

**REORIENTING ENTREPRENEURIAL SUPPORT INFRASTRUCTURE TO
TACKLE A SOCIAL CRISIS: A RAPID RESPONSE**

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REORIENTING ENTREPRENEURIAL SUPPORT INFRASTRUCTURE TO TACKLE A SOCIAL CRISIS: A RAPID RESPONSE

Abstract

Chile is experiencing its worst economic and social crisis in decades, which is adversely impacting entrepreneurs and SMEs. Chile's Economic Development Agency is seeking to support recovery efforts by reorienting its entrepreneurship programs and ecosystem support capacity. What makes the reorientation especially challenging is the need to ensure all actions are sensitive to the causes of the social unrest, where arguably extant entrepreneurship policy has played a role. Theory and evidence in entrepreneurship literature seem insufficient to inform immediate actions. In this rapid response paper, we leverage and translate research on ecosystem democracy, spontaneous venturing and entrepreneurship-enabled social cohesion to inform decision-making and contribute to the development of policy solutions. We propose an entrepreneurship policy reorientation model, including interventions during and post crisis, potentially capable of minimizing the effects of the crisis and changing the orientation of future support.

Keywords: entrepreneurship, crisis, entrepreneurship policy, rapid response, Chile.

1 Research context and problems requiring rapid response

Chile is experiencing its worst crisis in decades. On 18th of October 2019 a rise in public transport fares triggered country-wide protests, which is the worst civil unrest in the country in the last four decades. While seemingly surprising, the crisis has been decades in the making (Pribble, 2019). Specifically, the crisis is the consequence of a series of reforms unfolding since 1900s, which resulted in rising costs of living, income inequality and over-privatization of social services. The fast-growing market economy of the 1990s and 2000s had become a market society of pay-for-it-yourself pensions, health care and education. With stagnating family incomes, inadequate pensions, healthcare and education, historically high levels of inequality had become glaringly painful.

The 2019 protests threw the Chilean economy into crisis. The Peso plummeted, becoming one of the worst-performing emerging market currencies (Mander, 2019). Prospects for employment and self-employment in now-barricaded cities rapidly deteriorated. The impact on micro/SMEs and entrepreneurship has been enormous. During the first 50 days of mass protests, over 15,000 micro/SMEs were directly damaged (Infobae 2019). Specifically, they experienced a dramatic loss in revenue as most of them have had to remain closed to avoid violence, protests and riots. In addition, 9,200 micro/SMEs reported damages to their physical infrastructure; 6,800 experienced looting or arson damage; and 10,000 shops and roadside vendors were robbed. To date, only 18% of Chile's micro/SMEs were not *directly* affected by the social unrest. The result of the crisis is that an estimated 100,000 micro/SMEs could eventually face closure, which would likely cause the additional unemployment of over 300,000 more people (Hausold, 2019). To make matters even worse, micro-SMEs face additional uncertainty due to impending constitutional reforms, which, along with macro-environmental changes, will likely have a profound impact on pensions, health

care and education systems (Mander, 2019). The eruption of the COVID-19 virus is adding even more uncertainty, as small businesses around the world are going bankrupt at unprecedented rates. This comes as a shock for those who had begun to recover in Chile, and most likely a knockout for those who were already in the verge of failure.

In response to the 2019 crisis, the Chilean government launched a US\$16.5MM rescue package, which included flexible loans and subsidies with the objective of facilitating an economic reconstruction. However, the loan package is very limited in direct impact, as the average amount allocated for each of the affected micro-SMEs is only US\$9,000. To counteract the deficiencies in the relief package, CORFO - Chile's Economic Development Agency - is meant to play a key role in the recovery process. CORFO is the largest agency supporting entrepreneurship in the country and is the primary financing engine behind Start-Up Chile, the first seed accelerator founded by a public agency. CORFO also runs a number of programs and initiatives, including tax relief for R&D activities, promotion of Venture Capital (VC) investment portfolios, subsidies for ecosystem support services, prototyping, and direct funding for new ventures throughout their lifecycle. Historically, it has also played an important role in times of crisis, supporting small businesses after natural disasters.

