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Institutional Contextualization of Entrepreneurship: Theory & Practice in Ethiopia

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ABSTRACT

The purpose of this paper is to explore the institutional contextualization of entrepreneurship in Ethiopia context. In doing so qualitative research design was used to the study. In this regard, three entrepreneurs were interviewed by using convenience sampling method taken from three different enterprises. The result showed that the rules and regulations for obtaining the business license and registrations are taking long process and the bureaucratic nature of the institutions is difficult. In Ethiopia lack of commitment, lack of finance, lack of interest, and lack of leadership from the entrepreneurial level are the main factors that hinder entrepreneurs to practice entrepreneurship.

Key Words: Institutional context, entrepreneurship, contextualization, developing country.

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1. Background/Problematization

Entrepreneurship research increasingly emphasizes the importance of understanding entrepreneurial activities within their historical, temporal, institutional, spatial, and social contexts. These contexts shape entrepreneurial opportunities by providing resources and possibilities while simultaneously imposing constraints on individuals' actions. Context can therefore function as both an enabler and a constraint, influencing the nature, scope, and outcomes of entrepreneurial activities. However, the relationship between entrepreneurship and context is reciprocal, as entrepreneurial activities can also transform existing circumstances and reshape the contexts in which they occur (Welter, 2011). Emphasizing the importance of contextualization, Baumol (1990) argued that the rules governing entrepreneurial activity vary considerably across different times and places. Consequently, understanding entrepreneurship requires examining not only individual and organizational characteristics but also the broader contextual conditions that shape entrepreneurial processes and outcomes. Recent empirical research in Ethiopia similarly indicates that entrepreneurial activity is shaped by the wider institutional and ecosystem environment, including policy, finance, training, and access to resources (Wube & Atwal, 2023; Abate & Sheferaw, 2023).

Baumol (1988, 1990) proposed a causal relationship between institutions and entrepreneurship, resulting in long-term growth. He contends that inherited institutions impact entrepreneurship by creating incentives to prioritize productive activities like invention over unproductive ones like rent seeking or organized crime. The distribution of resources is controlled by societal payoffs for specific activities.

Economic outcomes vary between societies due to institutional differences, rather than differences in entrepreneurial spirit alone. Entrepreneurs' opportunities are shaped and limited by the institutional framework they operate within. According to Boettke and Coyne (2009), institutions influence entrepreneurial prospects and impact the economy's potential to benefit from social cooperation and division of labor. Therefore, understanding the economic, political, and cultural context is crucial for understanding entrepreneurship, as it impacts gender, development, perspective, and behavior (Welter & Smallbone, 2011).

Recent empirical studies reinforce the argument that entrepreneurship cannot be adequately explained by individual characteristics alone; it must also be understood in relation to the institutional and entrepreneurial ecosystem in which businesses are established and operate. In Ethiopia, Abate and Sheferaw (2023), drawing on data from 400 enterprises, identified access to finance, training, raw materials, entrepreneurs' experience and education, and sectoral differences as significant factors associated with micro, small and medium enterprise (MSME) performance. Their ecosystem mapping also highlighted the roles of universities, financial institutions, government bodies and development organizations in supporting enterprise development. These

findings show that entrepreneurial outcomes depend partly on the availability and coordination of external support institutions.

Research focusing more directly on the political–legal environment is particularly relevant to the present study. Wube and Atwal (2023), using evidence from 499 MSE operators in three metropolitan cities in the Amhara Region, found that the political–legal dimensions of the entrepreneurial ecosystem significantly influenced entrepreneurial competence and enterprise performance. Their findings emphasize the importance of workable policies, business support services and a conducive operating environment. Similarly, research on the policy component of Ethiopia's entrepreneurial ecosystem found that the policy environment was not sufficiently conducive to MSE performance, underscoring the need to examine how formal institutions and policy implementation shape entrepreneurial activity (Wube and Atwal, 2023).

More recent evidence also points to the interaction between resources, capabilities, and the business environment. Esubalew and Adebisi (2024) examined entrepreneurs' competency, marketing innovation and enterprise growth in Ethiopia, drawing attention to the role of innovation in translating entrepreneurial capabilities into growth. Addisu (2024), studying micro- and small enterprises operating in the water, sanitation, and hygiene (WASH) sector, also examined the business landscape and factors associated with enterprise growth. Although these studies address different sectors and outcomes, they support the view that entrepreneurial performance emerges from the interaction of firm-level capabilities and external operating conditions rather than from entrepreneurial motivation alone.

