

Ideology and ethics of transitional entrepreneurs: legitimacy, soft law, and overcoming a distressed economy

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Abstract

Purpose – Transitional entrepreneurship in distressed economies is a fairly new concept with respect to new ventures in such challenging economic environments. Formal institutional voids are sometimes held up as a reason for the difficulties present in distressed economies, along with exogenous shocks and other upheavals. In this research, the authors seek to contribute empirically and theoretically as to ways in which formal institutions voids can be filled by a culture developed by transitional entrepreneurs. Indeed, in transition economies, formal institutions need to be enhanced by informal institutions to control corruption and other misbehavior by authorities. Iranian economists emphasize these essential reforms to be able to manage current difficulties, yet top down policies cannot help transitional entrepreneurs benefit from the country's value-adding cultural heritage to informally address this. To study this, qualitative research methods were used to interpret transitional entrepreneurs' ideology and ethical routines as the ingredients of a commercial culture that can establish soft law that substitutes for formal institutions. This helps to reduce the dysfunctionality of formal institutions in distressed economies.

Design/methodology/approach – A thematic analysis interviewing key Iranian entrepreneurs and economists is conducted. Also based on an interpretive paradigm, a hermeneutic cycle has been carried out on selected texts. Results have been verified throughout related literature as to come up with a solid synthesized interpreted outcome.

Findings – This paper contributes to theory from a new perspective by discussing transitional entrepreneurship and navigating a distressed economy; in which, ideology and ethics as the ingredients of soft law (Newman and Posner, 2018) are discussed as the base to further develop a commercial culture that fills voids of formal institutions. The formal–informal institutional cycle in distressed economies as the major difficulty entrepreneurs face (Peng and Luo, 2000) is important, because they try to increasingly enhance their move toward a market orientation (Bruton *et al.*, 2008). The authors contribute as to how transitional entrepreneurs can complete this process of adaptation and also the fact that those informal institutions do actually respond to those adaptations. The other contribution is to enrich theories about institutions from the point of view of culture. Knowing these facts helps transitional entrepreneurs, because in distressed communities, formal institutions' function has an important effect on economic performance (Amorós, 2009). This research's contributions shed light to help government leaders understand the pros and cons of their actions forced on the industry. As it has been characterized in this research, it can turn in to new formal set of legitimacies (Ahlstrom *et al.*, 2008) to root out corruption and help set the economy on a path to innovation and new venture creation.



Originality/value – Transitional entrepreneurs can depend on the less formal cultural-cognitive aspect of ethics and ideology. These entrepreneurs can be working on the burgeoning private sector, who want to connect with the outside effectively to overcome an economy in distress. Transitional entrepreneurs may face governmental institutional intermediaries as a barrier. Formal intermediaries tend to benefit from inefficiencies caused by hierarchical orders and will improve informality in order to overcome difficulties. In this research, institutional theory from the third pillar of the cultural-cognitive sheds light on transitional entrepreneurship in distressed economies, where inquiry is to fill voids of formal institutions as a process of possible linking between new generated soft law derived by beliefs, ideology and professional morality in order to influence (old) legitimacies. The research's focus evolves on values transitional entrepreneurs utilize to build informal institutions and then impact further on formal institutions to handle distressed communities. This theoretical background expands on subsections to define conceptual building blocks for the study, essential aspects such as individuals as transitional entrepreneurs, the values they utilize to generate soft law, informal institutions and soft law, to manage voids in formal institutions and legitimacy building aspects in policy agenda setting for transitional entrepreneurship in distressed economies.

Keywords Transitional entrepreneurship, Institutions, Culture, Distressed economy, Legitimacy, Soft law, Ideology, Ethics, Iran, Central Asia

Paper type Research paper

How can transitional entrepreneurs navigate the formal institutional voids ever-present in distressed economies? When an economy suffers from turbulence and a lack of stabilizing institutions, the environment for innovation and new ventures is extra-challenging (Meagher, 2007; Mokyry, 1992). Transitional entrepreneurs (Nair and Chen, 2021), in particular, face major hurdles in dealing with the problems and the inevitable barriers to entrepreneurship in operating in distressed economies (Ahlstrom *et al.*, 2019; Bruton *et al.*, 2021). In addition, culture is a major element further impacting entrepreneurship, as societies, regions, organizations and individuals alike are all involved in encouraging entrepreneurship and wealth creation (Ahlstrom, 2010; George and Zahra, 2002; Temin, 1997). Past research has described some institutionally- and culturally-based difficulties entrepreneurs face in transition economies (Bruton *et al.*, 2021; Bruton *et al.*, 2008; Si and Bruton, 1999), though work has largely failed to recognize the more individual aspects and attitudes (Carreras *et al.*, 2019). In transition economies, the formal institutional environment is often underdeveloped, and entrepreneurs face many hurdles to starting their business (De Soto, 2000), managing their business in the face of capricious local regulations (Ahlstrom *et al.*, 2000), corruption (Li *et al.*, 2015) and weak property rights (Su *et al.*, 2022; Peng *et al.*, 2017). While the literature provides some recommendations for working in economies with a weak formal institutional environment to navigate via firms and entrepreneurs (Peng *et al.*, 2018), there is less about entrepreneurship in distressed economies (Bruton *et al.*, 2021), and particularly at the smaller group and individual levels of analysis and how the entrepreneurs manage these challenges.

A gradual improvement of the formal institutional environment can help improve economies (North, 1990; Peng, 2007), which facilitates entrepreneurship (Acemoglu and Robinson, 2012; Ahlstrom *et al.*, 2019). But there is also some skepticism about this (McCloskey, 2010, 2016a, b). This research holds that the informal institutional environments can complement the formal institutional one to give better positive validation to entrepreneurs, that is, allowing entrepreneurs to “have a go,” to start new ventures, while offering entrepreneurs more freedom (and protection) (Khosravi *et al.*, 2023; McCloskey, 2010; Mokyry, 1992). For entrepreneurs navigating distressed economies, individual guidance for managing informal institutional regimes and other barriers that hinder the operation of formal institutions is particularly salient in distressed economies (Khosravi *et al.*, 2022; Mitchell *et al.*, 2022).

