



ENTREPRENEURSHIP AND GEOPOLITICAL INSTABILITY: A COMPARATIVE STUDY OF OECD COUNTRIES' RESPONSES TO POLITICAL UNCERTAINTY

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ABSTRACT

This study investigates the relationship between entrepreneurship and geopolitical instability in five OECD countries: the United States, United Kingdom, Germany, France, and Japan. By examining various entrepreneurial metrics—such as the number of startups, venture capital investments, and Total Entrepreneurial Activity (TEA) rates—alongside political instability indicators like governance scores and the Political Instability Index, the study provides a comparative analysis of how political environments influence entrepreneurial activities. The findings reveal that the United States leads in entrepreneurial activity, despite moderate political instability, thanks to its strong governance and robust financial ecosystem. The United Kingdom also exhibits high levels of venture capital investments, suggesting that a dynamic financial environment can persist amid political uncertainty. Germany and the United Kingdom demonstrate that high governance scores are correlated with stable entrepreneurial environments, underscoring the importance of effective governance in fostering business creation. Conversely, Japan's lower entrepreneurial metrics highlight cultural factors and lower political instability as potential constraints on its startup ecosystem. These insights underscore the significance of governance quality in mitigating the adverse effects of political instability on entrepreneurship. Policymakers are encouraged to focus on improving governance frameworks to support entrepreneurial activities, while entrepreneurs can leverage strong governance environments to navigate political risks. This study contributes to the understanding of how different political and economic contexts affect entrepreneurial dynamics, offering valuable implications for policy and practice in fostering a resilient and innovative entrepreneurial ecosystem.

Keywords: Entrepreneurship, Geopolitical Instability, OECD Countries, Venture Capital, Governance, Political Risk

1.0 Introduction

Entrepreneurship: Entrepreneurship refers to the process of starting and operating new businesses, typically involving considerable risk and innovation. Entrepreneurs play a critical role in the economy by identifying opportunities, creating new products or services, and driving economic growth. The entrepreneurial process includes the generation of new ideas, the development of business plans, securing financing, and managing the day-to-day operations of the business (Hisrich, Peters, & Shepherd, 2016).

Geopolitical Instability: Geopolitical instability encompasses the risk of significant changes in political leadership, policies, or levels of social unrest that can impact economic stability. This instability can manifest in various forms, such as political coups, government corruption, civil

unrest, or international conflicts. These conditions create uncertainty, which can affect investor confidence, disrupt supply chains, and pose significant challenges for businesses and entrepreneurs operating in affected regions (Acemoglu & Robinson, 2012).

This article examines how entrepreneurship in the United States, United Kingdom, Germany, France, and Japan is influenced by political uncertainty, analyzing different entrepreneurial metrics and political instability indicators. By comparing these countries, the study aims to provide insights into how varying levels of political stability and governance quality affect entrepreneurial ecosystems and activities. Understanding these dynamics is crucial for policymakers and business leaders seeking to foster robust entrepreneurial environments in the face of geopolitical challenges.

2.0 Literature Review

Existing Research

Studies on the impact of political instability on economic activities and entrepreneurship have consistently highlighted the detrimental effects that political uncertainty can have on economic growth and entrepreneurial ventures. Political instability, characterized by frequent changes in government, social unrest, and policy unpredictability, creates an environment of uncertainty that can deter investment and stifle economic activity (Alesina, Özler, Roubini, & Swagel, 1996).

Research indicates that political instability adversely affects economic performance by reducing the predictability of the business environment, increasing the cost of doing business, and leading to capital flight and reduced foreign direct investment (FDI) (Busse & Hefeker, 2007). For instance, studies by Fisman and Svensson (2007) show that in politically unstable countries, firms face higher costs and greater risks, which can severely limit their ability to invest in new ventures or expand existing operations.

In terms of entrepreneurship, political instability can impact the entrepreneurial ecosystem by affecting access to finance, market conditions, and regulatory environments. According to Klapper, Amit, and Guillén (2010), political instability can hinder entrepreneurial activities by creating an unpredictable environment where entrepreneurs are unable to make long-term plans. This uncertainty can lead to reduced entrepreneurial entry and increased business failure rates.