Evidence published in 2025 further demonstrates the continuing importance of context. Abraha and Gebre (2025), in a study of MSEs in Fireweyni, Ethiopia, reported that financial control, marketing strategy, managerial expertise, government regulations and business information services were significantly related to enterprise performance. In another Ethiopian study, entrepreneurial leadership attributes—including creativity, opportunity seeking, vision, decision-making and risk-taking—were examined in relation to MSME performance in resource-constrained and uncertain conditions (Woldesenbet & Gezahegn, 2025). These findings suggest that entrepreneurs' internal capabilities matter, but their effectiveness is conditioned by the institutional, regulatory and resource environment in which they act.

Recent work published in 2026 continues to explore the relationship between the entrepreneurial ecosystem and entrepreneurial intentions among young people in central Ethiopia. Eromo, Alemu and Tufa (2026) examined how the entrepreneurial ecosystem interacts with risk-taking propensity in shaping youth sustainable entrepreneurial intention. This emerging evidence strengthens the case for contextualized research that considers how institutional arrangements and individual agency combine to shape entrepreneurship in Ethiopia. Taken together, recent studies provide useful insights into enterprise performance, policy, resources, leadership, and entrepreneurial intention; however, there remains a need to understand how entrepreneurs themselves experience institutional

arrangements in the practical processes of starting and operating businesses, including registration, licensing, taxation, access to finance and interactions with public institutions. The present study contributes to this discussion by examining entrepreneurs' experiences in Debre Berhan and connecting these experiences to the broader institutional context of entrepreneurship.

Generally, the purpose of this paper is to explore the institutional contextualization of entrepreneurship in the Ethiopian context. First, the paper discusses the theoretical aspects related to the institutional contextualization of entrepreneurship. In this regard, the concepts of contextualizing entrepreneurship, institutions and entrepreneurship, and the institutional context are discussed from a theoretical perspective. Second, the methods used in this study are described. Third, the results and discussion are presented. Finally, the conclusion is presented.

Purpose

The purpose of this paper is to explore the institutional contextualization of entrepreneurship in Ethiopia context. To make the paper empirical we incorporate the following basic questions in which the answers were obtained through interviews.

- How do entrepreneurs start the business in Ethiopia?
- What factors that hinder entrepreneurs in Ethiopia to practice entrepreneurship?
- How the rules and regulations affect entrepreneurs to practice entrepreneurship?
- What challenges do entrepreneurs confront in their entrepreneurial activity?

2. Theoretical review

Without institutions, the economy would be in turmoil; in fact, one could argue that economics--production, distribution, and consumption--would not exist. Institutions are the norms that regulate behaviour, reducing uncertainty and transaction costs, while yet enabling (inter)actions. A crucial question is which (formal) institutions governments should create to foster entrepreneurship, defined as the introduction of new economic activity by an individual that results in market change (Stam & Nooteboom, 2010). Institutions are frequently not the result of deliberate design, but rather of a political process in which the interests of several stakeholders must be met.

The institutional framework determines the presence of opportunities, as well as their perception and utilization, hence connecting the institutional setting to the individual and societal surroundings. Research demonstrates that changes in technology, political forces, legislation, macroeconomic impacts, and social trends can all have a significant impact on the presence and occurrence of new possibilities (Shane, 2003; Eckhardt & Shane, 2003). Recent cross-country research also finds that institutional conditions influence both the prevalence and quality of entrepreneurial activity, reinforcing the need to consider regulatory, normative, and cognitive dimensions together (Mello et al, 2022).

As a result, the context influences the kind, pace of development, and scale of entrepreneurship, as well as how entrepreneurs behave. This is especially evident in institutional environments characterized by a high level of ambiguity, uncertainty, and turbulence, such as those with a recent history of central planning, making them an intriguing laboratory for scholars interested in the relationship between institutions and behavior (Welter and Smallbone, 2011).