As such, this paper shows how transitional entrepreneurs can better overcome distressed economies not only by encouraging strengthened formal institutions (Acemoglu and Robinson, 2012; Greif, 2006), but also by building up key informal institutions including

culture, the acceptance of innovation and the legitimacy of new and growing ventures in their region. Through culture, transitional entrepreneurs can affect the dynamics of informal and further formal institutions rather than altering organizational-level strategies or seeking sweeping formal institutional change (Mokyr, 2016; Peng, 2003). This paper further suggests how soft law ingredients as promoted by transitional entrepreneurs as informal drivers can help to build up more of a culture of innovation and venturing. This can facilitate the greater acceptance of entrepreneurship and supporting formal institutions (McCloskey, 2013, 2017), which is not always well-accepted in many countries and regions, where it is thought better to work for a big firm or government than a small firm (or starting your own company). In addition, new soft law and cultural changes in a region can encourage macropolicy setting and lead to changes in formal institutions in support of new ventures (Acs *et al.*, 2008; Ahlstrom, 2010; McCloskey and Carden, 2020; Mokyr, 2016).

Due to the transition from a more centrally planned economy to a market economy (Bailey, 1995), and under much sanction, Iran's economy has not been mentioned as fast developing in recent decades. Due to disruptive shocks to major entrepreneurial activities, uncertain fluctuations of key oil and commodity prices (Segoviano and Spinoza, 2011), Iran's economy has generally been characterized as distressed in recent years. Recently, some recognized Iranian economy specialists [1] call Iran's current economy as a "friendship economy" [2] or an "unproductive economy" — a sort of crony capitalist economy (Kang, 2002). They add that it suffers from corruption and severe structural dysfunctionality. In such a system, formal institutions' operation are weakened and are difficult to set and then implement based on conformance to key rules that regulate but also facilitate business (Bruton and Ahlstrom, 2003; Garud *et al.*, 2002).

Thus, to explore how transitional entrepreneurs and their associated organizations can navigate and even help to improve a distressed economy, a thematic analysis was conducted in interviewing key Iranian entrepreneurs and economists. In addition, a hermeneutic cycle has been carried out on the results to discuss the concepts of qualitative generalization (Levitt, 2021). Findings have been further substantiated throughout related literature as to develop a solid synthesized interpretive outcome along with associated contributions.

This paper contributes to theory from a new perspective by discussing transitional entrepreneurs and reporting on the challenges they have in navigating and sometimes overcoming a distressed economy; one in which, ideology and ethics of transitional entrepreneurs can form the ingredients of soft law (Newman and Posner, 2018) and facilitate the building of regional commercial culture that better encourages and legitimizes innovation and new ventures. This adds to the understanding of formal institutional voids in distressed economies, as well as informal institutions (such as soft law and commercial culture) with respect to entrepreneurial performance in distressed economies (Amorós, 2009). Traditionally, it has been assumed that formal institutions could be imported into a developing or even distressed economy and somewhat "magically," fully functional laws and their enforcement would emerge, thereby encouraging commercial activity (North, 2005). Yet this has proved difficult as formal institutions need support and validation from informal ones, including commercial culture, so entrepreneurs can operate and entrepreneurial activity can flourish (McCloskey, 2010, 2013). We thus further contribute to practice in examining how transitional entrepreneurs can help to reform this complex system of adaptation to fill voids in institutions, and how informal institutions actually respond to this adaptation in enhancing market orientation and the cultural validation of innovation and new ventures in developing distressed economies (Bruton *et al.*, 2008; Tomizawa *et al.*, 2020).

A related theory contribution is to enrich institutional theory from its cultural-cognitive (Ahlstrom and Bruton, 2006; Scott, 2013) perspective in better explaining how culture, through key values, can enhance the legitimacy of commercial activities (McCloskey, 2006).

This research's contributions shed a light to help government leaders understand the pros and cons of their actions foisted on industry, especially those policies that have impact on venture creating and effectiveness of new emerging entrepreneurial opportunities. Such new informal and formal institutions (Ahlstrom *et al.*, 2008) can reduce the endemic corruption facing Iranian entrepreneurs, and likely entrepreneurs in many distressed economies, where entrepreneurial and commercial activity are impeded (De Soto, 2000; Li *et al.*, 2015).

Literature review

Bruton *et al.* (2021) define transitional entrepreneurship as entrepreneurs acting to combine resources and capabilities in new ways to overcome the difficult settings they find themselves in. Recent research on transitional entrepreneurship has also examined certain mitigating factors that help entrepreneurs navigate challenging environments and legitimize their activities in the face of much skepticism and outright opposition (Ahlstrom *et al.*, 2008; Bruton *et al.*, 2021; Nair and Chen, 2021). Quite often, these actions require the securing of support of an influential decision-maker or organization in the distressed region (Ahlstrom *et al.*, 2000). Yet in distressed economies, less frequently is the role of institutions discussed as “the rules of the game that shape human interaction” to conduct and create regularized social behavior (North, 1990), along with their well-managed maintenance (Acs *et al.*, 2008; Acemoglu and Robinson, 2012; Rodrik *et al.*, 2004). Resource scarcity and challenging circumstances put these entrepreneurs that are in economically distressed economies in some difficulties (Nair and Chen, 2021), from which they need to draw on informal institutions such as interpersonal ties to operate successfully (Peng and Luo, 2000).