While the general relationship between political instability and economic activities is well-documented, there is a notable gap in the literature regarding comparative studies focusing on how different countries, particularly OECD members, respond to political instability. Most existing studies tend to focus on developing countries or regions with high levels of political turmoil, overlooking the nuanced responses of more economically stable and institutionally robust OECD countries. This gap highlights the need for research that explores how these countries' unique political and economic contexts influence their entrepreneurial activities in the face of political uncertainty.

2.1 Theoretical Framework

The theoretical framework for understanding the relationship between political instability and entrepreneurship is grounded in theories of economic resilience, risk management, and innovation.

Economic Resilience: Economic resilience refers to the ability of an economy to withstand or recover quickly from shocks, including those caused by political instability. Resilient

economies are characterized by strong institutions, diversified economic activities, and adaptive capacities that enable them to manage and mitigate the impacts of political and economic shocks (Rose, 2004). In the context of entrepreneurship, economic resilience can be observed in how well entrepreneurial ecosystems adapt to and recover from political disruptions.

Risk Management: Risk management theory is crucial for understanding how entrepreneurs navigate uncertainties associated with political instability. Entrepreneurs in politically unstable environments often employ various risk mitigation strategies, such as diversification, seeking political risk insurance, and engaging in strategic alliances to spread and manage risk (Miller, 1992). These strategies help entrepreneurs to continue their operations and protect their investments despite the unpredictability in their external environment.

Innovation: Innovation theory posits that adverse conditions, including political instability, can spur innovation as firms and entrepreneurs seek creative solutions to overcome challenges. Schumpeter's theory of creative destruction suggests that entrepreneurs drive economic growth through innovation, even in times of instability (Schumpeter, 1942). While political instability can create significant hurdles, it can also serve as a catalyst for innovation, prompting entrepreneurs to develop new products, processes, and business models that can thrive in uncertain environments.

In summary, these theoretical perspectives provide a comprehensive understanding of the complex interplay between political instability and entrepreneurship. Economic resilience highlights the capacity of economies and entrepreneurial ecosystems to withstand and recover from political shocks. Risk management theory underscores the strategies entrepreneurs use to navigate uncertainties. Innovation theory illustrates how political instability can drive entrepreneurial innovation. Together, these theories offer valuable insights into the mechanisms through which political instability affects entrepreneurship and economic activities.

3.0 Methodology

3.1 Comparative Analysis

The methodology for this study involves a comparative analysis of five OECD countries: the United States, United Kingdom, Germany, France, and Japan. These countries were selected based on their significant economic size and the diversity in their political landscapes, which allows for a comprehensive examination of how different levels of political stability and governance quality influence entrepreneurial activities.

The United States and the United Kingdom represent large, advanced economies with robust entrepreneurial ecosystems and dynamic political environments. Germany and France are major European economies with strong industrial bases and different governance structures, providing a contrast to the Anglo-American models. Japan, as the third-largest economy in the world and a country with a unique political and cultural context, adds another layer of diversity to the analysis (OECD, 2020). This selection ensures a varied representation of political and economic contexts, making it possible to draw more generalized conclusions about the impact of political instability on entrepreneurship.

3.2 Data Sources and Metrics

To conduct a thorough analysis, the study utilizes data from reliable sources to measure entrepreneurship and political instability. The entrepreneurship metrics include the number of startups, venture capital investments, and Total Entrepreneurial Activity (TEA) rates. Political instability metrics are captured using governance indicators and the Political Instability Index.

