stock market for medium-sized companies. It was a good effort, but it was not enough. The markets still need to mature*

> *and deepen a lot. Maybe the regional integration of local markets could be an option"* (Interviewee VC1).
> *"Only one of the 19 exits we have made was through an IPO in the Mexican stock exchange. All others were acquired by strategic buyers or other investment funds that took our share. None of the strategic buyers were local; all were regional or multinational companies. In some cases, we had to hire an investment bank to help us in the exit process"* (Interviewee VC2).

Liquidity risk is particularly relevant in the business model of VCs. They operate investment funds within a specific period, after which they must return the principal and profits to the limited partners. The restriction decreases the investment likelihood, especially in firms lacking a trade sale potential:

> *"Our fund has an investment period of six years and then a period to liquidate the firms in the portfolio during the next seven years, in order to return the money to the investors, that is, a total period of 13 years. Therefore, we have to be clear and believe that a determined investment can be recovered before 13 years to recommend it to the committee. Otherwise, we would not even propose it"* (Interviewee VC3).

In summary, the lack of robust stock exchanges in Central America restricted exits through IPOs, exacerbating the liquidity risks of VCs. Furthermore, the lack of appropriate frameworks regulating the activity of stock exchanges also affects liquidity risk. In Central America for instance, there are many potential investors with significant capital, but the adequate legal framework is lacking to develop stock markets with the capacity to "absorb" a company. Liquidity is particularly relevant in the business model of VCs as they operate investment funds within a specific period, after which they must return the principal and profits to the limited partners. For that reason, the feasibility of liquidating equity positions is a fundamental variable affecting VC decision-making.

Entrepreneur´s Moral Hazard During the Exit Phase

According to the VCs interviewed, investing in equity in contexts with poor stock exchanges and contract-enforcing mechanisms created conflict during the exit. As already mentioned, the lack of stock exchanges hindered the exit through IPOs, so the VCs looked for strategic buyers for a trade sale. In most cases, potential buyers wanted to acquire the whole business and not just the position of the VCs. However, due to the lack of contract-enforcing mechanisms, the entrepreneurs refused to sell the business, especially when it was profitable, as they wanted to keep it as a family legacy:

> *"When the business grows and becomes profitable, the founders think, 'Why am I going to sell such a good business if the next generations of my family could benefit from this?' This scenario changes our original plans to grow the company and then sell it"* (Interviewee VC1).

The four VCs interviewed were highly educated professionals with experience in US-style contracts. However, they asserted having many difficulties to "force" the exit of the investments due to the lack of contract-enforcing mechanisms and regulatory frameworks protecting minority investors´ interests. In this scenario, their only alternative was stock buybacks, which generated a conflict of interest:

> *"As minority shareholders, we could not force the full sale, and the only remaining option is the stock buyback. Such a situation generates a conflict of interests as the more successful the business, the more expensive the buyback"* (Interviewee VC1).

The empirical evidence indicates that in the absence of contract-enforcing mechanisms and regulatory frameworks, entrepreneurs have more incentives to act to the detriment of investors during the exit phase. Such an incentive is even stronger when the start-up is of a family nature because the founders will have a higher motivation to leave the company as a legacy to the next generation.

Origination Phase: Preference for Entrepreneurs in the Close Network

Due to the lack of or weak regulatory frameworks, information intermediaries and brokers, VCs prioritise those entrepreneurs close to their contact networks to mitigate the adverse selection risk. Through these networks, VCs can investigate the entrepreneurs, thus supplementing the information asymmetry derived from the lack of formal institutions. The VCs interviewed mentioned that they have built their network of contacts throughout their professional careers and that they also use the network of contacts of the limited partners:

> *"The last company in which we invested came to us referred by an international development bank. We are part of a network of organisations, and financial entities specialised in the renewable energy sector. For more than 18 years, I have been working in this sector, and I have built my network of contacts"* (Interviewee VC3).
>
> *"The advantage of our fund is that one of our limited partners is (Undisclosed regional financing group) that has a presence in most of these (Central America) countries. In fact, the fund´s footprint reflects the group's footprint. In each of the countries, we have access to the group's banking information systems where we can review financial information. I research the entrepreneurs through the managers of the bank branches, the legal offices linked to the group, and the local scouts who look for investments. I do not ask references to the entrepreneur, nor do I use an external credit bureau, but I use the networks that we have created"* (Interviewee VC1).

A consequence of such restricted origination approach is that only those entrepreneurs close to the contact networks of the VCs can access early-stage equity financing. The director of an entrepreneurship centre of a business school and former entrepreneur comments on the difficulties in accessing early-stage financing for entrepreneurs in the middle and lower strata:

> *"In Central America, there is no institutionalized entrepreneurial financing network, which makes it difficult for people from the middle and lower strata to access early-stage financing. Investors belong to high-class social networks, so it is difficult to access such people. For example, I was able to access (VC2 managing partner) thanks to studying at (business school), where I met my partners with contacts with the CEO of (regional bank), who put us in touch with (VC2 managing partner). There is a social barrier that makes it impossible for most entrepreneurs to have access to financing. It*

> *is not something institutionalized or open to everyone"* (Interviewee 10).

To increase the origination pool and probabilities to find investment opportunities, some VCs hire local scouts with extensive networks. Also, such scouts serve as a preliminary filter to exclude entrepreneurs with legal problems, partially mitigating the adverse selection risk:

> *"As the third fund was larger (than the previous ones), we decided to look for investment opportunities in Colombia. None of us is Colombian nor did we have experience in such a country, which has a large and interesting market but also very particular and potentially risky. We decided to look for a Colombian scout with an extensive network who would look for investment opportunities and serve as a first filter. We analysed the business, but he told us whether the entrepreneur is reliable and with a recognised history in the business field or has partners of dubious reputation and potential legal problems"* (Interviewee VC1).

The evidence indicates that in the absence of third-party information providers and brokers, VCs use their network of contacts to investigate entrepreneurs and partially mitigate the adverse selection risk. Such approach restricts the scope of investment opportunities they take into account during the deal origination phase, hindering access to early-stage financing for entrepreneurs without ties within the investment networks. To increase the pool of potential investment opportunities, some VCs hire local scouts with broad contact networks, who serve as a first filter to mitigate information asymmetries.