Indeed, a key developmental element in an economy is the entrepreneur's activity as well as the social validation of the entrepreneurship, even under distressed circumstances (McCloskey and Carden, 2020). Informal (and later more formal) institutions can derive from such positive attitudes toward entrepreneurship and innovation (McCloskey, 2010; Mokyr, 2016), and these motivational structures are a key factor in the development of entrepreneurship in distressed economies. Thus, entrepreneurs and their supporters such as micro financiers and venture capitalists can work to create institutions and rules that facilitate entrepreneurship or sometimes import them from overseas (Bruton and Ahlstrom, 2003; North, 1994, 2005; Rodrik *et al.*, 2004). In that sense, the older view that formal institutions must be implemented first, sometimes from foreign sources, to establish a commercial environment in which entrepreneurs can flourish (North, 1990, 2005) has come under critical scrutiny of late (McCloskey, 2010). This is as the role of informal institutions, and culture are (again) more closely examined and how informal institutions not only validate and encourage entrepreneurship, but also help first form the foundations for later formal institutions that can further enhance entrepreneurship (Bruton *et al.*, 2021; Khosravi *et al.*, 2023; Temin, 1997).

The informal institutions that encourage entrepreneurial activities, and idea novelty, and help to safeguard their businesses and intellectual property (IP), form the basis for a more vibrant entrepreneurial atmosphere, even before the codifying of these practices into more formal law (McCloskey, 2016a, 2018; Mokyr, 2016). Aspects of virtue such as hope and liberty, for instance, encourage the freedom (and lack of trepidation) in the spread of entrepreneurship and its benefits across economic beneficiaries, as the international development field has learned, a “one-size-fits-all” approach may not be effective to helping distressed regions (Easterly, 2001). Social validation of a major activity such as entrepreneurship has only sometimes been seen as a valuable informal institution such as culture and work ethic (McCloskey, 2006, 2016a; Mokyr, 1992). Institutions can be re-structured also through the efforts of transitional entrepreneurs who introduce entrepreneurial and conscientious business methods. Research suggests entrepreneurs can

have a significant impact on informal (and sometimes formal) institutions in a region, even under very difficult circumstances (McCloskey, 2022; Tomizawa *et al.*, 2020).

In institutional theory (Scott, 2013), apart from the regulative pillar or the formal rules, the normative pillar or professional-commercial norms and related incentives, the third cultural-cognitive pillar is less analyzed. Referred to taken-for-granted beliefs and values internalized by social actors and their social validation (McCloskey, 2010), and in poorer societies, less formal institutions such as norms and the cultural-cognitive ones especially matter as they substitute for more formal laws and rules that may be lacking there (Robert Cooter, 1994).

Transitional entrepreneurs need to be particularly innovative in building a valuable small business, and for that, it is often not enough if formal institutions fail to create a legal framework and secure platform (Khosravi *et al.*, 2023). Entrepreneurs in distressed economies purposefully navigate between the enabling and constraining rules of the institutional environment about informality (De Castro *et al.*, 2014), especially in transitional entrepreneurship (Bruton *et al.*, 2021). In order to build the foundation of understanding of transitional entrepreneurs from distressed communities, it is helpful to analyze how to fill voids in underdeveloped formal institutions which results in an unstable environment (Puffer *et al.*, 2010).

Moreover, transitional entrepreneurs combine resources in new ways to solve problems in distressed economies. These resources' combination exploit opportunities and arbitrage while transitional entrepreneurs in the process try to establish some business-friendly norms in their locality, which further helps them overcome the difficult situation (Kautonen *et al.*, 2017; Bruton *et al.*, 2021). Transitional entrepreneurship has thus emerged at the intersection of several entrepreneurship concepts. Entrepreneurs in transition environments thus face more risk than those in more developed economies (Puffer *et al.*, 2010). Attention through transitional entrepreneurship has the beneficiary to discuss individuals from economically distressed communities (Nair and Chen, 2021). As the focus of this article is to examine transitional entrepreneurs' beliefs, ideology and ethical movements which can help manage resource scarcity and other institutional voids (via culture and values), a new set of legitimacies based on soft law can empower transitional entrepreneurs might also be identified (Bruton *et al.*, 2002, 2021; Chinkin, 2008). To examine the activities of transitional entrepreneurs and their expected effects, this research focuses on the third, informal pillar of institutions, especially as they acquiesce to a variety of culture in order to fill institutional voids (Puffer *et al.*, 2010).

Methods

A qualitative methodology is used to examine current fairly new subject of transitional entrepreneurs handling distressed economies in institutional terms. The thematic analysis was conducted to gather interview results, followed by a hermeneutic cycle to complete analyzing interviewees' declarations. As part of the research design, we contacted 11 Iranian experts on entrepreneurship and economics, from academia, science and technology parks, and private firms to interview. The thematic analysis is appropriate for interview research designs based on an interpretive paradigm (Ibrahim, 2012). Due to the importance of unfolding the data to better understand the interviewee's lived experience, results of interviews were interpreted using a hermeneutic approach to analysis (Honey, 1987), as interview-extracted data were interpreted according to literature (Vandermause and Fleming, 2011). To complete the cycle of hermeneutics by Gadamer's school (1989), a "rotational motion" of sorts from "the whole" (big picture) to "the parts" (analysis of components) was followed to obtain a comprehensive discussion, which is a complementary to literature review section (King, 2004; Braun and Clarke, 2006). Drawing on modern hermeneutics (Bowie, 1998), the participants' information are cross-checked for coherence and showed consistency in the topics discussed.

Credibility in this research addressed as the “fit” between the respondents’ views and the researcher’s interpretation and the (limited) extant theory. Transferability is referred to the generalizability of inquiry, and dependability represented by logical, traceable and clearly documented results. Conformability is taken by reasonable decisions on managing data (Nowell *et al.*, 2017) to establish validity and trustworthiness.

Results

Transitional entrepreneurship in distressed economy of Iran

As a key part of Central Asia, Iran has long been of interest to those in major primary fields such as energy, mineral resources and its geo-strategic location (Khosravi *et al.*, 2023); entrepreneurial activity can be found in a range of these fields as well as in higher technology areas. To categorize results for interpretation, a description on transitional entrepreneurship in Iran is provided (and likewise was given to the prospective interview subjects). In recent decades, sanctions, tensions in international relations, climate change, and global and regional pandemics have created major risk factors for Iran’s economy and created upheaval. Besides the high inflation rate, the unemployment rate in Iran has remained persistently high over the past decade. In particular, the youth unemployment rate reached about 25%. More than half of Iran’s population are youth, as the major contributors to the economy and entrepreneurship seek a transition to a knowledge-based economy (Faghih and Sarfaraz, 2014). Given its big and youthful population as well as good capital stocks and resources, Iran certainly could become an entrepreneurial and economic powerhouse, also given Iranians’ appreciation and investment in education (Ratten *et al.*, 2016). More than half of entrepreneurs in Iran recently had university education, particularly with strengths in tech-fields and startups.