Contextualizing entrepreneurship

Context originally meant weaving together or making a connection (Rousseau & Fried, 2001). In management, context refers to the circumstances, conditions, situations, or surroundings that exist outside of the phenomena and either permit or hinder it (Welter 2011).

The term 'context' derives from a Latin origin that means 'to knit together' or 'to form a connection.' Contextualizing entails connecting observations to a collection of pertinent facts, events, or points of view that allow for study and theory that is part of a wider whole (Rousseau & Fried 2001). Contexts can either increase or decrease variety in the phenomenon of interest in organizational behavior. This context effect is significant because focal processes can exhibit varying intensities, causal directions, and base rates depending on the context in which they are observed (Johns, 2006).

Welter (2011: pp. 18) defined context within a management research framework as “circumstances, conditions, situations, or environments that are external to the respective phenomenon and enable or constrain it”, operates concomitantly across a multiplicity of dimensions, yet despite this, entrepreneurship papers tend to focus on only a single aspect of context.

Context may be defined as opportunities and constraints that take place in specific situations that influence behavior (Johns, 2006) and which are external to the phenomenon being studied. Context is composed of various dimensions that require attention: who engages in entrepreneurship and what kind of new ventures are launched; the contexts in which entrepreneurship takes place – in business (that is, industry or market), social (that is, thanks to networks or family relations), spatial (that is, geographical location ranging from the national to the local), or institutional (that is, legal and regulatory norms and cultural attitudes and societal norms); and when it takes place (temporal and historical context) (Welter, 2011).

Entrepreneurship is the study of the why, when, and how of creating, recognizing, and utilizing opportunities. As a result, a commonly used definition of entrepreneurship is the 'finding and exploitation of possibilities' (Shane and Ventakaraman 2000). Baumol (1990) acknowledged that not all opportunity exploitation is always in society's best interests, and thus described entrepreneurs generally as 'those who are brilliant and inventive in discovering ways to increase their personal riches, power, and reputation'.

In this regard, Baumol (1990) gives a more in-depth analysis of the various types of entrepreneurships that might emerge in different institutional situations. Institutions are important because they provide incentives for various sorts of economic activity. Unproductive

entrepreneurship, or entrepreneurship that helps the entrepreneur but not the economy, would thrive in an environment where the benefits and rewards of rent-seeking activities outweigh the costs. Similarly, if the rewards of illegal entrepreneurial activity outweigh the drawbacks, entrepreneurs are more likely to participate in destructive entrepreneurship, which is harmful to economic progress.

Shane and Venkataraman (2000), on the other hand, define entrepreneurship as the discovery, appraisal, and exploitation of new goods and services, organizational methods, markets, processes, and raw resources through organizing effort that did not previously exist. However, they argue that this concept cannot be operationalized and propose two operational definitions of entrepreneurship for empirical research: (1) self-employment for personal gain rather than wages, and (2) the establishment of a new enterprise (Shane, 2003). This indicates that entrepreneurship must be empirically studied through self-employment or commercial entities.

Institution and Entrepreneurship

In the Schumpeterian model, the entrepreneur engages in several tasks, including introducing a new product or production process, exploring new markets, implementing new business organization, and so on. Because institutions provide the general rules (both formal and informal) that facilitate economic, social, and political interactions (North, 1991, as cited in Chambers and Munemo, 2017), they also create or change incentives for engaging in certain activities by determining the payoffs from doing so. Baumol (1990) states that, by setting the structure of payoffs, the rules of the game play an important role in allocating entrepreneurs' resources among productive, unproductive, and destructive activities.

Empirical data has also revealed that the observed entrepreneurial activity can be explained by the institutional context's payoffs. Poor quality institutions, for example, have been shown to facilitate corruption, weak rule of law, and other forms of bad governance, which disadvantage producers while rewarding rent-seeking behavior, diverting resources away from more productive activities (Gelb 1988, Auty 2001, Ross 2001, as cited in Chambers and Munemo, 2017) and crowding out entrepreneurship. Another way bad institutions discourage entrepreneurship is by raising the cost of conducting business. In the existence of corruption, obtaining permits, licenses, tax documents, and other necessary documentation becomes prohibitively expensive.