Screening Phase: Preference for Start-Ups with Trade-Sale Potential

As described, the lack of robust stock exchanges prevents the exit through IPOs, increasing VCs´ liquidity risk. As a mechanism to mitigate such risk, the interviewed VCs asserted that they evaluate only those companies with trade sale potential.

> *"From the day we invest, we are already thinking about the exit. Even before buying, we are already analysing potential strategic buyers, in a concentric circles process. First, we analyse local*

> *buyers; if we cannot find one, we analyse potential Latin American buyers. In the last case, we analyse (North) American buyers who might be interested in buying the company"* (Interviewee VC2).

One of the interviewees mentioned that the trade-sale potential is one of the determining factors in his screening process:

> *"I do not go into anything that I am not sure I can sell. I see myself as a rancher looking for only those steers with the potential to become bulls that I can sell. No matter how good or bad the company is, if it is not sellable, I cannot realise my earnings. Therefore, we do not evaluate in depth those companies that we are not sure that we can exit. The trade sale potential together with the type of partner are the priority issues"* (Interviewee VC1).

One implication of VCs' preference for start-ups with trade potential, is that some start-ups will run out of financing not because their business model is bad but because of the lack of potential buyers interested in acquiring them.

Evaluation Phase: Relevance of the Entrepreneur´s Perceived Honesty

Due to the lack of regulatory systems, the interviewees mentioned that the honesty of the person was more important than the collateral. For this reason, the VCs said that they investigated people in-depth and assigned much weight to human capital in their decision-making:

> *"This is more a ´feeling´ of the person because there is no ´seal´ that guarantees the investment. Before releasing the money, I have lunch several times with the entrepreneurs. It is like a six months courtship before the marriage. For me, the most important thing is to know with whom I am doing business. [...] In one investment, the value of the collateral decreased considerably, but the entrepreneur was honest and continued making payments on time. Therefore, more than the business idea, what is relevant to me is the people´s honesty"* (Interviewee VC4).

Given the lack of reliable information and the subsequent high risk derived from the information asymmetry, the VCs give greater weight to the human quality of the entrepreneurs in their selection process. One of the interviewees mentioned that for him the human quality of the entrepreneur had the same relevance as the business model:

> *"For me, getting to know the entrepreneur is as or more important than the business. There is not a good business that has bad partners; it just does not work. I prefer to be in a complicated business, but with good partners [...] In our evaluation process, the most important factor is by far the quality of the partners: we are interested not only in their business skills but also their values"* (Interviewee VC1).

Evidence suggests that institutional voids increase VCs´ information asymmetry and entrepreneurs´ incentives to act outside the legal framework, increasing VCs adverse selection risk. To mitigate such risk, VCs assign a greater weight to their perception of the entrepreneurs´ honesty entrepreneurs during the evaluation stage. For this reason, they will prefer those entrepreneurs who are close to their network of contacts so as to be able to evaluate their honesty.

Structuring Phase: Preference for Non-Convertible Debt
According to the interviewees, entrepreneurs´ moral hazard during the exit phase affected security selection in environments with strong institutional voids. The interviewees mentioned that in Central America no legal framework supports the activity of VCs. Moreover, the laws of some of the Central American countries contain requirements that directly hinder foreign investment. For this reason, some entrepreneurs have had to register their start-ups in countries with adequate legislation to attract investment. An official from the Ministry of Economic Affairs of Guatemala argued that voids in the countries legal framework hindered the attraction of investment and the establishment of start-ups:

> *"We must work in the legal frameworks if we want to develop venture capital funds in the country (Guatemala). The most successful start-up in the country has already raised $20MM in five investment rounds. However, they had to register the company in*

> *the Virgin Islands to reach foreign investors, because the laws in Guatemala hinder investment attraction. The Guatemalan law obliges all Public Limited Companies registered in the country to hold at least one annual meeting in which all the shareholders must be present and to register said meeting in a minute book. Do you think that a Canadian investor, for example, would be willing to come once a year just to attend such meeting? Those things seem irrelevant, but in the end, they restrict access to capital"* (Interviewee 31).

For the mentioned reason, some VCs preferred to create companies in countries with more flexible regulatory frameworks to administer the investment vehicles. Interviewee VC2 confirmed this insight:

> *"When we invest through equity or convertible instruments, we have to create a company in the Virgin Islands. This company manages the staggered investments and owns the investment instrument, which is typically a convertible subordinated note"* (Interviewee VC2).

Convertible instruments required higher costs and more complex operations as they had to be registered abroad. For this reason, VCs were willing to use convertible instruments only when they had high expectations about the firm´s value increase. When the VCs did not have high expectations of the firm´s future value, the interviewees mentioned preferring (non-convertible) debt due to the drawbacks to liquidate the stocks:

> *"Because of the difficulties during the exit, I do not like the idea of investing in equity or convertible instruments when the firm`s size does not merit it. We are not interested in being shareholders and prefer the ´cash cow´ model"* (Interviewee VC4).

Furthermore, the weak regulatory frameworks in Central America were detrimental to the interests of minority shareholders, which is why VCs preferred to invest through debt rather than convertible instruments or pure equity:

> *"In all the Ventures in which we have invested, we have evaluated the possibility of being shareholders, but we have desisted. In Central America, there are no regulatory frameworks that really protect the minority shareholders. Everything becomes less transparent and more difficult. The small firm´s size does not merit the pain of dealing with such conflicts"* (Interviewee VC4).

Summing up the findings, a weak institutional environment exacerbates entrepreneurs´ moral hazard during the exit. A natural option to mitigate such risk and take advantage of any capital gains would be the use of convertible instruments in combination with staging. However, for the same legal loopholes, VCs must create companies abroad that manage such investment vehicles. The implication is high costs and complex operations, which the VCs avoid when their perception of capital gains is low. For this reason, some VCs preferred to invest through debt rather than convertible instruments, especially when the firm's expected value fails to justify the high costs of creating an investment vehicle in countries with robust regulatory frameworks.