According to the interviewees, Iranian venture creators sought to benchmark entrepreneurial eco-systems from Germany, Malaysia, Japan and Singapore over previous decades (Khosravi *et al.*, 2023). During recent years, policies have started moving closer to the more macroeconomic policies of China and Russia. Hence, Iranian transitional entrepreneurs have been concerned about the current policy terms which are more macroeconomically oriented and are especially concerned about industrial policy plans (and funds) directed at established industries or mega-projects, rather than toward entrepreneurship, entrepreneurship education and incubators, for example (Johnson, 1982).

Toward the aim of promoting new ventures more effectively, the interviewees stated that government agencies in Iran have at least haltingly restarted efforts toward establishing institutional intermediaries such as science and technology parks, growth centers, incubators and knowledge-based firms under the national innovation system (NIS). They added that these efforts have increased information and awareness about entrepreneurship, but have not as yet created any breakthroughs or provided much economic spillover through the businesses to the markets. They added that policies set in the macrogovernmental sections as the hierarchical ordered legitimacies must pass through meso- and microlevels in the aim of linking industry and research centers, but as yet have failed to help transitional entrepreneurs. At the beginning, some mediator centers established by governmental ministries like Iran Nanotechnology Innovation Council (INIC) had some influence on formal institutions in order to encourage (and protect from interference) new ventures, but according to the interviewees, it has failed to help transitional entrepreneurs in networking much between academic and industrial centers and securing talent developing IP.

For example, the Sharif Advanced Technologies Incubator (SATI) [3] community is an intermediary that works with and raises knowledge about transitional entrepreneurship in Iran. Interviewees from there represented informative details about recent decade’s governmental attempts towards accelerating new venturing are represented below. A former top manager of a governmental science and technology park commented:

In Iran, it has been about 2 decades since the government starts to take establishing science and technology parks toward a knowledge-based economy. Forty-four [science and technology] parks, more than 190 growth centers and about five thousand knowledge-based companies, located in those parks, were established to increase the number of knowledge-based small and medium enterprises and commercialize technological-innovative products. It was supposed to create opportunities of new hires, making intermediaries, facilitating investment in new technology-based companies, and promoting networks among innovation stakeholders that aim to exceed regional market boundaries.

As this participant mentioned, the overall macropolicies during last 2 decades were on achieving higher rate of employment in entrepreneurial, growth firms. It is one of the inevitable outcomes of any value-creating commercialization, but participants wondered why that number of technology parks, incubators and new knowledge-based companies why more entrepreneurial and economic development (and growth firms) had not occurred. At this point, the answer of another participant, a professor of entrepreneurship, practitioner and consultant for national venturing projects, makes a further point:

Transitional entrepreneurship in Iran functions less well, compared to other Asian countries like Singapore or Japan earlier. Lack of infrastructure hinders tangible growth and acceleration, and, growth is low reaching a minimum. Governmental policies keep intermediaries in stillness and isolation and not looking up to the experience of other Asian counties that get portions of international markets. The unfavorable business environment really calls for reconsidering top-down policies and legitimacy. Transitional entrepreneurs have no choice except for simply protecting their own businesses to survive.

According to the interviewees, many entrepreneurs are also expressing disappointment with the current governmental intermediaries in Iran; indeed, by taking actions removed from the more formal intermediaries, the entrepreneurs are better able to avoid the incessant corruption present. To overcome the distressed economy, these transitional entrepreneurs also prefer to deal with self-made ventures or private agencies and firms over which they have more influence, and which are protected from overt corrupt activities. They seek more informal networking and the circumventing of potential problem spots (Dutt *et al.*, 2016) so as to stay away from exploitation (e.g. bribery or non-productive businesses) (Ahlstrom *et al.*, 2003). One entrepreneur explained this, with respect also to formal institutions:

The current politicized environment and corruption in governmental agencies have caused less amount of trust toward formal institutional intermediaries set for linking entrepreneurship ecosystem components in Iran. The function of political units is contingent upon institutional contexts and your connections.

The government controls local financing and legislation relational policies over infrastructure-building and socio-cultural bridging policies (Marquis and Raynard, 2015). Transitional entrepreneurs state they want to make positive contributions to the institutional, cultural and commercial environment. They do agree, though, that non-political, private intermediaries and incubators can be of much help. For example, Karaya Angel Investor Group [4] is a kind of private intermediary that transitional entrepreneurs felt they could rely on. Another institution for suggesting successful programs to help transitional entrepreneurs is Germany's Mittlestand, a program to support small and medium-sized enterprise in Germany, which is offered by Iranian-Industrial Management Institute (IMI) to follow consulting educational research for entrepreneurship, as transitional entrepreneurs rely on this program. Transitional entrepreneurs then prefer to avoid public science and technology parks as they want to establish fresh soft law (Newman and Posner, 2018) and other informal institutions in greenfield regions. They want to break old oligopolistic and crony practices that tend to dominate older, industrial regions with long traditions of government participation and control, much like the contrast between China's industrial northeast and the entrepreneurial southern provinces.