In terms of entrepreneurship, the institutional context influences the nature, pace of development, scope, and behavior of entrepreneurs. Institutions represent both limiting and enabling influences, reflecting the limits of individual acts. As enablers, they can help to reduce transaction costs, uncertainty, and risks associated with individual behavior; however, institutional deficiencies can increase transaction and operational costs, reducing returns from entrepreneurial endeavors and slowing the development of productive entrepreneurship. As a result, differences in institutional structures and enforcement mechanisms contribute to differences in the character and scope of entrepreneurship across different environments (Welter and Smallbone, 2011).

Institutional variables influencing entrepreneurial endeavors include governments' direct engagement in creating and maintaining an environment conducive to entrepreneurship, as well as societal attitudes toward entrepreneurship. Specifically, the level of entrepreneurship that develops in a society is closely tied to the society's incentive allocation norms and policies (Baumol et al., 2009; Bruton et al., 2008). Governments may ensure that markets work efficiently by eliminating factors that cause entry barriers, market defects, and unnecessary regulation.

The institutional context

Douglass C. North (1990) established the concept of formal and informal institutions as "rules of the game," which is used in the institutional environment. Formal institutions are political and economic laws that generate or limit opportunities for entrepreneurs. Examples include rules and regulations governing market entry and departure, as well as private property controls. Informal institutions, which include a society's norms and attitudes, influence opportunity recognition, exploitation, and resource access for (possible) entrepreneurs. Examples include the general value society places on entrepreneurship or the responsibilities of women in society, which may limit the form and scope of their entrepreneurial activity in civilizations where women are characterized as homebound (Welter & Smallbone, 2008).

Because institutions serve as the "rules of the game," a thorough investigation of the institutional framework is an essential component of understanding the role of entrepreneurship in economic life. Institutional explanations for entrepreneurship differences are more comprehensive than cultural explanations because they acknowledge the importance of culture, which is classified as an informal institution, while also acknowledging the role of other informal and formal institutions (Boettke and Coyne, 2009).

Formal institutions include societies' "constitutions, laws, [and] property rights" (North 1991: 97, cited in Olthaar et al, 2016). Formal institutions are codified, documented, and enforced by state bodies. Within countries, official institutions typically apply throughout the country and are equitable for all citizens. Informal institutions are concerned with "sanctions, taboos, customs, traditions, codes of conduct" (North 1991: 97) and "religious beliefs" (Mair et al. 2012: 820, as cited in Olthaar et al. 2016).

The institutional viewpoint is gaining popularity in entrepreneurship research due to dissatisfaction with theories that emphasize efficiency while downplaying social variables as motivations for organizational behavior (Barley & Tolbert, 1997, in Bruton et al., 2008). The institutional viewpoint focuses on the laws, practices, and attitudes that shape organizations and their members, which can differ significantly among countries and cultures (Fang, 2010; Scott, 2007, in Bruton et al., 2008).

Scott (2007; Bruton et al., 2008) distinguishes three types of institutional factors. It consists of three pillars: regulative, normative, and cognitive. The regulative pillar is most directly derived from economic studies, and hence represents a rational actor model of behavior based on sanctions and

compliance. These regulatory components are generally derived from government law, industrial agreements, and standards. These rules serve as guidance for new entrepreneurial companies and can result in organizations and individuals complying with laws, as well as a reaction if there is a lack of legislation or regulation in the entrepreneurial firm's territory.

The second institutional pillar is normative, which represents patterns of organizational and individual conduct based on required dimensions of social, professional, and organizational interaction. Institutions shapes conduct by defining what is appropriate or expected in a variety of social and commercial settings. Normative systems are often made up of values (what is preferred or deemed suitable) and norms (how things should be done in accordance with those values), which serve as consciously obeyed ground rules to which people must adhere (Scott, 2007, in Bruton et al., 2008). Finally, the third institutional pillar, as summarized by Scott (2007, in Bruton et al., 2008) and heavily influenced by the recent cognitive turn in social science (DiMaggio & Powell, 1991), represents models of individual behavior based on subjectively and (often gradually) constructed rules and meanings that limit appropriate beliefs and actions.

