

## Developing Successful Entrepreneurial Ecosystems: Lessons from a Comparison of an Asian Tiger and a Baltic Tiger

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### **Abstract:**

#### Purpose

– There are strong similarities and striking differences in Estonia's and South Korea's entrepreneurial ecosystems. The purpose of this paper is to seek to compare and contrast these two economies in terms of key indicators related to impacts, performance measures and determinants of entrepreneurship.

#### Design/methodology/approach

– The approach of this study can be described as theory building from multiple case studies. The analysis is based on secondary data from a number of sources related to impacts, performance measures and determinants of entrepreneurship.

#### Findings

– Among the major findings is that in order to shift to a higher gear, South Korea's entrepreneurial weakness must be addressed through broad institutional reforms that include the corporate governance, and policies and attitudes toward immigrants and immigration. In Estonia's case, while continuing attention must be paid to institutional reforms, immediate action is needed to improve policies that affect basic economic, technological and infrastructural conditions.

#### Research limitations/implications

– A crucial lesson from a comparison of these two economies is that multiple paths of entrepreneurial success exist.

#### Practical implications

– The lessons each can learn from the other to improve the entrepreneurial ecosystem are suggested. Other emerging, developing and less developed economies also have much to learn from the success paths of these two economies.

Originality/value

– This paper provides unique insights into alternative ways that emerging economies can follow to develop successful entrepreneurial ecosystems and achieve entrepreneurial success as well as advantages and limitations of the alternatives.

**Keywords:** Corporate governance | Estonia | South Korea | Entrepreneurial ecosystem | Entrepreneurial impact | Determinants of entrepreneurship | Entrepreneurial culture | “Honest State” program

## Article:

### Introduction

Estonia and South Korea have achieved remarkable entrepreneurial successes in a short time and have become role models for other emerging economies. Estonia is referred as a Baltic Tiger due to its rapid economic boom after 2000 which continued until the global financial crisis (GFC). According to the European Union's (EU) official statistics, the Estonian economy grew by 8 percent in 2011, which was more than five times the EU average (Bithrey, 2011). Among the Former Soviet Union (FSU) economies, Estonia is most integrated with the west. It is the only FSU economy with a membership in all of the following three multilateral organizations: the Organization for Economic Co-operation and Development (OECD), the EU and the North Atlantic Treaty Organization (NATO). Prior research indicates that, among the post-socialist Central and Eastern European (CEE) economies, Estonia and Czechoslovakia (particularly today's Czech Republic) introduced most aggressive institutional change measures to facilitate entrepreneurship (Dennis, 2011; Kshetri, 2010). Of the three Baltic States, Estonia arguably has the highest level of entrepreneurial activity. For instance, one entrepreneurial firm is created for every 50 working-age population annually in Estonia compared to every 100 and every 200 people, respectively, in Latvia and Lithuania (seb.ee, 2012).

Likewise, South Korea, the fourth-biggest Asian economy, is referred as one of the four Asian Tigers. Its entrepreneurial success is well documented in the prior literature (Steers et al., 1997). South Korea has consistently maintained a high level of economic growth. For instance, South Korea was among the two fastest growing OECD economies during 1990-2007. During 1970-2002, its economy grew by an average of 7.2 percent annually (European Commission, 2013). According to Boston Consulting Group (BCG) and the National Association of Manufacturers and the Manufacturing Institute, it ranked No. 2 in innovation index in 2008 and No. 1 among the world's top 20 countries by GDP (Andrew et al., 2009). The country is arguably among Asia's “front-runners” (Wielemaker and Gedajlovic, 2011). South Korean companies such as Kia, Samsung, LG and Hyundai rank among the top global brands. In Interbrand's 2013 list of the world's Best Global Brands, for instance, Samsung ranked No. 8 and was the highest ranked Asian brand.

These two economies' entrepreneurial successes and the key ingredients of entrepreneurial ecosystems are characterized by strong similarities and striking differences. For instance, in terms of most institutional indicators – corporate governance practice, corruption perceptions

index, economic freedom index, regulatory quality index – Estonia outperforms South Korea. In terms of economic and technological indicators related to entrepreneurship such as broadband adoption, savings rate, and expenditure on R&D, however, South Korea performs better than Estonia. This paper includes case studies of these two entrepreneurially successful economies as a means of drawing out a number of important issues and lessons related to entrepreneurial development.