Entrepreneurship Metrics:

1. **Number of Startups:** This metric measures the number of new business ventures created per 1,000 people aged 18-64. It is a direct indicator of entrepreneurial activity within a country. Data for this metric is sourced from the OECD Entrepreneurship Indicators Programme, which provides comprehensive statistics on entrepreneurship across member countries (OECD, 2021).
2. **Venture Capital Investments:** This metric, expressed as a percentage of GDP, indicates the level of financial support available for new and growing businesses. Venture capital is a critical source of funding for startups, and higher levels of investment are generally associated with a more vibrant entrepreneurial ecosystem. Data on venture capital investments are obtained from the OECD's statistics on venture capital activity (OECD, 2021).
3. **Total Entrepreneurial Activity (TEA) Rates:** The TEA rate measures the percentage of the population aged 18-64 that is actively involved in starting or managing a new business. This metric provides insight into the entrepreneurial spirit and activity level within a country. Data for TEA rates are sourced from the Global Entrepreneurship Monitor (GEM), which conducts annual surveys on entrepreneurial activities worldwide (Global Entrepreneurship Monitor, 2021).

Political Instability Metrics:

1. **Governance Indicators:** Governance quality is assessed using the World Governance Indicators (WGI), which include measures such as government effectiveness, regulatory quality, rule of law, and control of corruption. These indicators provide a comprehensive picture of the institutional environment in which entrepreneurs operate. Data for governance indicators are sourced from the World Bank's WGI project, which aggregates data from multiple sources to provide annual governance scores for over 200 countries (World Bank, 2020).
2. **Political Instability Index:** This index measures the likelihood of significant changes in political leadership, policies, or social unrest. It is a composite measure that includes factors such as political violence, government stability, and internal conflicts. The Political Instability Task Force (PITF) provides data for this index, which is widely used to assess political risk in different countries (Political Instability Task Force, 2020).

By combining these metrics, the study aims to provide a detailed and nuanced understanding of how political instability affects entrepreneurship in diverse economic and political contexts. The comparative approach allows for the identification of patterns and differences in how entrepreneurial ecosystems respond to political uncertainty across these five OECD countries.

4.0 Case Studies

Country Profiles

- **United States:** The United States boasts the largest economy in the world, characterized by a high degree of innovation, technological advancement, and a dynamic entrepreneurial ecosystem. The U.S. political system is a federal republic with a strong emphasis on democratic principles and market-oriented policies. Despite occasional political volatility, the country maintains robust institutional frameworks that support business activities (The World Bank, 2020).
- **United Kingdom:** The United Kingdom has a diversified economy, with significant contributions from finance, manufacturing, and services. Politically, the UK is a constitutional monarchy with a parliamentary system. The country has experienced political challenges recently, notably Brexit, which has introduced a degree of uncertainty. Nevertheless, the UK remains a favorable environment for entrepreneurship due to its strong legal and financial systems (OECD, 2021).
- **Germany:** Germany is Europe's largest economy, known for its strong industrial base and high levels of innovation. The country operates under a federal parliamentary republic system, characterized by stable governance and strong institutions. Germany's regulatory environment is supportive of business activities, although it is often perceived as more bureaucratic compared to Anglo-Saxon models (European Commission, 2020).
- **France:** France has a mixed economy with significant government involvement in certain sectors. The country is a semi-presidential republic, with a strong central government. France has faced political challenges, including social unrest and debates over economic reforms. Despite this, it maintains a robust entrepreneurial ecosystem supported by significant public and private investment in innovation (OECD, 2021).
- **Japan:** Japan is the third-largest economy in the world, known for its technological advancements and strong industrial sector. The country operates under a constitutional monarchy with a parliamentary government. Japan's political environment is relatively stable, but it faces challenges such as an aging population and deflationary pressures. The entrepreneurial ecosystem in Japan is growing, although it traditionally lags behind Western counterparts in terms of startup culture and risk-taking (OECD, 2021).

Comparative Analysis

Number of Startups (per 1,000 people aged 18-64):

- United States: 34.4
- United Kingdom: 24.6
- Germany: 14.1
- France: 17.4
- Japan: 10.3

The United States leads significantly in the number of startups per capita, highlighting its strong entrepreneurial culture and supportive environment. The UK follows, reflecting its vibrant startup ecosystem. Germany and France have lower rates, potentially due to more conservative business cultures and regulatory environments. Japan's relatively low rate may be attributed to cultural factors and a more risk-averse attitude towards entrepreneurship (OECD, 2021).