In December 2019 CORFO launched "Arriba tu Pyme" (SME Raising), a public-private platform initiative aimed at connecting crisis-affected SMEs with support, including funding, expert advice, or online sales channel access. While these efforts are valuable, they are not taking advantage of Chile's unique entrepreneurial culture (Muñoz et al. 2020), the responsiveness of local entrepreneurs facing disasters (Muñoz et al. 2019) and CORFO's annual budget of US\$30MM for entrepreneurship support. CORFO's entrepreneurship division and the Department

of Economy are considering changes to the entrepreneurship support policy as a possible response to the unfolding crisis.

Despite numerous advancements in recent scholarship at the intersection of entrepreneurship and crisis, current entrepreneurship literature appears to be insufficiently organized and consolidated to inform immediate actions facing these specific circumstances and demands. In this Rapid Response, we aim to provide evidence and insights to contribute to decision-making and the development of policy solutions. We bring together three streams of research on entrepreneurship and crisis, translate evidence to the Chilean context, propose a model for policy reorientation in times of crisis and recommend interventions that can be implemented during and post-crisis.

2 Policy reorientation in times of crisis

Alongside providing seed funding for entrepreneurs directly, an important part of CORFO's fund is allocated to the entrepreneurial support industry, i.e. incubators, accelerators, mentor networks and alike. The ecosystem support industry is highly subsidized and, in light of evidence, we believe there is an opportunity to reorient entrepreneurship policy and steer Chile's entrepreneurial ecosystem in pursuit of short- and long-term goals. In practical terms, this means 1. redirecting entrepreneurial activities to facilitate a speedy recovery and 2. using the entrepreneurial support industry to tackle the effects of economic downturn (e.g. raising unemployment, failure of small businesses, etc.) in a way that is sensitive to the causes of the social unrest: inequality and privatization. There is a hidden tension in this 2-sided solution, as it might require government agencies to revisit what is desirable in terms of entrepreneurial outcomes (e.g., Welter et al. 2016; Lucas and Fuller, 2017) as urgent needs are addressed.

To resolve the tension, we propose a model for policy reorientation in times of crisis that brings together three emerging streams of entrepreneurship and crisis research, namely: ecosystem democracy, spontaneous venturing and social cohesion. Our conceptualization stems from studies looking at entrepreneurship in post-conflict countries in Africa, the Middle East and Latin America (Brück et al., 2013), in post-crisis Greece and the Balkans (Williams and Vorley, 2015; 2017), venturing in the aftermath of Hurricane Katrina (Grube and Storr, 2018), bottom-up responses after Australia's wildfires and Haiti's earthquake (Williams and Shepherd, 2016a; 2016b; 2018), and reflections on the failure of Europe's entrepreneurship policy after the 2009 financial crisis and facing the ongoing situation with refugees (Naudé, 2016; Desai et al., 2020).

In Figure 1, we introduce the model for policy reorientation in times of crisis, comprising three policy spaces that mirror the research streams (grey circles). Our collective view is that exploring the interaction between these three streams - as a cycle of policy decisions - can shed light on ways forward. Each space contains policy directives (boxes in dotted lines), each of which can inform concrete initiatives or interventions.

---Insert Figure 1 about here---

Following our model in Figure 1, governments have the opportunity to engage in a reorientation process and implement level-specific interventions, both during and post crisis. By doing so, they can potentially enable recovery in the short term and a transformation of their approach to entrepreneurship policymaking in the long term. In the following, we unpack the three spaces structuring our model using evidence from the above research streams.

2.1 Ecosystem democracy

Chile is a model of an “elite democracy”. It is characterized by a government that privatizes public enterprises, enlarges the opportunities for overseas investors to control national resources, and at the same time imposes controls over wages, union organization and strikes (Petras and Leiva, 2018). While entrepreneurship seems central to tackling Chile’s crisis, elite democracies tend to have a detrimental impact on entrepreneurship due to increments in income inequality (e.g. Akcigit and Ates, 2019; Decker et al., 2017). While moderate levels of income inequality can provide incentives for entrepreneurship (Ragoubi and El Harbi, 2019), a high level of inequality can constrain action, particularly so in the absence social mobility (Méndez-Errico, 2017).