Three primary problems motivate our efforts. First, observation made a decade ago by Coviello and Jones (2004) that most of research on entrepreneurship focusses on a single country and few studies have compared two or more countries is still valid to some extent today. A related point is that much of the prior research on multi-country entrepreneurial environment focusses on countries with relatively homogeneous institutions such as Asian countries (Wielemaker and Gedajlovic, 2011), western countries (Busenitz et al., 2000), CEE economies (Kshetri, 2010) and post-socialist economies (Kshetri, 2009). While some researchers (e.g. Leong et al., 2008) have compared economies with significant differences in entrepreneurial environment such as Singapore and Sweden, they have focussed on narrower aspects (e.g. entrepreneurial university). The idea in this paper is that a study of well-performing economies such as Estonia and South Korea can provide valuable insights to policy makers and entrepreneurs about multiple paths for the development of successful entrepreneurial ecosystems.

Second, while there has been recognition for some time that institutional factors are tightly linked to an economy's entrepreneurial performance (Busenitz et al., 2000; Spencer and Gomez, 2004; Chiles et al., 2007; Kshetri, 2007; Gupta et al., 2012), little theoretical or empirical work has attempted to specify the exact nature of institutions that lead to an economy's entrepreneurial success. Moreover, while some researchers have examined the effects of institutional environment on entrepreneurial development, they have mainly focussed on the regulatory environment (Manolova et al., 2008).

Finally, while prior literature has recognized the importance of the creation and co-creation of organizations, markets and supporting ecosystems in the evolution of an entrepreneurial economy (e.g. Pitelis, 2012), there is little guidance on how to develop an entrepreneurially successful economy.

In order to contribute to filling the various research voids, this paper provides rich qualitative details about the determinants, performance indicators and impacts related to entrepreneurship as well as the natures of entrepreneurship-related changes undergoing two successful economies which reveal basic similarities as well as striking differences. This paper therefore offers the promise of filling many important gaps in the sparse literatures on a number of areas including cross-country comparison of entrepreneurial environments and performance, institution-entrepreneurship nexus and entrepreneurial ecosystem.

The paper is structured as follows. We proceed by first providing a brief overview of our research questions, the approach of the paper and data used. Then we examine some key performance indicators and impacts of entrepreneurship in Estonia and South Korea. Next, we analyze the determinants of entrepreneurship in the two economies. It is followed by a section on discussion and implications. The final section provides concluding comments.

## **Research questions, the approach of the paper and data used**

In light of the above observations, the following research questions are addressed in this paper:

RQ1. What are the sources of entrepreneurial success of Estonia and South Korea?

RQ2. What are the major similarities and differences between the key ingredients of the entrepreneurial ecosystems of the two economies?

RQ3. What are the key lessons that other countries and the rest of the world can learn from each country's entrepreneurial developmental pattern?

The approach of this study can be described as theory building from multiple case studies, which is becoming increasingly popular in social science (Eisenhardt and Graebner, 2007). Yin (1989) suggested that case studies are epistemologically justifiable when research questions focus on reasons behind observed phenomena, when behavioral events are not controlled, and when the emphasis is on contemporary events. In particular, best practices models are good candidates for a case research methodology (Eisenhardt, 1989; Teagarden and von Glinow, 1995). Due to the notable entrepreneurial achievements of Estonia and South Korea, their entrepreneurship developmental models can be considered as best practice models.

In a multiple case study design, the choice of cases needs to be made on a substantive rather than statistical basis in order to adequately represent a target population (Greene and David, 1984). A potentially valuable research design to test the conceptual framework via multiple case studies would be to sample countries (cases) that differ in economic, political, cultural and social factors. The economies covered in the study largely satisfy the various criteria suggested by prior researchers (e.g. Greene and David, 1984; Eisenhardt, 1989; Teagarden and von Glinow, 1995). The countries selected for analysis in this paper differ drastically in terms of formal and informal institutions as well as other key ingredients of entrepreneurial ecosystems.