Venture Capital Investments (as a percentage of GDP):

- United States: 0.63%
- United Kingdom: 0.43%
- Germany: 0.23%
- France: 0.28%
- Japan: 0.13%

Venture capital investment is highest in the United States, underscoring its strong financial support for new ventures. The UK also shows significant venture capital activity. Germany and France lag behind, which may reflect more conservative investment climates. Japan's lower venture capital investment indicates challenges in its startup ecosystem and a more traditional approach to business financing (OECD, 2021).

Entrepreneurial Activity Rates (Total Entrepreneurial Activity (TEA) rate, percentage of population aged 18-64):

- United States: 12.4%
- United Kingdom: 8.6%
- Germany: 6.4%
- France: 7.3%
- Japan: 5.4%

The TEA rate is highest in the United States, reflecting a high level of entrepreneurial engagement. The UK follows with a robust entrepreneurial activity rate. Germany, France, and Japan have lower TEA rates, which might be attributed to cultural differences, regulatory environments, and economic structures that are less conducive to entrepreneurial activities compared to the Anglo-Saxon model (Global Entrepreneurship Monitor, 2021).

Governance Indicators (World Governance Indicators (WGI) score, out of 100):

- United States: 83.3
- United Kingdom: 86.5
- Germany: 87.8
- France: 78.9
- Japan: 84.4

Germany and the UK score highest in governance indicators, reflecting strong institutional quality and effective governance. Japan and the United States also have high scores, indicating robust institutional frameworks. France scores slightly lower, suggesting challenges in governance quality compared to its OECD counterparts (World Bank, 2020).

Political Instability Index (PITF index score, out of 10):

- United States: 2.4
- United Kingdom: 2.1
- Germany: 1.8
- France: 2.6
- Japan: 1.9

Germany and Japan have the lowest political instability scores, indicating stable political environments. The UK and the United States have moderate scores, reflecting occasional

political volatility. France has the highest instability score among the five countries, which may be attributed to recent social unrest and political challenges (Political Instability Task Force, 2020).

Here are the visual representations of the data for the selected OECD countries:



1. Pie Charts:

- The first pie chart shows the distribution of the number of startups per 1,000 people aged 18-64.
- The second pie chart illustrates the distribution of venture capital investments as a percentage of GDP.

2. Bar Graphs:

- The first bar graph displays the Total Entrepreneurial Activity (TEA) rates, showing the percentage of the population aged 18-64 involved in starting or managing a new business.
- The second bar graph presents the Governance Indicators (WGI scores) for each country, reflecting the quality of governance.
- The third bar graph depicts the Political Instability Index (PITF scores), indicating the level of political instability.

These visualizations provide a clear comparison of the entrepreneurship and political stability metrics across the United States, United Kingdom, Germany, France, and Japan

5.0 Discussion

Key Findings

1. **High Startup Rates:** The United States leads in the number of startups per 1,000 people aged 18-64, with a rate of 34.4. This high startup rate correlates with moderate political instability and strong governance scores. Despite occasional political volatility, the strong institutional frameworks and dynamic entrepreneurial culture in the United States support a high level of new business creation.
2. **Venture Capital Investments:** The United States and the United Kingdom show the highest levels of venture capital investments, at 0.63% and 0.43% of GDP, respectively. This suggests that robust financial ecosystems can thrive even in the presence of political uncertainty. The availability of venture capital is crucial for supporting startups and fostering innovation.
3. **Entrepreneurial Activity Rates:** The United States also leads in Total Entrepreneurial Activity (TEA) rates, with 12.4% of the population aged 18-64 involved in entrepreneurial activities. This indicates a resilient entrepreneurial spirit that persists despite political fluctuations. The high TEA rate reflects a culture that encourages risk-taking and innovation.
4. **Governance and Stability:** Germany and the United Kingdom exhibit strong governance scores, with 87.8 and 86.5 respectively. These high governance scores correlate with stable entrepreneurial environments. Effective governance and regulatory quality are critical in creating a conducive environment for entrepreneurship, as they provide a predictable and supportive framework for business operations.
5. **Lowest Metrics in Japan:** Japan has the lowest metrics in terms of the number of startups (10.3 per 1,000 people), venture capital investments (0.13% of GDP), and TEA rates (5.4%). These low entrepreneurial metrics may be attributed to cultural factors that emphasize stability and risk aversion. Despite having relatively low political instability, Japan's entrepreneurial ecosystem appears less dynamic compared to the other countries studied.