Preference for Majority Equity Position

According to the VCs interviewed, when they were interested in capturing a firm´s value increase, they mitigated the agency risk by acquiring a majority equity position to have control of the sale process. Interviewee VC1 described how his firm´s portfolio composition has changed to deal with the liquidity risk and moral hazard of the entrepreneurs during the exit phase:

> *"In our first fund we invested only in equity, but due to bad experiences, we went to a mix of 50% -50% in the second fund and a portfolio of 75% - 25% in the third one, where 75% were debt instruments and 25% were equity shares. We shifted our portfolio strategy as we realised that in the region the exit of a stock equity position is complicated. In fact, for the 25% of the firms in our third fund, the ones in which we are investing in equity, we are taking control of the ventures, that is, we are not buying minority but majority interests. Why do we do it? To have control of the exit process"* (Interviewee VC1).

Another incentive for investors to obtain the majority position was to control the business given the difficulties of settling legal disputes from a minority position. A Guatemalan consultant and professor of entrepreneurship commented on this topic:

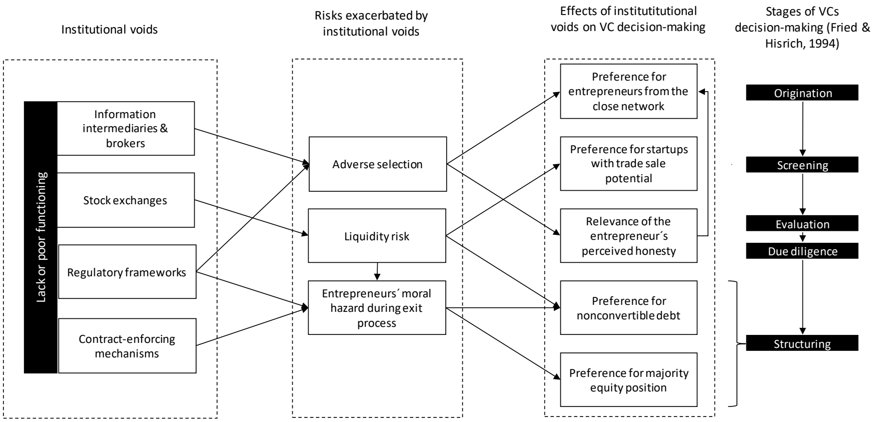
> *"Investors want to have full control of the company because getting rid of a partner when things do not go well is challenging in Central America, unlike in developed countries. I have seen cases in which investors told entrepreneurs: ´I will not give you the money unless I have control of the company. I am taking a big risk: what if the business does poorly? It would be very difficult to resolve conflicts through legal channels from a minority position. In the US, we could go to a court, but here it is too complicated.´ That is why sometimes it is easier to do business with a US investor because they have many protocols"* (Interviewee 15).

The VCs interviewed asserted that when they were interested in capturing a firm´s value increase, they mitigated the entrepreneurs´ moral hazard by acquiring a majority equity position to exercise the exit and control rights. In this way, they could "force" the entrepreneurs to sell even in the absence of contract-enforcing mechanisms guaranteeing exit rights. Also, the majority equity position provides guarantees to VCs in contexts with poor regulatory frameworks protecting minority interests.

4.3.4 Model of VC Decision-Making in Environments with Institutional Voids

Figure 8 presents a model explaining the risks derived from institutional voids and describes the activities that VCs carry out to mitigate such risks. The model is composed of three aggregated dimensions: institutional voids, risks derived from institutional voids, and activities conducted by the VCs to mitigate those risks. Following, the relationships between these dimensions are explained.

Figure 8. Effects of Institutional Voids on VC Decision-Making



According to the evidence, different categories of institutional voids exacerbate two risks related to the principal-agent framework. Firstly, the lack of reliable information intermediaries and regulated brokers increases information asymmetries between VCs and entrepreneurs. Added to this, the lack of appropriate regulatory frameworks encourages entrepreneurs to operate informally. For example, they prepare different financial statements and avoid social security payments. This lack of regulation and informality increases the risk of adverse selection, which may have a negative impact on the future value of the venture and consequently on the interests of the VCs.

Secondly, the lack of regulatory frameworks and contract-enforcing mechanisms exacerbates the entrepreneur's moral hazard during the exit process. In the absence of such mechanisms, VCs in a minority position cannot exercise the exit rights stipulated in the term sheets. When business is going well, many entrepreneurs have incentives to refuse to sell the company to leave it as a family legacy. Such moral risk is also exacerbated by the liquidity risk derived from the lack of robust stock exchanges with the ability to make an exit through IPOs. The lack of liquidity and contract-enforcing mechanism give entrepreneurs a strong bargaining power to the detriment of investors. Under this scenario, the VCs have to accept the stock buyback as the unique exit mechanism. Such a situation generates a conflict of interest in the valuation of the share price: the better the performance of the company the higher the price that entrepreneurs have what to pay in the repurchase.

The VCs cope with the exacerbated risks mentioned above through four activities conducted in the different phases of their decision-making process. To mitigate the risk of adverse selection, the VCs give great importance to their perception of the honesty of the entrepreneurs. They not only evaluate the potential of the business but also the personal characteristics of the entrepreneurs. For that reason, the VCs will look for entrepreneurs close to their network of contacts to be able to use the said network to obtain references from the entrepreneurs. Also, they will hire scouts with extensive contact networks in the local contexts to serve as a first filter during the origination phase.

To mitigate liquidity risk, VCs prefer ventures with trade-sale potential. In the absence of robust stock exchanges, VCs will start looking for potential buyers even before in-depth evaluation of the ventures. Such a preference implies that during the screening many ventures will be discarded not because of the potential of their business model but because of the lack of a potential strategic buyer. To mitigate the liquidity risk and the moral hazard of the entrepreneur during the exit phase, the VCs will have less preference for convertible instruments. Given the difficulties in liquidating equity positions, VCs will prefer non-convertible debt or preferred shares with a repayment plan similar to debt. In the cases that the VCs are highly interested in capturing the value of the company, they will seek to obtain majority equity positions that assure them control during the exit processes.