### **Data sources**

This study uses the country as the unit of analysis. Document and archival analysis have served as the primary means of data collection. We mainly rely on archival data such as speeches of national and political elites, press releases of companies and newspaper articles. These are among a variety of recognized data sources for case studies (Eisenhardt and Graebner, 2007; Kshetri et al., 2011). As suggested by prior researchers (Golder, 2000; Mason et al., 1997), the sources of evidence as well as the evidence were analyzed using the criteria developed by Gottschalk (1969) such as time elapsed between events and reporting, openness to corrections, knowledge and expertise of the person reporting the events, and corroboration from multiple sources.

The evidence collected from the cases is linked to provide empirical support for the constructs and proposed relationships among them. The paper also articulates the underlying theoretical arguments that provide the logical link among the constructs. As suggested by prior researchers

(e.g. Eisenhardt and Graebner, 2007; Whetten, 1989), the arguments are based on the cases or from other detached logical reasoning (e.g. from other economies such as Ireland) and knowledge.

## Performance indicators and impacts of entrepreneurship in Estonia and South Korea

Table I compares some indicators related to entrepreneurial performances in Estonia and South Korea. A comparison of the two economies' per capita GDP during 1980-2012 indicates that both have made a remarkable progress in economic growth. Note that economic growth is a key indicator of entrepreneurial impact (Figure 1). While South Korea outperforms Estonia in indicators such as GDP per capita and worker productivity, the reverse is the case if we look at indicators related to global competitiveness and networked readiness. The two economies' performances are comparable in terms of income inequality (e.g. Gini coefficients) and employment rates, which are other key indicators of entrepreneurial impacts.

**Table I** A comparison of some indicators related to related to entrepreneurial performances in Estonia and South Korea

Indicator	Estonia	South Korea
GDP per capita (US\$) <sup>a</sup>		
1980		1,719
1985		2,432
1990	3,614	6,291
1998	4,023	7,858
GDP per capita (2005 PPP US\$) <sup>b</sup>		
2000	11,513	18,730
2005	16,548	22,783
2006	18,253	23,847
2007	19,648	24,948
2008	18,941	25,339
2009	16,246	25,299
2010	16,615	26,774
2011	17,885	27,541
Gross national income per capita (US\$, 2011) <sup>c</sup>	20825	30,254
GDP per capita (PPP, international\$ 2012) <sup>c</sup>	21,295	31,633
Real GDP growth (2011)	7.6	3.6
Real GDP growth 2012 <sup>d</sup>	3.2	2.0
GDP per hour worked (US\$, current prices and PPPs, 2011 <sup>c</sup>	25.9	28.3
Income inequality (Gini coefficient, late 2000s) <sup>c</sup>	0.32	0.31
Share of international trade in GDP (international exports in goods and services) <sup>c</sup>	92.7	56.2
Exports per capita (US\$ 2012) <sup>d</sup>	12,042	11,053
Employment rates	65.2	63.9
Young people not in education, training or employment age group 15-29 <sup>e</sup>	19.1	19.2
Relative earnings by level of education for men (2010 or latest available year) below upper secondary education 25-64 <sup>e</sup>	88	71
Relative earnings by level of education for women (2010 or latest available year) below upper secondary education 25-64 <sup>e</sup>	87	77
Relative earnings by level of education for men + women (2010 or latest available year) below upper secondary education 25-64 <sup>e</sup>	90	69

**Notes:** <sup>a</sup>"Per capita GDP at current prices – US dollars," <http://data.un.org/Data.aspx?d=SNAAMA&f=grID%3A101%3BcurrID%3AUDS%3BpcFlag%3A1>; <sup>b</sup><http://hdrstats.undp.org/en/tables/>; <sup>c</sup>OECD Factbook, [http://stats.oecd.org/BrandedView.aspx?oecd\\_by\\_id=factbook-data-en&doi=data-00647-en](http://stats.oecd.org/BrandedView.aspx?oecd_by_id=factbook-data-en&doi=data-00647-en), Data extracted on 9 March 2013; <sup>e</sup>education at a Glance 2012 OECD Report, [www.oecd.org/edu/highlights.pdf](http://www.oecd.org/edu/highlights.pdf)  
**Sources:** <sup>d</sup>[www.portal.euromonitor.com/Portal/Pages/Search/GeographyTreePage.aspx](http://www.portal.euromonitor.com/Portal/Pages/Search/GeographyTreePage.aspx) (accessed June 7, 2014)