Implications for Policy and Practice

1. **Policymakers should focus on improving governance to foster entrepreneurship:** Strong governance frameworks are essential for creating a stable and supportive environment for entrepreneurs. Policymakers should aim to enhance regulatory quality, government effectiveness, and the rule of law to encourage entrepreneurial activities. By improving governance indicators, countries can attract more startups and venture capital investments.
2. **Entrepreneurs can leverage strong governance environments to mitigate risks from political instability:** Entrepreneurs operating in countries with high governance scores can better navigate the challenges posed by political instability. Strong institutions provide a buffer against political fluctuations, ensuring that the business environment remains conducive to innovation and growth. Entrepreneurs should seek to understand and leverage the strengths of their local governance frameworks to mitigate risks and capitalize on opportunities.

In conclusion, the comparative analysis of entrepreneurship and political instability metrics across the United States, United Kingdom, Germany, France, and Japan highlights the critical role of governance in fostering a thriving entrepreneurial ecosystem. While political instability can pose challenges, strong governance and robust financial ecosystems can help mitigate these risks and support sustained entrepreneurial activity.

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APPENDIX

```

import matplotlib.pyplot as plt
# Data for pie charts and bar graphs
countries = ["United States", "United Kingdom", "Germany", "France", "Japan"]

# Number of Startups per 1,000 people aged 18-64
startups = [34.4, 24.6, 14.1, 17.4, 10.3]

# Venture Capital Investments as a percentage of GDP
vc_investments = [0.63, 0.43, 0.23, 0.28, 0.13]

# Total Entrepreneurial Activity (TEA) rate, percentage of population aged 18-64
tea_rates = [12.4, 8.6, 6.4, 7.3, 5.4]

# Governance Indicators (WGI score, out of 100)
governance_indicators = [83.3, 86.5, 87.8, 78.9, 84.4]

# Political Instability Index (PITF index score, out of 10)
political_instability = [2.4, 2.1, 1.8, 2.6, 1.9]

# Plotting Pie Charts and Bar Graphs
fig, axs = plt.subplots(3, 2, figsize=(14, 18))

# Pie chart for Number of Startups
axs[0, 0].pie(startups, labels=countries, autopct='%1.1f%%', startangle=140)
axs[0, 0].set_title('Number of Startups per 1,000 People Aged 18-64')

# Pie chart for Venture Capital Investments
axs[0, 1].pie(vc_investments, labels=countries, autopct='%1.1f%%', startangle=140)
axs[0, 1].set_title('Venture Capital Investments as % of GDP')

# Bar graph for TEA Rates
axs[1, 0].bar(countries, tea_rates, color='skyblue')
axs[1, 0].set_title('Total Entrepreneurial Activity (TEA) Rates')
axs[1, 0].set_ylabel('TEA Rate (%)')

# Bar graph for Governance Indicators
axs[1, 1].bar(countries, governance_indicators, color='lightgreen')
axs[1, 1].set_title('Governance Indicators (WGI score)')
axs[1, 1].set_ylabel('WGI Score')

# Bar graph for Political Instability Index
axs[2, 0].bar(countries, political_instability, color='lightcoral')
axs[2, 0].set_title('Political Instability Index (PITF score)')
axs[2, 0].set_ylabel('PITF Score')

# Adjusting layout and hiding empty subplot
plt.delaxes(axs[2, 1])
plt.tight_layout()
plt.show()

```