4.3.5 Discussion

We are aware that not all of our empirical findings constitute contributions to literature. Previous research had already highlighted the importance of informal institutions such as trust and networking as substitutes of formal ones in the selection process of capital providers operating in emerging markets (Ahlstrom & Bruton, 2006; Bruton et al., 2009). Nonetheless, this research sheds light on the discussion of convertible instruments as the preferred investment vehicle in VC. In this way, the study responds to the call for more context-specific research investigating the discrepancies in the use of convertible instruments, especially outside the United States (Burchardt et al., 2016).

Contribution to the Entrepreneurial Finance Literature

The current study proposes that weak contract-enforcing mechanisms and stock exchanges foster entrepreneurs' moral hazard during the exit process. The evidence indicates that even those experienced VCs with the ability to perform US-style contracts (Kaplan et al., 2007), have problems exiting ventures when entrepreneurs cannot be enforced to sell. In the absence of contract-enforcing mechanisms, VCs mitigate this agency risk by selecting a security and capital structure (e.g., majority equity position) more appropriate for their interests.

Furthermore, the lack of proper legal frameworks means the use of convertible instruments difficult and expensive, as such investment vehicles must be registered abroad (e.g., U.S. Virgin Islands). Due to the challenges and high costs associated with convertible instruments in countries with weak legal frameworks, the expectation of the VCs on the firm´s future value is instrumental in the security selection. On the one hand, when that expectation is low, VCs will tend to use (non-convertible) debt. On the other hand, when VCs consider that the company has a high future value potential, they will be willing to assume the high costs and level of operational complexity associated with convertible instruments or will seek to obtain majority equity position to secure control during the exit process.

The current study contributes to the security design in VC contracts literature by explaining how VCs mitigate the moral hazard of entrepreneurs operating in contexts with weak contract-enforcing mechanisms through the capital structure. It sheds light on the institutional factors that could explain, at least partially, the incongruence between theoretical models and empirical evidence. Empirical studies, especially those conducted in countries other than the United States (Bottazzi et al., 2008; Cumming, 2008; Hege et al., 2009; Kaplan et al., 2007), contradict the theoretical models that propose convertible preferred securities as the optimal investment vehicle for Ventures (e.g., Bergemann & Hege, 1998; Berglof, 1994; Marx & Simon, 1998; Schmidt, 2003; Trester, 1998).

Scholars have theoretically probed that convertible securities can reduce information asymmetry and better align entrepreneur-investor interests (Arcot, 2014; Hellmann, 2006). However, these models assume that there are contract-enforcing mechanisms that coerce entrepreneurs to convert instruments and exit ventures at the convenience of VCs (Cornelli & Yosha, 2003). In the absence of such mechanisms, VCs cannot enforce exit rights to mitigate entrepreneurs´ moral hazard (Bienz & Walz, 2010), undermining the theoretical models that defend convertible instruments as the optimal investment vehicle.

The study also contributes to the literature on VC activity in emerging markets. Previous studies have highlighted the effect of weak stock exchanges in the exit strategies of the VCs, who generally prefer to exit through buybacks and trade sales (Bruton, Ahlstrom, & Puky, 2009; Wang & Sim, 2001; Wang & Wang, 2017). The current study highlights the effect of other institutional voids, such as the lack of contract-enforcing mechanisms and regulatory frameworks on VC activity. According to the results, the VCs use less common equity and convertible instruments in emerging countries due to a lack of stock exchanges and also because of entrepreneurs' moral hazards derived from the weak institutional environment.

Practical Implications

In addition to the contributions to the literature, the study has implications for governments and stock exchanges. The findings highlight the impact of the lack of regulatory systems and contract-enforcing mechanisms in VCs activity, which hinders access to entrepreneurial financing. Public policy makers in developing countries should foster the creation of regulatory systems and contract-enforcing mechanisms that protect the interests of investors, especially those in a minority position.

Furthermore, the model highlights the impact of the lack of robust stock exchanges on VCs venture screening. Ventures with potential for high-growth and internationalisation fail to receive financing due to the lack of a strategic buyer that allows a trade sale exit. Governments and stock exchanges could develop policies that facilitate the regionalisation of local exchanges, creating an aggregate market with enough size to absorb exits through IPOs.

Limitations and Further Research

The implications of this study should be analysed in light of its limitations. Firstly, the author acknowledges the geographical limitation of the study. Although Central America provides an excellent "laboratory" to explore the research question, the study ignored other regions with strong institutional voids such as Africa, Eastern Europe, and Southeast Asia. Secondly, there are other factors not considered in this study, such as differences in the tax regimes, which could affect VCs deal sourcing, screening, and structuring.

Before testing the proposed models, more qualitative research is needed to deepen and generalise the insights described in this study. Further research could investigate questions similar to the one posed in this study in other regions of development such as Eastern Europe, Southeast Asia, and Africa. Also, future research could explore other contextual factors different from the institutional voids that affect VCs decision-making.

4.3.6 Conclusion

The current study investigated the pre-investment decision-making process of VCs in Central America, a region with strong institutional voids and low VC attractiveness. The study proposes a model explaining how institutional voids exacerbate three types of risk and describing how VCs cope with such risks. The study contributes to the discussion on the designation of convertible debt as the preferred VC investment vehicle by explaining the lower preference of said instruments in contexts with weak institutions. The proposed model has implications that could be useful for government agencies and second-tier banks interested in improving access to entrepreneurial financing in developing countries.

5. Thesis Results and Contributions

This chapter summarizes the results and key contributions made by the cumulative dissertation from theoretical and practical perspectives. Both results and contributions have been discussed in detail in the previous chapters.

5.1 Results

This cumulative dissertation proposes three models partially explaining the entrepreneurial activity in contexts with strong institutional voids. Firstly, it proposes a model explaining how social entrepreneurs recognize and exploit opportunities in environments with strong institutional voids. Secondly, it presents a model of access to entrepreneurial financing in environments with strong institutional voids and structural holes. Finally, it provides a model of venture capital decision-model in contexts with strong institutional voids.