Both economies rely heavily on exports. South Korea, like the other Asian Tigers – Hong Kong, Singapore, and Taiwan – achieved its growth primarily through export promotion. Its export promotion measures also included specialized banks for strategic sectors (Soh, 1997). Export dependence as measured by the share of international exports in goods and services in GDP is significantly higher for Estonia which can be partly attributed to its smaller domestic market.

Estonia's entrepreneurial achievements are mainly in the information and communications technology (ICT) industry. The common barriers to start-ups are less formidable in this industry.

South Korea's economy, on the other hand, is more diverse. For instance, entertainment, ICT and manufacturing received the bulk of venture funding (VC) in 2012 (Woodman, 2012).

Firm survival rate is an important performance indicator of entrepreneurship (Ahmad and Hoffmann, 2008). In this regard, South Korea's environment helps start-ups survive for longer periods. One study found that 78.3 percent of South Korean start-ups survived their first five years and 69.3 percent stayed for ten years (Lee, 2003). On the other hand, only 57 percent of small companies in Estonia survived first five years (businessinsider.com, 2012). That said, among the 29 economies examined by Lee et al. (2011), South Korea's new firm entry rate as measured by the ratio of the new firms to the total number of firms during 1990-2008 was 0.03, which was the second lowest in the sample.

South Korea's family-owned conglomerates, also known as the chaebol, which have helped transform the economy, have also played an important role in creating diversity. According to the Bank of Korea, the 30 largest chaebol controlled 40 percent of the South Korean economy in 2007 (Fackler, 2008). The chaebol have created entrepreneurial opportunities for SMEs, which account for 99 percent of the companies and 88 percent of the manpower (Korea Times, 2010). SMEs make most of the parts for carmakers such as Hyundai, Kia and Daewoo. In this way, the chaebol have contributed to SMEs' survival and growth.

While South Korea traditionally relied on the chaebol to drive economic growth (unlike Taiwan, in which SMEs played a key role (e.g. Smith, 2000; Wielemaker and Gedajlovic, 2011), there has been a rapid growth in SMEs following the 1997 Asian financial crisis (AFC) (Moskovitch and Dong-Jae, 2008). That said, South Korean SMEs are highly inefficient. For instance, SMEs' operating profits in 2007 averaged 4.5 percent of sales, compared with large firms' 7 percent. Likewise, small firms' value added per worker is less than half of that of the large ones (Economist, 2011). In the same vein, the chaebol have benefitted from technologies developed by VC-backed small companies. The chaebol thus support the VC market by purchasing products from these companies (Woodman, 2012). Finally, the chaebol spend heavily in R&D.

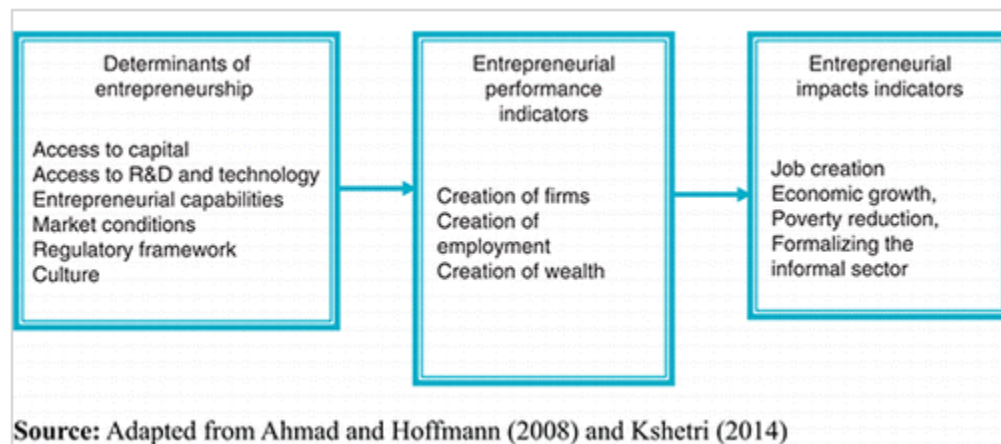
During 1960-2002, South Korea's compound annual GDP growth rate (CAGR) was 7.5 percent (Kniivilä, 2007). Moreover, the growth has been highly pro-poor (Kakwani and Pernia, 2000). The proportion of the population employed by agriculture decreased from 34 percent in 1980, to 18 percent in 1990 and to 9 percent in 2003 (World Bank, 2006). Compared to the widespread poverty of the 1960s, the share of population living on less than US\$1 a day (PPP) decreased to 2 percent in the late 1990s (World Bank, 2004).