Soft law is an important concept that is fairly new to business studies that also emerged during the interviews, and was identified as especially helpful in terms of the entrepreneurs and their domiciled economies, weak in formal institutions, to help build up new commercial culture and other social conventions (Hindriks, 2022; Marchant and Allenby, 2017; Newman and Posner, 2018; Shaffer and Pollack, 2010). In addition, several of the interviewees pointed out that commercially-friendly values modeled and promoted by transitional entrepreneurs and their financial allies in Iran are filling some of the voids of formal institutions, especially in newer, entrepreneurial regions of the country. This is done, for example, by fair and reciprocal business activities that entrepreneurs and their funders' practice. Also, it is by the shunning of those entrepreneurs and firms that defect from the positive commercial behavior and virtues especially needed in less formal developing economies (Ivy and Perényi, 2020; McCloskey, 2006; Wang *et al.*, 2008). Ambitious norms of entrepreneurial culture are more easily achievable via informal institutions as comprised by soft law (rather than by legally binding law) (Skjærseth *et al.*, 2006; Hindriks, 2022). Iranian transitional entrepreneurs can turn soft law ingredients into new applicable institutions (Chinkin, 2008), which are discussed in next sections.

Filling the voids and reviving legitimacy by institutional values

As noted, informal institutions (McCloskey, 2016b) can fill voids of formal institutions (Ahlstrom *et al.*, 2020), as the bottom-up approach of innovative human capital links to the more formal (top-down) institutions. Between a "value bridge" can create an ethical culture (Khosravi *et al.*, 2023). An entrepreneur of self-made NGO in welfare for orphaned and poorly cared children in Iran has declared:

Formal organizations in Iran are out of work, and abandoned in hands of employees who just physically present in the organization, with little progress and innovation. This is mostly because of the 'farewell to virtue,' a lack of trustworthiness, built up and built-in corruption and not letting creative qualified people in to do their work.

Transitional entrepreneurship can fill voids (Mair and Marti, 2009) by value generating and offering soft laws promoting entrepreneurial activity and discouraging corruption. Transitional entrepreneurs pragmatically influence the culture and create a vitality of values, which can form the core of soft law, And as voluntary standards, they hope a regional business community will follow the commercial culture and adopt good commercial standards such as paying bills on time and respecting IP and brands. Much the same happened in some more entrepreneurial parts of China such as Zhejiang province (near Shanghai) that were separated from much government oversight and the big state enterprises, and thus gradually developed soft laws and conventions, commercial culture and legitimized entrepreneurship, well before national laws were passed legitimizing private enterprise (Huang, 2008; Newman and Posner, 2018). The interviewees agreed that transitional entrepreneurs and their allies in the banking and finance community have a major role to play in creating new soft law and socio-commercial conventions that are in line with international standards. This can not only positively impact formal institutions that take their cue from the new developing standards as happened in Singapore, Malaysia and other parts of East Asia, but also facilitate the attracting of foreign direct investment to the regions legitimizing new ventures and unencumbered private enterprise (Abbott and Snidal, 2000; Bruton and Ahlstrom, 2003; Bruton *et al.*, 2002; Huang, 2008).

Ideology and ethics: key elements of soft law

As noted, the interview results show that beliefs, ideology and ethics of transitional entrepreneurs can help to build up the soft law, and this can shape informal and later, more formal institutions. An important component of institutions is cultural beliefs, which are the

ideas and values held by groups several people that govern interaction (Greif, 1994, 2006). Culture reflects ideas, values, norms and meanings, as well as material forces that can create paths for the development of key institutions (including culture) (Harris, 2001). A governmental official for entrepreneurship policy commented:

Transitional entrepreneurs contributing to bottom up development of laws and cultural-cognitive beliefs will better facilitate entrepreneurship and innovation [compared to before], as every ideological attitude of ethical behavior can be individually the stem of new soft law items that promotes innovation, as the innovation, in more practical terms, is the wheel of new venture creating. In a long run it impacts from the micro to the macro levels of formal institutions. Transitional entrepreneurs are prone to work under the culture that has been based on ideology and professional ethics. The will must be in accordance with reality, if so, soft law can turn into legitimacy in order to build new structures that will fill voids in Iranian formal institutional.

In contrast with more traditional institutional scholars, newer institutional research focuses less on law as binding agreements, as opposed to commitments that people and organizations will follow up on voluntarily (Shaffer and Pollack, 2010). Soft law is made effective by combining both bottom-up and top-down mechanisms and can bring about legitimacy changes (for entrepreneurial activity, in this example) and legal changes subsequently. Several interviewees noted that this regional, informal stepwise approach to reform may be more effective than the imposition of traditional top-down, hard legislation, and hence saw the value of the importation of informal business and commercial institutions (Di Robilant, 2006; McCloskey, 2010).

Ideology and changing the culture of institutions

To “permit individuals” as it is said in Iran, is a newer version of letting them “have a go,” (as said in Britain), that is, the encouraging of innovation and new venture creation without major interference from government or other powerful local actors and firms (Ahlstrom, 2010; McCloskey, 2006). To encourage development and entrepreneurship, giving entrepreneurs economic liberty, legitimizing dignity and protection worked for many Western countries (and now several others), as it helped them become 30 to 100 times wealthier than before since the economic takeoff starting in the early 19th century (McCloskey, 2018; Tomizawa *et al.*, 2020). Such learned norms and beliefs develop more slowly than economic and technological changes, but cultural beliefs can affect how institutions function and have a big impact on entrepreneurship and eventually development (Koyama and Rubin, 2022; Temin, 1997). The interview subjects pointed this out when they mention terms like “justice economy,” and removing barriers to entrepreneurship such as with firms like Uber and Airbnb, that is, or how culture and informal institutions help to explain how the world became much wealthier, and especially for the distressed regions. The understandings summarized in the interviews mostly guide to the fact that the validation and basic protection and encouragement given to entrepreneurs and other small business in a region can help them promote beliefs that shape positive commercial culture, which will (hopefully) lead to supportive formal institutions (McCloskey, 2010). This is an expansion on the research of the origins of the more recent economic growth also through the help of cultural entrepreneurs (Mokyr, 2012; Temin, 1997). Such cultural entrepreneurs are agents who influence the beliefs of others as one entrepreneur interviewee who owned a growth firm to produce industrial oils noted about culture:

It is very important that how culture and institutions get established, because current dysfunctionality in formal institutions is rather a result to the basic saying: “a little knowledge is dangerous.” Institutions must prevent entrepreneurs from acting on wrong way of applying knowledge, because it generates wrong beliefs and eluding ideology. Iranian culture is shaped upon rich heritage of worldview that transitional entrepreneurs must realize and be schooled to recall.