In general, the institutional framework may influence the existence of opportunities, as well as their recognition and exploitability. In this regard, research reveals that technological developments, political forces, regulation, macroeconomic impacts, and societal trends can all have a significant impact on the presence and occurrence of new possibilities. Furthermore, informal institutions, which include a society's norms and attitudes, influence opportunity recognition among (potential) entrepreneurs, as well as opportunity exploitation and resource access. Institutions are important because they provide incentives for various sorts of economic activity. Institutional variables that influence entrepreneurial activity include government involvement in consulting and maintaining a climate conducive to business, as well as social norms regarding entrepreneurship.

3. Methods

A qualitative research design was used to explore the different experiences and perceptions concerning the institutional context of entrepreneurship. Data were collected from primary and secondary sources. A qualitative research design employs interviews to collect relevant data for the explorations of the institutional contextualization of entrepreneurship. Convenience sampling techniques were used to select the respondents for the interview. As a result, three entrepreneurs from three different enterprises were selected conveniently located in Debre Berhan, Ethiopia. The first interview was held with dean of Birhan College. Berhan College was one of private institution which is established in 2017. It is private share company and established with 28 members of share with a startup capital 1.1 million Ethiopian birr. The college has started higher education undergraduate program in two departments, namely management and accounting and finance. Currently, the college is extending its program in to post graduate program including Master of Business Administration, and master’s in project management. Further the college has now included technical vocational education (TVET) program at different levels of diploma program. This program was initiated last calendar year but not yet started due to registration failure from the

concerned body. In the calendar year of 2018/19 the college has started its work with 160 students in both departments of management and accounting and finance. The college has created for 16 permanent employees and more than 12 per time instructors.

The second interview was also held with owner and manager of Fire Desta enterprise. The enterprise is including three businesses located in different areas of Debre Berhan town. The types of the business are including Fire Desta drivers' training institute, computer technology and training center, and computer sales and copy house. The entrepreneur was first a government employee. He was serving for almost three years. Then he was decided to open his own business. In the beginning together with his friend jointly they open a computer center in Mehal Meda town located 165 km far from Debre Berhan in 2010. After working for 1 year, he was back to Debre Berhan and then open computer technology and training center. Then in 2014 he was decided to open computer sales and copy house. In 2016 together with his three friends they open Habesha drivers' training center as a share. After one year he was resigning from the share company and decided to open his own training center. Therefore, in a year 2017 he was established Fire Desta drivers' training institute plc. Currently he is created job opportunity for 27 employees.

Finally, the third interview was held with owner and manager of Yared Fruit Zone and Fast Food. Yared Fruit Zone and Fat Food was established in 2015 in Debre Berhan town. At the establishment there was shortage of market in this area. He was the pioneer of the market in fruit and fast food in Debre Berhan town. It has two branches and now he tries to open new cafe and restaurant. The enterprise has provided different fruits to outsider and makes juice for in and out customers. Fruits and juice like mango, avocado, papaya, banana, pineapple, strawberry, and apple. Fast foods primarily include products of fish, sandwich, and Ethiopian cultural foods like tibs, tibs firfir, shirowet and kuwanta firfir - are of the main dishes provided by the enterprise. Currently the business has around 38 employees.

Thus, the primary data for this paper was consists of the collection of answers received from the interviews with these three entrepreneurs. The interview questions were open ended without any form of directing the respondents in a certain way. Hence, the respondents were freely talk their answers without interrupting in anyway. Approximately each interview was between 60 minutes and 90 minutes in duration.

4. Results and Discussion

Concerning how entrepreneurs start the business in Ethiopia, most of the businesses are started because of self-employment opportunities and creating jobs for others. In starting the business, they exposed to various challenges. In Ethiopia, the challenges are mostly related to the rules and regulations. The minimal procedure in getting business license and regulation itself is difficult. It requires a long step to fulfill the requirement needed. Someone is in needed of passing at least eleven steps to register for business license. In this regard, it is required an average of at least one month depend on the type of the business for registration and business license approximately.

Accordingly, the bureaucratic system and high tax has also contributed negative effect for the failure of most of the entrepreneurs from doing the business.