When an economy is characterized by high income inequality, only a small share of (opportunity-based, growth-oriented) entrepreneurs at the top of the income distribution tend to have to access disproportionate resources (Lippmann et al., 2005). As a result, income inequality, uncertainty and social unrest are likely to escalate. The latter combination of factors can slow down growth and investment and negatively change the incentives for the allocation of entrepreneurial talent, whilst triggering crime and violence.

Empirical evidence suggests that Chile had become less entrepreneurial and that the country’s economic activity is not very innovative. Counterintuitively, more investment in opportunity-based, growth-oriented entrepreneurs does not seem to be the most productive way out of the crisis. Chile must move towards a new social contract: one where elite democracy makes space for participative democracy, which for entrepreneurship entails *democratizing the entrepreneurial ecosystem*. In essence, Chile democratized its political system in 1990, but not its entrepreneurial ecosystem and the current crisis is offering the country an opportunity to move in that direction.

Perhaps even more than short term support and solidarity for affected SMEs, what Chile now needs is to break the negative hold of elitism on its entrepreneurship and innovativeness.

To nurture ecosystem democracy in times of crisis, governments should not directly target particular firms or sectors, but rather focus on spatially located agglomerations of economic activity, in a decentralized manner (GCF, 2017). For this to be ultimately sustainable, both financially and socially, government agencies need to de-emphasize the use of top-down instruments to promote entrepreneurship, and embrace instead ecosystems as “complex adaptive systems” that emerge from the “uncoordinated, semi-autonomous actions of individual agents” (Roundy et al., 2018:3). The decentralization of Chile’s entrepreneurial ecosystems is central to its democratization, and the emergence of spontaneous and responsive venturing. A second requirement for democratization involves *cultural values*. As the crisis unfolds, the values underpinning Chile’s entrepreneurial ecosystems seem to remain anchored in the past. It is yet to realize that the values underlying a new democratic era appear at odds with what previous prescriptions for economic development tolerate. This is lack of inclusiveness, acceptance of high levels of inequality, short-term focus on resource exploitation, and the absence of efforts to build a resilient and diversified entrepreneurial ecosystems. Such values have proven insufficient to prepare Chile’s entrepreneurial ecosystems for the economic shock of 2019 and the health emergencies of 2020.

Decentralizing entrepreneurial ecosystems and updating their cultural values facilitate a joint understanding that a vital function of an ecosystem is to help entrepreneurs invest and believe in the future, despite the inherent risks and uncertainty. Even in the face of social unrest and pandemics. This in turn leads to a shared recognition that the provision of basic social security – unemployment insurance, social welfare grants, access to education and other public services – are

particularly important for the vast majority of entrepreneurs. Against common belief, rolling back privatization and extending social security coverage can encourage entrepreneurship and build social cohesion, particularly amongst those excluded in the past.

2.2 The spontaneous emergence of responsive venturing

While seemingly extreme, crises are becoming increasingly common and provide challenges to everyday life. Traditionally, many scholars and policy makers have sought to understand how *institutions* can respond to and manage crises. Yet, bureaucratic organizations are often unable to effectively respond to needs on the ground (Marcum et al. 2012). Consistent with the research established in the next section, institutions vary in their effectiveness in supporting *general* efforts for entrepreneurial emergence. This is true in post-crisis venturing as well, where ventures pursue limited resources in either stable (e.g., Australia) or highly disrupted (e.g., Haiti) macroeconomic contexts. However, despite the differences in institutional nesting, “bottom-up” entrepreneurial venturing can still provide productive benefits for victims of crises (Shepherd and Williams, 2019; Williams and Shepherd, 2016a, 2016b).