Model of Opportunity Recognition and Exploitations in Environments with Strong Institutional Voids

The results of Paper I indicate that there are at least four ways in which social entrepreneurs can recognize and address social/environmental problems related to institutional voids. The ways depend both on the motivations of entrepreneurs (social or for-profit) and the reasons why they tackle the institutional void. On the motivation side, for-profit entrepreneurs actively seek find opportunities in the neglected problems of the society. Contrarily, actors with pro-social motivation commit to a social mission close to their heart and then look for market-based mechanisms for scaling-up their impact. On reasons for addressing the institutional voids, some entrepreneurs directly address such voids as they recognize them as one of the structural causes generating the social/environment problem. Contrarily, other entrepreneurs address institutional voids until they realize, after several iterations of their preliminary solutions, that such voids must be filled to make their solution sustainable and scalable.

Paper I proposes a process model of five activities explaining how social entrepreneurs recognize and exploit opportunities in contexts with strong institutional voids. In the first activity, the interview partners reported how they recognized the institutional voids they addressed. Then, the social entrepreneurs conceptualized the solution to the neglected problems and institutional voids. Thirdly, the social entrepreneurs articulated actors from different sectors to develop an integrative solution. After the social entrepreneurs managed to operationalize a preliminary solution, they had to validate that their solution solved a social problem and that it was potentially scalable and self-sustaining. Once with legitimacy, social entrepreneurs were able to secure access to resources and support to institutionalize their solution, scaling it up or making it the taken-for-granted solution that was replicated by government initiatives or other social entrepreneurs.

Model of Access to Entrepreneurial Financing in Environments with Strong Institutional Voids and Structural Holes

Paper II identified three main barriers that hinder access to early-stage funding in developing countries: structural holes between non-wealthy entrepreneurs and potential BAs; disarticulated entrepreneurial financing networks; and discrepancies in the expectations of the actors at both sides of the hole. The paper described three activities carried out by wealthy businesspersons and former investment bankers to address the mentioned issues. The mentioned actors sought economic development of their countries through the spillover effect of entrepreneurship. Due to the institutional deficiencies in their countries, they assumed an institutional entrepreneurship role, developing entrepreneurial support organizations, BAs networks, and bridging brokerage firms.

The model proposed in Paper II explains how the mentioned institutional activities enabled two mechanisms that improved social capital dimensions, facilitating access to entrepreneurial financing. In the cognitive and relational dimensions, the institutional work fostered the construction of shared expectations between non-wealthy entrepreneurs and BAs. The shared understanding facilitated the linkage of actors who previously distrusted one another. In the structural and relational dimensions, investors and businessperson assumed a bridging broker role, fostering the formation of strong ties between the actors of disconnected networks.

Model of VC Decision-Making in Contexts with Strong Institutional Voids
The results of Paper III indicate that institutional voids affect the activity of VCs by exacerbating three types of risks. Firstly, the lack of financial information intermediaries and regulation of broker activity affects the information environment, increasing adverse selection risk. Secondly, the lack of robust stock exchanges prevents the exit through IPOs, increasing the liquidity risk. Thirdly, the weak contract-focusing mechanisms and regulatory frameworks protecting the interests of minority investors increase the exposure to moral hazard for entrepreneurs during the exit process.

To deal with the risks exacerbated by institutional voids, VCs include some strategies within the different phases of their pre-investment decision-making process. In the origination stage, VCs prioritize their search within their network of contacts to obtain references for mitigating information asymmetries. During the screening, the investors preferred those ventures with trade-sale potential to mitigate the liquidity risk derived from the lack of stock exchanges. In the evaluation phase, they prioritize the level of honesty of the entrepreneurs, a characteristic that becomes as important as their perception of the potential of the business model. Finally, during the structuring, they prefer to use non-convertible debt and preferred shares with a repurchase plan such as debt to mitigate liquidity risk. When they are interested in capturing the value of the company, they seek to obtain majority equity positions to have control during the exit process in the absence of a contract-enforcing mechanism guaranteeing exit rights.

5.2 Insights in Respect to Academic Research

The results of this dissertation provide relevant insights at the theoretical level. Previous studies cannot explain several of the phenomena observed in the weak institutional contexts investigated. The current dissertation contributes to advance the entrepreneurial ecosystem and institutional work literature. It also contributes to the conversation of scholars investigating entrepreneurial financing in emerging markets.

5.2.1 Entrepreneurial Ecosystems in Developing Countries

Previous research argued that EE emerge around an innovation center, a university or an anchor company acting as a "surrogate university", from which ventures spinoff. When several of these ventures are successful, angel investors and venture capitals gain confidence and start investing, which attracts other entrepreneurs and generating momentum in the ecosystem (Mack & Mayer, 2016). The results of this research suggest that EE in developing countries emerge differently.

Firstly, Paper II suggest that EE in developing countries do not emerge around innovation centers as in developed countries. EEs in developing countries are built by groups of wealthy individuals and former investors with an interest in improving the economy of their countries through ventures. With their institutional work, the mentioned actors "artificially" built EE by financing incubators, promoting business plan competitions, and creating networks of angel investors.

Secondly, the results of Paper I suggest that given the poor social and institutional context and the lack of robust innovation centers, many entrepreneurs in emerging markets recognize business opportunities in the neglected problems of society (Santos, 2012) and institutional voids (Khanna & Palepu, 2000). Due to the social nature of these startups, impact investors are more likely to be interested in these contexts and in some cases, they take an active institutional work role in the construction of the EE. For this reason, several of the EEs in emerging markets have a more social and less technological driver than in developed countries.

5.2.2 Institutional Work and Entrepreneurship

This dissertation contributes to the literature on institutional work and entrepreneurship in emerging markets. It helps to understand the link between institutional work and collective action, adding to Fligstein´ (1997) institutional entrepreneur view. Also, it extends the research of previous authors by explaining the institutional entrepreneurship role of investors in emerging markets (Bruton et al., 2009).

Paper I advanced Fligstein´s (1997) institutional entrepreneurship perspective by shedding light on the link between collective action and institutional work. Previous research in developing countries had highlighted the lack of empirical studies that used Fligstein´s (1997) view as opposed to that of DiMaggio (1998) (Mair & Marti, 2009; Mair, Martí, & Ventresca, 2012). Paper I helps to theoretically advance Fligstein´s (1997) view by shedding light on the link between institutional work and the collective action required by actors without resources. The model presented in Paper II explains how actors with social skills identify the interests of groups with different sectors and logics (i.e., economic, social) to modify or create institutions.