In this regard the first interviewee the dean of the college replied about starting a business in Ethiopia. He said that starting a business in Ethiopia seems easy but if you decide to start and communicate the rules and regulations which is needed to start the business is so difficult and boring. This is due to several criteria incorporating in the requirement. In this regard, given the opportunity that there was no business primarily undertake in private higher education institutions in a town, we are decided to start the business. Through ups and downs taking almost a year we are officially got the business license and registered. Then after, we are requesting the higher education relevance and quality assurance office (HERQA) for accreditations to open the programs degree in management and accounting and finance. However, we are looking almost five months for their response. After five months they were come to supervise our college concerning various criteria which includes like the buildings, the surrounding environment, references, office, classes, library, computer lab, human resource, curriculums, and others. After observing this we are waiting them for two months. Then, finally they provided us the accreditations to open the college and start the work. From this result of the first interviewee, we can say that the rules and regulations are difficult for the entrepreneurs to open their business easily. The criterion included in the requirement is lengthy which makes them bored and discouraged from undertaking the business.

Similarly, the second interviewee has provided different reasons to start the business. Accordingly, he said that the main reason to start the business is due to disagreement with the former government employer. In fact, the family business has contributed a lot for starting a business. He was looking every opportunity to undertake the business and obtain profits. He has an interest to start any of the business which is promising. However, he replied there is some difficulties exposed while to undertake the business. This is mostly related to the criteria in fulfilling the requirements to get the business license and registration. Once, registered other difficult is comes from the revenue and custom offices related to tax issues. They levied taxes unbalanced to my profits gained. This is most discouraging for me even forced me in some time to quit the business related to computer technology and training center due to high tax rate.

On the other hand, the third interviewee replied that in the beginning he was come to Debre Berhan to take driving license. But while look in to surrounding of the town he is interesting to start the business due to market opportunities. Then immediately he decided to open the business. In starting the business there are many challenges. He said that the human resource is a challenging to me at the beginning. Gradually he was tried to settle the required human capital. Another challenge was from the government institutions. This is probably related to the revenue and custom authority offices. They are forced me to register in a VAT (Value added tax). However, my capital is not able to claim for a VAT. Therefore, after negotiating a long time they are obliged me to register in a VAT.

With regard to the factors that hider entrepreneurs in Ethiopia to practice entrepreneurship the first interviewee replied that most of the entrepreneurs were failed due to lack of profit. They were not obtained the profit as they expect. Actually, loss of profit might be associated to the unattractiveness of the business. Unfortunately, the profit they gained is not as expected. Due to this they are forced to quit their business. In addition, he explained that leadership failure is also another challenges to practice entrepreneurship. In this regard lack of management experience is one of the factors for this problem. Another challenge is related to the institutional frameworks which is primarily the rules and regulations of the concerned body. Such institutions in different ways affect the entrepreneurial activity. This might ultimately force the entrepreneur to cease the business. Further unaware of the market is also another factor for the entrepreneurs to practice entrepreneurship. Therefore, we argue that the institutional factors also matter for entrepreneurial activity including the action of government in consulting and maintaining an environment supportive of entrepreneurship.

Similarly, the second interviewee confirmed that lack of interest is the main reasons for most of the entrepreneurs which makes them to quit the business. They have not willingness and a vision to undertake the business. They believed that in short period of time they expect more profits from their business. However, in practice it is not achieved easily in short period of time. Profit will happen gradually. Besides, unavailability of capital is of another factor that hinders entrepreneurs. This is mostly due to lack of financial institutions interest to provide adequate capital for starting or expanding the existing business. In this regard the third interviewee confirmed that lack of commitment and drive of the entrepreneurs is one of the factors for their failure. Most of the entrepreneurs are lacked the commitment and drive to work for the achievement of their business. In addition, they start the business without assessing the profitability of the business. They did not conduct market research for the business.

In relation to the institutional frameworks the first interviewee assured that some of the rules and regulations are restricted and discouraging. For example, in acquiring the business license and registration many criteria are included as requirements. But some of the requirements are unnecessary. In addition, the time needed to accomplish this task is lengthy and the legal requirements are difficult and too bureaucratic. In this regard the second interviewee confirmed that in addition to the rules and the regulations there is bribes and rent seeking behavior experienced in any step of getting the business license and registered. This is mostly due to the officials earn small amount of monthly salary. The government officials they are not welcome if you are strange for the process. They are expecting something to give them for facilitating your request. Further the third interviewee also replied that the government officials are not encouraging us to expand our business like through providing guidance and counseling.