Recently, entrepreneurship scholars have begun to document if/how *victim* actors can be a resource in solving problems in the midst of a crisis (Williams et al., 2017; Shepherd and Williams, 2018). This scholarship builds on the disaster response literature in recognizing that local, enterprising actors are *best positioned* to understand the needs in the impacted area and mobilize a customized response (Williams and Shepherd, 2018). Given these observations, it would appear to be critical for actors outside of the impacted areas in Chile to consider the following.

First, it is important to acknowledge the limitations of traditional organizations and institutional actors when considering an appropriate response. Post-disaster contexts can catch

communities and organizations off guard as the environment becomes “loosely connected, broken down in bits and pieces ... and organization structure [can] become fragmented and erratic” (Lanzara, 1983:76). Therefore, attempts to “control” the environment and decision-making within the context will be limited. Indeed, the command-and-control approach to crisis management has been widely criticized (Quarantelli and Dynes 1977; Tierney 2012) as it promotes rigidity and inflexibility where flexibility and improvisation are critically needed for an effective response (Shepherd and Williams 2014). Given the magnitude of disasters; command-and-control organizations struggle to coordinate across diverse actor groups, e.g. medical professionals, emergency responders, and government officials (Waugh and Streib 2006) and face substantial challenges in identifying, organizing, and deploying various stakeholders (Drabek and McEntire 2003; Lanzara 1983).

Second, local individuals who are impacted by the crisis will be the most capable of generating innovative solutions that *directly* address needs on the ground. In fact, crises often reveal local, network-based resources that were perhaps under-utilized during periods of calm. Major crises often trigger an explosion of meaning as individuals seek to make sense of the “new normal” and try to “build back better” (Roux-Dufort 2007; Turner 1976). The extensive literature on disasters has shown that emergent organizations (e.g., spontaneous ventures) *always* emerge after a crisis to help address critical needs, when a “community feels it is necessary to respond to or resolve their crisis situation” (Drabek and McEntire 2003: 99). Given that emergent organizations can and will arrive to make a difference following the crisis, it is imperative that institutional actors (and outside donors) find ways to support and enable these organizations who are on the ground. Indeed, the tendency can be to do the opposite—to try and “tamp down” locally-organized efforts that are not coordinated by a centralized body.

Finally, emergent organizations will take part in altering, creating, and re-configuring community actors. That is, disasters may disrupt the constitution of existing communities, but they also shape the emergence of new collections of individuals who share a new interest—surviving and thriving together despite the crisis. Emergent organizations are characterized by their ability to draw together multiple and diverse community actors for a shared purpose (Christianson et al., 2009; Majchrzak et al., 2007); introduce symbolic actions, trust, and coordination within a community; ease physical, psychological, and financial suffering; and offer both flexible and customized solutions despite the dynamic and uncertain post-disaster environment (Christianson et al., 2009; Drabek and McEntire 2003; Majchrzak et al., 2007; Shepherd and Williams, 2014).

As individuals, organizations, and other stakeholders emerge to solve problems together, we should expect both short and long-term organizational solutions to emerge. For example, some may launch community-based ventures to address urgent needs, whereas others may emerge after several months when secondary needs appear (e.g., psychological counseling). As with any form of organizing, crisis-based organizing can change motivations. It is critical that actors involved in post-crisis organizing be honest in this process by continually assessing if/how they are doing good. As more money pours in from within and outside of Chile, there is an increasing likelihood for waste and/or misuse of funds. In summary, doing good is not always easy, as the “needs” evolve over time and the ability to define and execute “helpful” activities shifts as well.

2.3 Social cohesion enabled by entrepreneurial action

Countries experiencing crisis must balance short-term and long-term considerations, so that over time the economy can become more resilient and thus better able to withstand shocks. Policy making which supports entrepreneurship during a crisis is not easy. The first rule in such situations

should be ‘do no harm’. That is to say that policy makers should avoid any actions which limit entrepreneurial activity and its potential contribution to economic and social development. This means, for example, avoiding adding further unnecessary bureaucratic burdens on business as well as avoiding damaging tax increases. Often this is not easy advice for policy makers to take. For example, post-crisis Greece was (and still is) in a fiscally parlous state and, under pressure to generate revenue from its EU bailout benefactors, increased taxes on business sectors (Williams and Vorley, 2015). If such decisions are made which ultimately stymie entrepreneurship, for example through tax increases making some sectors less competitive, then long term recovery will be damaged (Williams and Vorley, 2017).