Previous research asserts that VCs in emerging markets adopted an institutional entrepreneurship role to supply the deficiencies in such contexts (Bruton et al., 2009). Nonetheless, previous research did not explain in depth the effects of such institutional work. Paper II describes the different activities carried out by investors and wealthy individuals related to the construction and strengthening of institutions. Moreover, it explains how said institutional work facilitated access to financing, especially to those entrepreneurs disconnected from the networks of potential investors.

5.2.2 Entrepreneurial Finance in Emerging Markets

The results of this dissertation add to the literature of entrepreneurial finance in emerging markets. Paper II contends the positivist view of such literature (Lam, 2010) and explains the "funding gap" problem beyond entrepreneurs` "investment readiness" (Mason & Harrison, 2001). Moreover, Paper III responds to the call of Burchardt et al. (2016) for more contextual research shedding light on the institutional factors that could explain the incongruence between theoretical models and empirical evidence regarding the designation of convertible instruments as VCs optimal investment vehicle.

Most of previous research has investigated the early-stage equity “funding gap” from siloed perspectives, defining it as a shortage of funds (Lam, 2010) or as an issue related to the entrepreneurs` "investment readiness" (Mason & Harrison, 2001). Paper II investigated the funding gap from a holistic perspective and social construction perspective and argues that some entrepreneurs can not access financing due to structural holes between social classes in developing countries. The literature had already mentioned the importance of connections or "guanxi" to access financing in emerging markets (Puffer et al., 2010). However, to the best of my knowledge, no study had explained how these connections were generated in contexts with structural holes. Paper II proposes an explanation for the creation of expectations and trust among disconnected network actors, which differs from the established theory. According to Coleman (1988:107), network closure is instrumental for the existence of norms and trustworthiness that allow "the proliferation of obligation and expectations." Instead, Paper II argues that in the case of disconnected networks, the causal relationship between expectations and trust goes in the opposite direction. That is to say; the construed shared understanding lays the foundations for a reciprocity commitment that precedes the formation of the bond of trust.

Paper III contributes to the security design in VC contracts literature and responds to the call of Burchardt et al. (2016) for more contextual research shedding light on the institutional factors that could explain the incongruence between theoretical models and empirical evidence. Empirical studies, especially those carried out in countries other than the United States (Bottazzi et al., 2008; Cumming, 2008; Hege et al., 2009; Kaplan et al., 2007), contradict the theoretical models that propose convertible preferred securities as the optimal investment vehicle for Ventures (e.g., Bergemann & Hege, 1998; Berglof, 1994; Marx & Simon, 1998; Schmidt, 2003; Trester, 1998). Scholars have probed that convertible securities can reduce information asymmetry and better align entrepreneur-investor interests (Arcot, 2014; Hellmann, 2006). However, the models assume that there are contract-enforcing mechanisms that coerce entrepreneurs to convert instruments and exit ventures at the convenience of VCs (Cornelli & Yosha, 2003). In the absence of such mechanisms, VCs cannot enforce exit rights to mitigate entrepreneurs´ exposure to moral hazard (Bienz & Walz, 2010), undermining the theoretical models that defend convertible instruments as the optimal investment vehicle.

5.3 Insights in Respect to Practitioners

The findings of the current dissertation have implications for governments, second-tier banks, universities, and other organizations that foster the EE in developing countries, particularly in Central America, where most of the interviewees originated. Results of Paper I presents institutional voids as source of entrepreneurial opportunities. Also, it underscores the role of social skills (Fligstein, 1997) as a fundamental characteristic for the articulation of inter-sector actors. These finding can help universities, incubators, and other organizations that foster the development of entrepreneurial skills to redesign their teaching curricula, emphasizing the ability to "put oneself in the others' shoes" to identify the potential allies' incentives. Results of Paper II could help governments and second-tier banks to reorient their policies toward the construction of shared expectations across structural holes. Finally, results of Paper III urges governments to strengthen institutions in order to facilitate access to entrepreneurial financing

Neglected Social/Environmental Problems and Institutional Voids as Sources of Entrepreneurial Opportunities

Following the example of entrepreneurship ecosystems in developed countries, the initiatives in Central American countries have focused on supporting information technology startups. The implicit reasoning of these initiatives is that the ventures in the industry have high scaling-up and internationalization potential. However, most of the Central American countries lack innovation centers, either universities or anchor companies, from which potentially successful technological spin-offs emerge. One exception is Costa Rica, where Intel opened a facility in the mid-90s that encouraged the development of quality human resources and start-ups in areas related to information technologies. Due to the presence of this anchor company, Costa Rican government support to technology startups makes sense. However, it would be a mistake for the other Central American countries to emulate the Costa Rican strategy without a "surrogate university" such as Intel serving as an innovation center of the ecosystem.

The results of Paper I indicate that some entrepreneurs have recognized opportunities in the neglected problems of societies related to institutional voids. Some examples in Central America, such as Kingo Energy, show that it is possible to scale-up ventures that deal with such neglected problems and institutional voids. Kingo provides solar electrification to rural Guatemalan communities. In the absence of a specialized payment intermediary serving such remote communities, Kingo created a pre-paid platform similar to that used by cellular telephone companies. Through this platform, the end user or a micro-donor can provide electrification to a family or rural school by paying for a certain amount of "electrification-time" from anywhere in the world. The model has scaling-up potential due to its innovative payment platform and the many rural communities in developing countries lacking electrification. In fact, the company's goal is to benefit 100 million users by 2035. These growth opportunities have attracted the attention of at least eight investment funds that have already invested in Kingo.

The first practical implication of the study is aimed at universities, government programs supporting entrepreneurship, and incubators. The organizations should encourage (potential) entrepreneurs to recognize opportunities in the neglected problems of society. Without an innovation center generating disruptive technologies, technological startups are merely replicating successful ideas from developed markets that are not necessarily suitable for emerging markets. Contrarily, the neglected problems of the society in the areas of health, education, and access to basic services offer interesting opportunities for entrepreneurs regardless of whether they are pursuing a social mission or a have a for-profit approach.