The action of transitional entrepreneurs is coordinated with their worldview and the rise of the entrepreneurial spirit that characterizes certain cultures (Bruton *et al.*, 2010). When transitional entrepreneurs do not take action upon the knowledge, knowledge will fade. What keeps knowledge alive and developing is practice and a transitional entrepreneur's actions issued based on how he or she believes, this can help to build an ideology that encourages innovation, experimentation and enterprise (Chung and Gibbons, 1997; McCloskey, 2010; Mokyr, 2016). Perception and consciousness are educable, while, social validation, understanding and knowhow require action to implement. The aim and purpose of having an impact on a region's commercial culture is a primary object of a transitional entrepreneur who wants to play a dual role as a sort of cultural entrepreneur and impel or encourage change. Another participant assessed the effect of the institutional environment on transitional entrepreneurship as:

Due to history of development, informal institutions have been the most important communities as the "civilizing agents" in Iran, because they have prevented individuals from acting on their impulses in a not professional way, but the current formal institutions are failing to let entrepreneurs act on their own instincts and . . . be more innovative.

All institutions are inherently ideological formations, as another interviewee active in informal private sectors' entrepreneurship expanded this fact over the culture:

Under a good function of culture in institutions, transitional entrepreneurs are tolerant to accept individuals hold different degree of right beliefs and ideology; they allow partners to act trying to be a better actor.

The foundation of institutional culture in the aim of empowering performance of transitional entrepreneurs is based on good commercial ideas and virtues, which leads to the wider emergence of virtuous ethics (McCloskey, 2006). Although transitional entrepreneurs have different opinions on social, economic, cultural, political, moral, religious and educational issues, the interviewees noted that they agree on the need for social validation of their work, removal of barriers to entrepreneurship, and the positive commercial culture and values they (and others) can bring to the regions and circles in which they function, and eventually to the whole country as has happened in some other developing countries. These cultural beliefs matter because it explains why people do what they do and therefore why institutions encourage certain patterns of behavior in some contexts (Greif and Rubin, 2022). North and other economists have recently come to grips with the economic significance for economics of cultural beliefs and ideology (Galiani and Sened, 2014; Temin, 1997). Culture is a key factor in transitional entrepreneurs' inspiring of key informal (and later formal) institutions.

Ethics and changing the culture of institutions

Soft law gives transitional entrepreneurs new political resources to intervene in, and influence various forms of legitimacy that can give their activities better political and social validation. These include perceptions of expertise (Newman and Posner, 2018) morality and neutrality. To improve opportunities for perspective entrepreneurs, McCloskey (2018) brings the term "humanomics" which illustrates defines economies in a cooperative perspective and influenced by virtues and reciprocal behavior. McCloskey (2006) emphasizes on commercial ethics among the "Bourgeois virtues" of entrepreneurs. Ethics helps transitional entrepreneurs generate values to shape a constructive institutional culture. An economic expert managing an entrepreneurial center pointed out:

Working under a culture of morality in institutions lets transitional entrepreneurs show perfect tolerance toward each other and to be innovative, such culture prevents them of being utterly indifferent to what others believe and how they try to add up to the system. This includes behaviors that may call for sacrifices. It also allows entrepreneurs to validate right beliefs and moral behaviors that will gain large amount of beneficiary to current in-need formal institutions to change.

Due to the Islamic philosophical heritage (Tabatabai, 2008), inner forces of chastity, charity, courage and reciprocity are widely accepted as the basics of morality. Business justice in ethics likewise has branches known such generosity, patience, boldness and modesty (McCloskey, 2006). The UNESCO constitution's preamble is laced with the concepts as peace, justice, dignity, and so forth as the elements of universal culture in the name of commonality in institutions (Derrida and Trifonas, 2002). In ethical culture, transitional entrepreneurs earn trustworthiness as a virtue exemplified due to ethical decision-making (Sulaiman *et al.*, 2022), as a macrolevel manager recounted an actual historical story of the new ages of the early Islamic era as:

Salman the Persian (568 AD) was governing Mada'in, while inspecting market, he witnessed many guards had been appointed to control safety; he realized that policy posed an imposition of cost on governmental budget; He wanted Muslims to believe in their own ethical commitments strongly as to never steal or cheat. He ordered dismissing guards, and announced to shopkeepers to leave their shops open. Inner commitment of each individual there kept market environment safe. That was a pragmatic example of approaching professional ethics or rather set a culture in the market place. We need those kind of attitudes these days to soften rigid legitimacies in formal institutions.

Other experts in entrepreneurship gave specific guideline about Iranian culture on this in commenting: "A lack of knowledge makes people try wrong agendas out of their free will. Formal ministries set policies through virtues and right ideology to mediate institutions."

There must be an inner drive for transitional entrepreneurs to act upon ethics effectively to be able to control cheaters or those who are corrupt or pursue crony capitalism agendas with government. They seek to gradually build up an institutional culture that facilitates trust and legitimizes innovation and new ventures – even if that innovation disrupts established industrial interests (Koyama and Rubin, 2022). This fills voids, as a depletion of ethics and trust (and development) within institutions thwart the economic renewal.

It has been the case that ethics has been sometimes downplayed by researchers in business and economics in recent years (McCloskey, 2006). An Iranian top scholar in entrepreneurship commented about this:

Corruption in current formal institutions make entrepreneurs be indifferent toward other actors, unfortunately transitional entrepreneurs in current atmosphere are less care about how other act or what others believe, and this attitude do trigger destructive actions. A collectivist institutional culture, in which moral actions are appreciated, can make transitional entrepreneurs motivated.