At the same time as following the ‘do no harm’ principle, policy makers must also seek ways to enable economies to become more diverse. Greater diversity in the economic base can lessen the impact of a crisis (Williams and Vorley, 2017). Measures which seek to reduce unemployment, for example through loans and subsidies to entrepreneurs and small businesses during the crisis, must not simply consolidate the positions of dominant businesses, but must seek to encourage competition and diversity. In this way, economies can become more resilient over time. As certain sectors or supply chains may be vulnerable to a crisis (depending on its nature) others can withstand it better.

Diversity can also enhance social cohesion by bringing a broader range of knowledge together. Social cohesion acts to bind society’s assets together, and where there is trust, human and financial capital will be put to productive use. This is a challenge in the context of Chile, given the levels of inequality which has meant that social strata do not mix (Davies, 2019). Such division undermines the social cohesion which has important implications for resilience, as more homogenous and cohesive societies enjoy higher levels of economic development (Huggins and Thompson, 2017).

Entrepreneurial activity in the midst of crisis can make important contributions to social cohesion. As research on the aftermath of Hurricane Katrina shows (Grube and Storr, 2018) entrepreneurs can perform important community recovery roles.

Chile is aiming to respond positively to the crisis, with the Economic Development Agency (CORFO) seeking new ways of supporting the entrepreneurial infrastructure and moving away from previously inefficient investment strategies. To do so, CORFO must consider the social cohesion element of entrepreneurship. In Chile's case, support can be given to entrepreneurs who fill community roles, for example by contributing to employment programs or by linking businesses in urban centers to rural areas where inequalities are most stark. This requires revisiting what is considered productive in entrepreneurship. Fast-growing, innovative entrepreneurship is important, but in post-crisis places productive entrepreneurship can be that which assists social cohesion. It also requires re-thinking about the 'places' in which entrepreneurship is supported. The ecosystem support industry is highly subsidized; however, this has mainly benefitted those within the capital of Santiago, with the benefits not spreading more widely. Supporting entrepreneurship in peripheral places can generate returns that enhance social cohesion. Over time, entrepreneurial activity which contributes to social cohesion can have lasting impacts, improving people's access to opportunities that they were previously excluded from and improving knowledge flows between different social strata.

3 What now?: Considerations and interventions

While the causes of crises are better understood (Doern et al., 2018), resolving how economies can bounce back from a crisis and what policy makers can do in the midst of a crisis still require research (Williams and Vorley, 2017). As with other crisis-hit economies, the answers facing Chile

are not simple, and contain a number of difficult trade-offs. Crises that have been decades in the making, such as in Chile (Pribble, 2019), are not simple to resolve.

Restoring law and order and macroeconomic stability are normally seen as key priorities. However, policymakers can find ways to support entrepreneurship and, through it, tackle the social crisis. As seen in the presentation of our model, policymakers must balance short term with long term considerations, as well as the many levels in which action and transformation can take place. In the short term, Chile is exploring ways to support its entrepreneurs so that risks of closure and the resultant unemployment associated with it can be minimized. Yet, in the long term the entrepreneurship support infrastructure should work together to lessen the likelihood of future crises and their severity. There is unfortunately no single, magic bullet for entrepreneurship policymaking. Rather, complex trade-offs need to be made which ensure that the entrepreneurial fabric of an economy is not damaged further, which in turn will enable the problem-solving capacity of entrepreneurs during and post-crisis.