Development of Social Skills and Capacity for Inter-Sectoral Articulation

Another of the insights derived from Paper I is related to the social skills used by entrepreneurs to articulate different intersectoral actors to access resources and legitimize their idea before the scaling-up phase. The ability is essential in developing countries characterized by environments lacking institutions, support organizations for entrepreneurs, and entrepreneurial financing networks. In such contexts, access to early-stage financing is complicated, so in order to develop a minimum viable product, entrepreneurs must obtain resources from different organizations (e.g., NPOs, religious groups, voluntary organizations, local governments), which do not necessarily have a for-profit logic.

In order to access resources, entrepreneurs operating in the previously described contexts must have or develop the ability to "put themselves in the shoes of the other" to understand the different logics of actors from varying sectors. Also, they must be able to mobilize such actors around a common goal. Universities and incubators could include the development of social skills within their training programs. Also, government programs and international cooperation agencies organizing/sponsoring business plan competitions could consider the social skills described by Fligstein (1997) as an essential characteristic to take into account when awarding seed capital to entrepreneurs.

Construction of Shared Expectations Among Actors Across Structural Holes
The third practical implication of the dissertation is derived from Paper II and is the construction of shared expectations between entrepreneurs and investors. Previous authors have framed the problem of the equity gap as a lack of investment supply and "investment readiness." Contrarily, Paper II makes a call for the construction of a common understanding on key entrepreneurial financing issues that lay the foundations of trust bonds between investors and entrepreneurs. Such call is addressed to government agencies, university entrepreneurship centers, international cooperation agencies, incubators, and other organizations interested in the development of high-growth entrepreneurship.

Government agencies and international cooperation agencies should refocus programs towards the construction of a culture of accountability. The evidence gathered in the interviews indicates that many of such programs have given seed capital without demanding anything in return, fostering a lack of accountability contrary to the expectations of investors. The mentioned agencies should provide technical assistance programs and release the seed capital through staggered disbursements with strict monitoring of the funds granted. Also, they must request a report of accountability of such funds and include clauses obliging recipients to return the money when it is used in assets or expenses different from those established in the business plan. These actions will reinforce the culture of accountability expected by investors, facilitating entrepreneurs´ access to sources of equity financing.

Secondly, the university entrepreneurship centers and incubators must promote among the (potential) entrepreneurs a scaling-up mindset. Due to their socioeconomic conditions, most Central American entrepreneurs still have a necessity entrepreneurship mindset, which has been reinforced by government programs aimed at self-employment and SMEs. Universities and incubators should encourage among their students and mentees a mindset oriented towards scalable business models correlated with attractive returns for investors.

Thirdly, individuals with strong ties within networks of local wealthy individuals could encourage the creation of BAs networks. The potential investors should not only have financial resources but also be committed to the development of local economies. They must be willing to give part of their time to coach entrepreneurs and feel comfortable as minority investors. Government agencies and second-tier development banks could encourage the formation of regional BAs networks, facilitating the connection between the local networks through meetings and online platforms. Such regional network could facilitate the sharing of best practices and investment opportunities, creating an aggregate demand and increasing the investment matching likelihood.

Institutional Strengthening

The results of Paper III indicate that many promising Central American startups fail to obtain equity financing due to the weak institutional environment of the region. Such deficiency affects the selection process of investors, who rule out good ventures without trade-sale potential due to the lack of robust stock exchanges to exit through IPOs. Institutional voids also affect entrepreneurs´ financing conditions: in the absence of appropriate regulatory frameworks and contract-enforcing mechanisms protecting the interests of minority shareholders, investors seek to take over the majority position to control the business.

Government agencies supporting high-growth entrepreneurship could foster the creation of legal frameworks and contract-enforcing mechanisms that facilitate foreign investment, guarantee the interests of minority investors, and regulate the activity of brokers. Second-tier development banks could hire entrepreneurial financing consultants to share the successful experiences of other Latin American countries (e.g., Chile, Mexico) with the Central American legislators. In this way, the policy-makers could understand the importance of robust legal frameworks for entrepreneurial financing.

Furthermore, the local stock exchanges could promote the construction of a regional platform facilitating exits through IPOs. The Costa Rican stock exchange made a commendable attempt to facilitate the securitization of startups and SMEs. Although such program had good intentions, it competed directly with the interests of the VCs, who instead of supporting it, "cherry-picked" the best investment opportunities from the program, which ended up undermining it. For this reason, stock exchanges and entrepreneurial financing providers must work together in the construction of a regional securitization platform. Such a platform would generate an aggregate demand facilitating exits through IPOs, benefiting entrepreneurs, VCs, investors, and stock exchanges. Government agencies and international cooperation agencies could support the replication of the successful "Mercado Latinoamericano Integrado" program carried out by the stock exchanges of Mexico, Santiago, Colombia, and Lima.

6. Conclusions

The results of the current dissertation could be useful to understand how social entrepreneurs recognize and exploit opportunities in environments with strong institutional voids and how the latter affects access to entrepreneurial financing and VCs decision-making. The cumulative dissertation contributes to various literature streams such as social entrepreneurship, entrepreneurial finance in developing countries, and VCs activity. It is recognized; however, that the results of this dissertation must be analyzed in light of the various limitations discussed following.

6.1 Limitations

A common limitation in the three papers of this dissertation is the geographical restriction of the datasets. Although the Latin American region is a good example of a context with strong institutional voids, it is not the only one. Countries in other areas of the world such as Africa, Southeast Asia, and Eastern Europe also have strong institutional voids. Future research could investigate whether the results of this paper are generalizable to those regions.

A second common limitation in the three papers is that the selection process of the interviewees did not start from the root-level actors but was influenced by an established institutional actor. The above generates a potential path-dependency towards the agenda of said institutional actors. For instance, the vision of the social entrepreneur of Paper I is potentially influenced by the agenda that AVINA is developing in Latin America. To externally validate the data sample used, we highlight that approximately half of the interviewees used in Paper I also belong to the Ashoka network. Previous research published in ETP has used the members of such network as data sample (Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010). Likewise, the selection of the interviewees in Paper II and III was influenced by a business school who provided access to its alumni network. I tried to mitigate the potential bias by interviewing actors not related to such business school, and I highlight that 19 of the 33 interviews did not belong to its alumni network.