When ethics and morality become well-accepted, transitional entrepreneurs spread right beliefs and practice moral actions to bring systematic beneficiary spillover effects, wealth, dignity and regional development. Bureaucratic jurisdiction, to govern in regulatory and institutional culture all shape in the birth of ideological and ethical soft law. This effects policy setting through the mechanisms of legitimacy claims (Newman and Posner, 2018), as a policy entrepreneur participant commented:

Policies implemented well have two sources of support, one is based on efficiency, but the other is about ethics. Culture represent a larger variety of cultural materials and thus increases the options for innovation and effective management.

Building up an ethical commercial culture and helping to reform institutions is not undertaken simply by profit-seeking beneficiaries maximizing their interests. There is no rule or executive guarantee to keep moral virtue. The interviewees argued that the eventual reform does not come from newly imposed formal institutions or supposed profit maximization behavior. Change in the marketplace that is widely accepted needs to come from below and gradually spread. Yet the interviewees agreed that this observation and finding is difficult to get people to accept, especially those used to top-down decision making and industrial policy.

Thus, transitional entrepreneurs deal with an economically distressed community in Iran, and they not only experience a disturbing financial status, but also look to improve the informal environment in order to reach consensus over soft approaches coming from the bottom-up. Innovative human capital must be left free to not only have a go, but also to “make you reach” (McCloskey and Carden, 2020), and throughout a self-cultivation, transitional entrepreneurs can fill voids of formal institutions to pass distressed era as they seek to meet (and promote) global entrepreneurship standards.

Transitional entrepreneurship in a regime such as Iran is different from most other parts of the world, because the economic contribution of innovations have not as yet materialized (Czarnitzki *et al.*, 2011), and some still await renewed legitimacy (Meyer and Rowan, 1977). Although the cultural environment does not have a direct impact on institutions’ legitimacy, institutional legitimacy fluctuates by factors such as ideology, beliefs and moral movements in a time where innovativeness and distributed decision-making promotes competition in the market of ideas. Indeed, the effect is indirect, as the market for morality is much like appreciating right ideology and beliefs. Ethical attitudes have roots in knowledgeable right beliefs.

The overall policy setting in Iran, whether the protocols in institutions, is not geographically dispersed, it still largely comes from a macro top-down approach, which concerned several of our interview subjects. They agreed that this can be sometimes good if the upper level policymakers do not try to anticipate market changes too much and instead act as facilitators for the emerging business and industries, while carrying out government’s main function of making and enforcing just laws (Lerner, 2009). Culture is historically rich in Iran, it can be taken as part of the origin of soft law to help fill voids in formal institutions. In large emerging markets in underdeveloped countries with complicated institutional configurations, transitional entrepreneurship resolves voids by providing an important locus in which entrepreneurship simultaneously interacts via a new culture. Soft law builds the culture with constitutions of bottom-up reforms. Transitional entrepreneurs play an important role to insert soft law through informal institutions, so that new terms of legitimacy can be developed into formal institutions. A distressed economy is more than just a title, in such economy the whole ecosystem of entrepreneurship is under stress. Comparing to common mature or emerging economies (Bruton *et al.*, 2021), transitional entrepreneurship have business management issues under special circumstances in distressed economies. Transitional entrepreneurs can probe and affect institutional environment to overcome and resolve challenges. Soft law dynamically makes precise adjudication and detailed regulations, in front of hard law (Abbott and Snidal, 2000), and this is an advantage for transitional entrepreneurs to take, while they apply soft law and build conventional informal institutions that they hope will become widely legitimized and accepted. As the engine to improve cognitive-cultural institutions (Bruton *et al.*, 2002), making consensus in informal institution in order to alter formal institutions will add to transitional entrepreneurs’ individuality. Soft law is not promulgated by government (Marchant and Allenby, 2017), as its application is not limited to governmental jurisdiction. Values derived by morality (McCloskey, 2006). Transitional entrepreneurs affect their allies by value settings, and this is how soft laws turn into new terms of legitimacy, various types of private standards, guidelines, principles and codes of conduct. Policies to build and apply a moral culture can be implemented by encouraging each transitional entrepreneur to make use of his/her inner richness. Such culture raises dignity, liberty and justice (protection) to fill the voids of corruption and help transitional entrepreneurs manage challenges of distressed economies.

For overcoming a distressed economy in Iran, numerous bureaucratic routines as the old top-down approaches must be repaired by innovative soft law routines that transitional entrepreneurs impose to culture. It is now more obvious what role do ideology and ethics of transitional entrepreneurs play to reconstruct all socio-economic, political and cultural states.

Institutions of Iranian society have shown openness to bottom-up change when there are new cultural elements introduced into society. The interviewees hoped that transitional entrepreneurs' beliefs will generate idea novelty, innovation and ethical behavior, and in the process create new soft law that will lead to institutional change, especially with respect to the wider acceptance of commercial culture. And especially, they added that this will lead to limited reforms that can gradually accepted widely. Positive institutional change in this case means a new transformation and transition to a new era of energetic entrepreneurial movements toward economically comprehensive developments and institutional reform. Simply put, entrepreneurs should receive validation and work to establish positive soft law with help from allied firms (especially in banking and finance) that can yield more durable institutional reform. If these changes occur, often in a given region (Huang, 2008), entrepreneurship will be more than tolerated but encouraged. And younger people will no longer receive criticism for quitting jobs at big firms or government to "have a go."

Contributions

This research has sought to shed light on the concept of transitional entrepreneurship in countries that suffer from distressed economies. Underdeveloped formal institutions in Iran negatively impact its economy, as institutional voids often put inconveniences, more uncertainty and risk in the way of transitional entrepreneurs and make the overall business atmosphere unstable. The first and major contribution in this article is to offer ways to empower transitional entrepreneurs in such atmosphere, as to offer ways to authorize legitimacy through informal ways stemming from transitional entrepreneurs' ideology, beliefs and ethics and legitimization of entrepreneurship (Akbar, 1993). Pragmatic movements based on ethics and the spreading of positive soft law can promote entrepreneurship and subsequent growth needed to lead economies out of distress (Ahlstrom, 2010; McCloskey, 2006).