To move forward with the policy reorientation process, three considerations need to be taken into account. A first consideration involves an examination of whether, how and to what extent entrepreneurship policies are part of the problem. Also, a recognition that crises might uncover the deficiencies in entrepreneurship policymaking, which might call into question what entrepreneurship is useful for, and why it requires support. This creates opportunities for policymakers to open up spaces for dialogue and thinking about value-driven ecosystems (Robinson and Mazzucato, 2019), which can potentially allow for improving responsiveness today and reducing inequalities as the crisis fades away.

A second consideration entails moving away from elite entrepreneurship and focusing on using entrepreneurship to encourage participation and foster social cohesion. In doing so,

entrepreneurship policy can open pathways for uncoordinated, semi-autonomous actions of individual agents and spaces for responsive venturing to emerge. This, by means of decentralized programs and the promotion of diversified place-based economic activity. If emergent organizations are embraced and adequately nurtured, spontaneous responsive venturing can naturally take care of urgent and secondary needs, enabling new forms of economic activity. These are more likely to be embedded in and with the capacity of changing local communities (i.e. reconfiguring actors and practices). This in turn equip communities and ventures with the necessary tools to collectively respond to the crisis. As this happens, responsive venturing in conjunction with ecosystem actors, can enable social cohesion at the local level, restoring human and financial capital and potentially trust. We argue that if and when social cohesion takes center stage, policy can further leverage its outcomes (i.e. recovery role of responsive ventures and economic diversity) to visualize resilience pathways and, in turn, strengthen the renewed participatory nature of a revamped entrepreneurial ecosystem. This cycle - ecosystem democracy, emergent responsive venturing and social cohesion - is potentially capable of minimizing the effects of the current crisis and changing the orientation of future support in a way that encourages bottom-up innovation whilst removing entrepreneurship policy from the set of causes leading to expanding inequality.

A final consideration involves the articulation of decisive actions. In Table 1, we recommend a number of interventions to set the policy orientation model (Fig 1) in motion. The proposed interventions are elaborated to be implemented during the crisis and in a post-crisis stage. This can ensure continuity of efforts and increase the likelihood of a coherent policy transition.

---Insert Table 1 about here---

Chilean entrepreneurs are facing the worst social and economic crisis in decades, and the COVID-19 is further complicating a task that already seemed unattainable. While these crises are creating a “perfect storm” of disruption for Chilean entrepreneurs, they also create opportunities to rethink entrepreneurship policy in the face of crisis and in the dawn of a new normal, which can help to “build back better” than before. We hope our rapid response can assist Chile’s efforts and support their entrepreneurial community.