Although I recognize the interview selection process as a limitation, I highlight the richness of the qualitative data collected and the difficulties of accessing social entrepreneurs validated in relevant networks and investors willing to be interviewed in developing countries. In the entrepreneurial finance conferences I attended, prolific scholars stressed their difficulties in making investors uncover the "black box" of their decision-making processes. For this reason, I highlight the quality of my data and justify the use of institutional actors to generate bonds of trust with investors from developing countries. Due to the conditions of insecurity and the structural holes in the countries, accessing investors would have been impossible without access to the said alumni network. I stress that I did not receive any compensation from the aforementioned business school and that I do not feel committed to validating any potential hidden agenda.

A third limitation pointed out by several reviewers and discussants related to Papers II and III is that I used data from different countries in Latin America, which do not necessarily have the same level of institutional environment. The reason for using different countries was the small number of potential interviewees on each of the countries. In general, the EE of these countries are still in very early stages so there are not many actors to interview. In addition, the providers of capital were very reserved with their information and many of them did not want to be interviewed.

In addition to the three common limitations, each of the three papers has particular limitations. Paper I focuses on how but not on why entrepreneurs decide to address the neglected problems and institutional voids. In Paper II, I recognize that the results are not necessarily generalizable to other developing countries. The structural hole in several of the Central American countries could be stronger than in other non-developed countries due to the colonial heritage, processes of class struggle, and the current situation of gangs and organized crime. In Paper III, I focused on analyzing the effect of institutional voids on VC decision-making but overlooked other factors such as differences in market conditions and tax regimes that could also be affecting the said the decision-making process.

6.2 Further Research

Further research could address some of the mentioned limitations. Scholars could carry out similar studies in other environments with strong institutional voids (e.g., Asia, Africa, and Eastern Europe). Future research could delve into the cognitive process of experimental recognition in environments with strong institutional voids and explore other contextual factors such as market conditions and tax regimes that affect VCs decision-making.

The results of this dissertation open important avenues of research. For instance, the proposed “construed shared expectations” mechanism has relevant implications for the literature of entrepreneurial financing. Such literature has had a siloed approach when dealing with the equity funding gap problem, investigating it from the supply side as a problem of lack of resources (Lam, 2010) and from the demand side as an issue of "investment readiness" (Mason & Harrison, 2001). The results of this dissertation seek to break the siloed approach, inviting scholars to address the problem from a social construction perspective. Such approach allows understanding the structural barriers between entrepreneurs and investors, which hinder access to entrepreneurial financing.

Future research in developing countries could apply the proposed cognitive-relational mechanism in entrepreneurial financing topics. The effects of government programs aimed at economic development through entrepreneurship have been criticized (Shane, 2009). The proposed mechanism could explain why only some of these programs are successful. Future research could test the explanatory power of the proposed concept as a mediator between the mentioned programs and access to early-stage financing. Moreover, "construed shared expectations" could underpin hypotheses related to the effects of accelerators and incubators on investment matching in developing countries, extending the findings of previous research (Dutt et al., 2016; Gonzalez-Uribe & Leatherbee, 2017).

The results of Paper III highlight the differences in the decision-making model of VCs in developed and developing countries. Further research could delve even further into the effects of such institutional voids in the activity of impact investors. The results of Paper I show the strong relationship between the institutional voids and the neglected problems of society (Santos, 2012). In many cases, the social problems had not been addressed beforehand due to the difficulties derived from the institutional voids to generate scalable and financially self-sustainable models.

Because of the relationship between social entrepreneurs and impact investors, the contexts with strong institutional voids also provide an appropriate laboratory to study the activity of the latter. Future research could address the institutional role of impact investors in the development of organizations supporting social entrepreneurship in developing countries. Also, scholars could investigate the differences in the decision-making process between for-profit and impact investors.

Although far from its original aim, the current dissertation could serve as a starting point for the development of a model explaining how entrepreneurial ecosystems arise in developing countries. Previous research in developed markets suggests that such ecosystems emerge around innovation centers, such as universities and anchor companies, when successful spin-offs attract the interest of investors (Mack & Mayer, 2016). Contrarily, the results of the current dissertation highlight the institutional work carried out by investors and other actors in developing markets, who seek to construct "artificial" ecosystems to foster the economic development of their countries. This insight could motivate future research in this nascent stream of the entrepreneurship literature.

6.3 Concluding Remarks

The current dissertation sought to understand the effect of institutional voids in the decision-making of entrepreneurs and investors. From a social construction perspective, the dissertation addressed the research questions using a qualitative and inductive approach based on semi-structured interviews with diverse Latin American actors. It proposes three models explaining how institutional voids affect the recognition and exploitation of opportunities, access to entrepreneurial financing, and VC decision-making. The dissertation made relevant contributions to the literature of social entrepreneurship and entrepreneurial financing. It also provides interesting insights for government agencies, second-tier development banks, university entrepreneurial centers, and other organizations interested in the development of EE in developing countries.

With this dissertation, I hope to have awakened the interest of scholars and practitioners in two central themes. Firstly, I call scholars and practitioners to address institutional voids not only as barriers but also as a source of opportunities. Rather than trying to replicate the business models of developed countries, governments and other entities in developing countries should foster opportunity recognition in the neglected problems of societies and institutional voids. Secondly, scholars and practitioners should put aside their siloed perspectives when addressing access to entrepreneurial financing in developing countries. The solution to such a problem goes beyond the lack of capital and investment readiness. It requires the joint work of entrepreneurs, investors, and institutional actors to build shared expectations that lay the foundations of trust between the parties.

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Curriculum Vitae

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2/2007 - 8/2009	Master in Finance Universidad Centroamericana, El Salvador
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Work Experience

7/2014 - 11/2014	Consultant/Operations Manager (interim) SER Alcoholes, Panama
7/2012 - 5/2014	Researcher INCAE Business School, Nicaragua
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Publications

Conference papers:

Jäger, U., Martínez, C. (2018). *Collaborative Construction: How Social Entrepreneurs with Limited Access to Resources Innovate to Fill Institutional Voids in Emerging Markets.* Presented at the 3rd New Business Models Conference (Sofia, Bulgaria).and Doctoral Colloquium of the 10th Annual Alliance for Research on Corporate Sustainability Conference (MIT, Cambridge, MA).

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