Transitional entrepreneurs can change culture in formal institutions and further deal with a distressed economy. This article contributes empirically in summarizing how the interview subjects held that transitional entrepreneurs sometimes can pragmatically build an institutional culture in their regions that allows them to model a virtuous and charitable commercial culture of honesty and reciprocity (McCloskey, 2006), which in turn can lead to well-accepted soft law that encourages others to "get with the program" and help model (and lead) institutional reform in their region. Like Germany limited its initial economic reforms to *Mittelstand* (Venohr, 2010) and then encouraged entrepreneurship increasingly using those models for promoting small and middle-sized enterprises (SMEs), Iran can encourage entrepreneurship friendly policies (led by entrepreneurs and entrepreneurial finance) in order to test out what works. But in doing so, the interviewees argued that government should not to lead reform, but act as a sort of fast follower and help the entrepreneurs and Allies in areas in which they are already moving in (Lerner, 2009). In that manner, the interviewees noted, the transitional entrepreneurs may try to alter commercial culture to eventually encourage formal institutional reform in their region, and be encouraged by government, and also in part with help from venture capitalists, microfinance organizations, NGOs, technology transfer firms, boundary organizations and stakeholders, science and technology parks and angel investors or any other different types of Allies and stakeholders (Mitchell *et al.*, 2022).

Also, this article contributes by its emphasis on informal institutions and their antecedents such as soft law, and the broad approach that can be taken to encourage those institutional changes particularly on the cultural-cognitive pillar and later to formal institutions (Bruton *et al.*, 2010). We sought to expand on third pillar of the cultural-cognitive pillar (Scott, 2013) in defining commercial culture more in terms of ethics of the (transitional) entrepreneurs, and the validation and dignity afforded the entrepreneurs as they seek to

establish the legitimacy of their firms, their industry and the practice of entrepreneurship, especially growth entrepreneurship. We have concentrated more on cultural-cognitive pillar, because it includes accepted values and beliefs that draw extensively upon a society's culture under a distressed economy. From the view of cultural-cognitive perspective, it is reasonable to ask how transitional entrepreneurs can help to encourage institutional change (North, 1990) and reduce corruption (Peng, 2003). Ideology expressed by transitional entrepreneurs can put an effective progress on filling institutional voids and venturing as financiers back them up and government adds legitimacy and some reform to their activities without being too directive at the top (Lerner, 2009). Transitional entrepreneurs' ideology and their ethical attitudes are important starting places (Ahlstrom and Bruton, 2001).

Limitations and future research

Data for this research gathered due to transitional entrepreneurship in the distressed economy of Iran and its institutional situation, though, those economies operated by transitional entrepreneurs, may have to some degree deal with same dis-functionalized formal regulative environment in institutions. In terms of countries apart from Iran and others in central Asia, this research is limited by its focus on Iran. Future study is needed on the particular characteristics and actions taken by transitional entrepreneurs in countries in other parts of the world. In addition, the interviewees stayed at a fairly high level in terms of entrepreneurial actions. Future research can discuss new aspects of transitional entrepreneurship in emerging or mature economies analyzing beliefs, ethics and specific actions the elements to build up positive commercial culture and promote it in their regions. Future research can also discuss more on the normative or regulatory pillars of an institutional regime to see how (else) transitional entrepreneurs could affect distressed economies move forward. Particularly, for next Iranian researchers, it is important to investigate and analyze the status of technological development innovation before its 1978–1979 Revolution and make comparisons with the subsequent 40 years beyond. Did entrepreneurs in Iran face a much different environment before the revolution? How was the institutional environment and what are the differences with the current situation? Assessments in this research is general to open doors to investigate transitional entrepreneurship in Iran, but this can be expanded to analyze in a new structured format, which will be highly beneficial for a global view of what has been happening in this geographic part of the world.

Conclusion

Transitional entrepreneurs can depend primarily on the less formal cognitive pillar of ethical and ideological aspects in institutions, as they can be working in a (hopefully) burgeoning private sector, particularly in an economy in distress. Transitional entrepreneurs face voids in formal institutions, which creates problems. In this research, the focus on the cultural-cognitive pillar (Scott, 2013) and a key antecedent in soft law shed light on how transitional entrepreneurs can overcome distressed economies. To fill the formal institutional voids, transitional entrepreneurs can rely on their beliefs, ideology and professional morality, as well as getting help from allied organizations such as banks and venture capitalists who all have similar goals in seeing institutional reform in support of entrepreneurship and growth, first at the local and regional levels, and later at a national level. The research here also examines how key values of transitional entrepreneurs can help to build or alter a commercial culture that might in turn provide direction to government to make reforms in formal institutions that can impact entrepreneurial firms and their growth. Research in other fields such as economics similarly argues that the

government should take cues from the entrepreneurial ecosystem and financiers – the bottom-up as it were – rather than trying to force change from above (Lerner, 2009). The interviewees in our sample agreed and noted the importance of informal institutions that they introduced or adopted from outside, and the developing local support and eventual formalization by the government into law – laws that support and protect entrepreneurial activity and private enterprise. If this paper could convey two main messages, it would be that entrepreneurs in distressed economies can still make their way through difficult situations and in the process bring better, more ethical standards to the commercial culture of a region. And if the entrepreneur gets concomitant help from allied organizations like the financiers of entrepreneurs and small business, new soft law and even (more broadly), informal institutions can be built and can help to fill in institutional voids, and finally followed by formal institutional reform by government. This research further concurs with McCloskey (2006, 2010) that informal institutional change should come first and help to direct the attention and direction of government reforms and formal institutional change (Lerner, 2009), especially important for entrepreneurs in distressed economies that are trying to make a go of their businesses and contribute (often new) positive, ethical commercial practices to their home regions.

Notes

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Professor F. Momeni, Department of Economics, Allameh Tabataba'i University, Tehran, Iran
2. As “Refaaghati” in Persian
3. Institution established for supporting and accelerating venturing startups, Sharif University of Technology, Tehran, Iran, <https://sati.sharif.ir>
4. Angel investor to provide transitional entrepreneurs, <https://karaya.ir>

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