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5 Figure and Table

Figure 1. A model for entrepreneurship policy reorientation in times of crisis

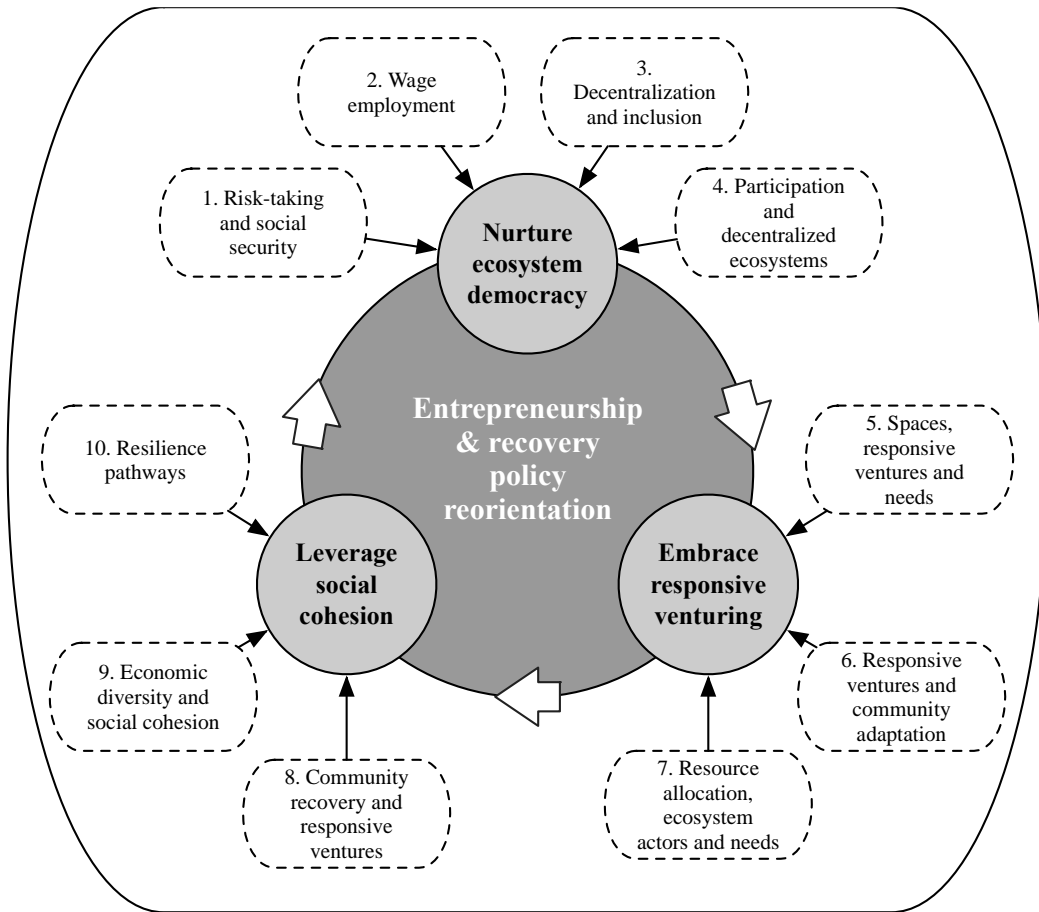


Table 1. Entrepreneurship & recovery: Interventions during and post-crisis

Focus	During crisis / short term	Post-crisis / long term
Ecosystem democracy	Support entrepreneurial risk-taking through an encompassing and reliable social security system within entrepreneurial ecosystems	Develop an unemployment insurance mechanism for SMEs to prevent massive layoffs in the future when a new crisis arises
	Prioritize quality wage employment within entrepreneurial ecosystems	Establish a minimum wage or salary range within support programs and subsidies for ecosystem actors
	Identify new territories needing resources, tools and coordinated support with other entities, so that it facilitates and accelerates the emergence of entrepreneurial communities	Reduce emphasis on ‘elite’ entrepreneurship through decentralization and inclusion
	Expand quotas within current support programs aimed at increasing participation of new or existing ventures from peripheral regions	Encourage participation across decentralized ecosystems
	Strengthen bottom-up ecosystem roundtables, encouraging and valuing self-direction. Provide support by mean of flexible policy tools capable of matching purpose with local realities.	Provide long term support for roundtables and disseminate learning from ecosystems
Responsive venturing	Open spaces for emergence and coordination of diverse responsive ventures tackling urgent and secondary needs.	Embrace mission-oriented policy and promote long-term collaborations with responsive ventures focusing on the nature of recurring problems.
	Temporarily allow emerging responsive ventures to remain informal (when/if needed) throughout crisis and recovery.	Coordinate and identify needs across government agencies needing and supporting entrepreneurship, e.g. health, education, logistic.
	Encourage responsive ventures to create and re-configure community actors in the development of solutions; allocate resources to responsive ventures tackling urgent challenges	Develop greater ecosystem diversity through bottom-up ecosystem roundtables.
	Mobilize and coordinate complementary actions of diverse groups of entrepreneurs, capable of tackling different urgent and secondary needs	Create long-term links between groups to establish knowledge spill overs
Social cohesion	Deploy the existing infrastructure and resources (e.g. subsidies, networking) to speed up the implementation of solutions generated by responsive ventures	Leverage long-term community recovery roles of responsive ventures
	Deploy agencies to capture emergent entrepreneurial activity and industries and examine their growth potential	Promote greater economic diversity and emerging social cohesion
	Deploy agencies to capture emergent entrepreneurial activity and industries and examine their potential as resilience mechanisms	Communicate successful strategies undertaken during crisis to create knowledge spillovers for other firms