Pertaining to the informal institutions such as norms, beliefs and attitudes the first interviewee explained that there are good attitudes from the society for our business. This may be due to the newness of the business in the town. This means when we assess the market there is only one

private institution work in similar business. Other are distance education institutions. However, we are fully engaging in the regular and extension program. Because of this formally or informally many peoples are communicating us and encouraged to start the business. On contrary there are some people they may force you not to undertake the business. This is actually because of their beliefs in which undertaking a business consequence only losses. In addition, the second interviewee noted that the community have encouraged me morally, and they fulfill short term financial constraint through "Equb" i.e., they provided me the money in advance which helped me to engage in business. In this regard, Equb is a kind of association of peoples in which they set a contribution of money either monthly or weekly and then one of the members will get the money first through a kind of a lottery method and so on the others.

Generally, in the following table 1 the challenges for entrepreneur's level and institutional level are summarized.

Challenges from entrepreneur's level	**Challenges from institutional level**
• Lack of commitment and drive • Lack of finance • Lack of management experience • Lack of leadership	• Bureaucracy • High tax rates • Lack of integrity • Lack of responsibility • Unavailability of financial institutions

In relation to institutional level personal characteristics (integrity, responsibility) of the officials is one of the challenges for the entrepreneurs. Officials are lacked integrity in serving the entrepreneurs. This is mostly during process of registration and business license. In doing so it covers several procedures, time and cost involved in securing registration. In addition, they are not responsible for any action taken on the entrepreneurs especially in the case of tax related issues. High tax rates, personal characteristics of officials, and bureaucracy will discourage the entrepreneurs. This makes the entrepreneurs lacked commitment and drive for the success of their business. On the other hand, the entrepreneurs do not have management experience and leadership skills on how to successfully manage their business. In addition, they are unaware of even the rules and regulations. In this regard, institutions are expected to aware entrepreneurs for the rules and regulations related to their business. Finally, lack of finance is another factor that hinders entrepreneurs to practice entrepreneurship. This is of course due to unavailability of adequate financial institutions. This finding is consistent with recent evidence from the Amhara region showing that the political–legal environment and government policy are significantly associated with micro- and small-enterprise performance (Wube & Atwal, 2023).

5. Conclusion

This paper explores the institutional contextualization of entrepreneurship in Ethiopia context. The institutional context provides opportunities and constraints for entrepreneurial activity which

consists of both formal and informal institutions. As the result of the interviewee showed that there are challenges in starting a business in Ethiopia due to the institutional complexity. The rules and regulations for obtaining the business license and registrations are taking long process and the bureaucratic nature of the institutions is difficult. This covers the number of procedures, time and cost involved in securing registration. In this regard, Ethiopia performs poorly on several indicators of the ease of doing business. According to the World Bank Group (2016), starting a business in Ethiopia required 11 procedures, compared with an average of eight in Sub-Saharan Africa and 4.7 in high-income OECD economies, highlighting the administrative barriers facing entrepreneurs. On the other hand, corruption and rent seeking behavior is experienced in different government institutions.

On the other hand, limited institutional support and barriers to accessing finance pose significant challenges to entrepreneurship. Interview findings indicate that securing start-up capital is difficult, reflecting weaknesses in institutional support and coordination among government bodies. Consequently, aspiring entrepreneurs have limited opportunities to raise initial capital, establish businesses, and scale their operations.

Further, regarding the factors that hinder entrepreneurs in Ethiopia the interviewees noted that lack of commitment, lack of interest and lack of leadership is the main factor for entrepreneurs which make them to quit their business. In addition, informal institutions are also important for entrepreneurs in Ethiopia. Ethiopia has rich informal institutions that shape social and economic life. Indigenous institutions such as Mahber, Edir, and Ekub promote social cohesion, mutual assistance, and collective action, while supporting community gatherings, informal insurance, and rotating savings, respectively.

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Appendix

Interview questions

- How do entrepreneurs start the business in Ethiopia?
- What factors that hinder entrepreneurs in Ethiopia to practice entrepreneurship?
- How the rules and regulations affect entrepreneurs to practice entrepreneurship?
- What challenges do entrepreneurs confront in their entrepreneurial activity?
- How the norms, beliefs and attitudes affect your entrepreneurial activity?