### **Determinants of entrepreneurship: a comparison of Estonia and South Korea**

We discuss the various determinants of entrepreneurship in terms of three categories:

- (1) regulatory framework;
- (2) values, culture and skills; and
- (3) access to and development of finance, market, R&D and technology (Ahmad and Hoffmann, 2008; Kshetri, 2014).

These are presented in Figure 1. The determinants of entrepreneurship are also described as fundamental and proximate causes of prosperity and poverty (Acemoglu et al., 2005). Institutions, culture and geography have been identified as fundamental causes of prosperity. Among the proximate causes are physical capital, technology, human capital and functioning of markets.



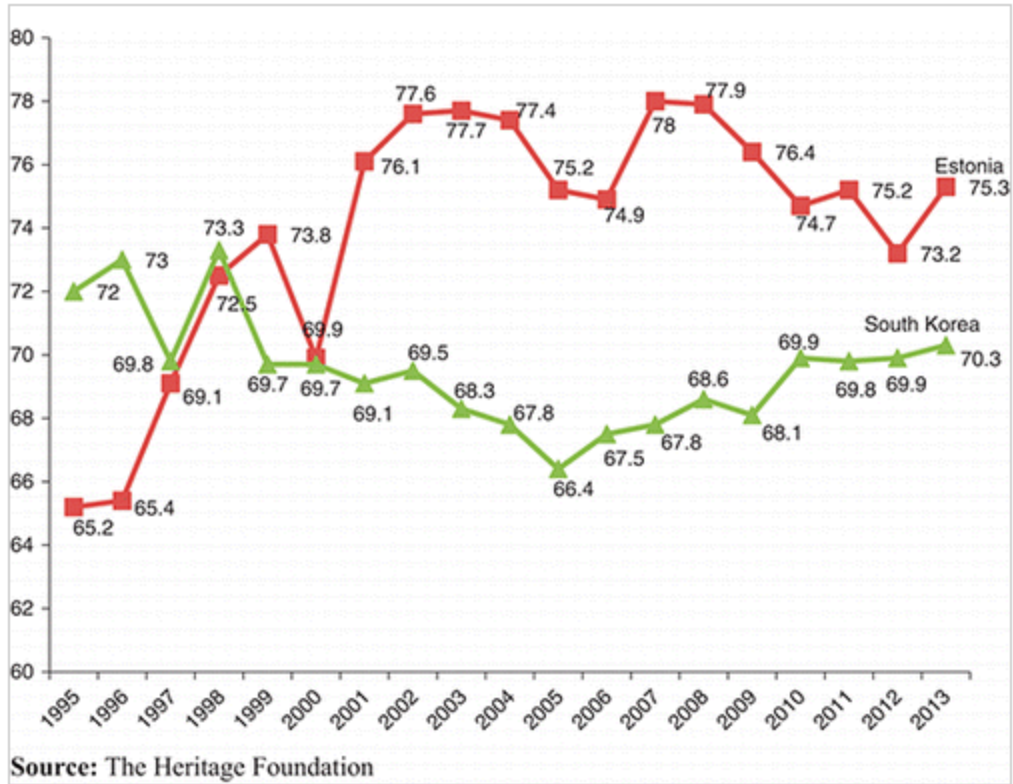
**Figure 1** A conceptual model on characteristics and performance of an entrepreneurial ecosystem

## Regulatory environment

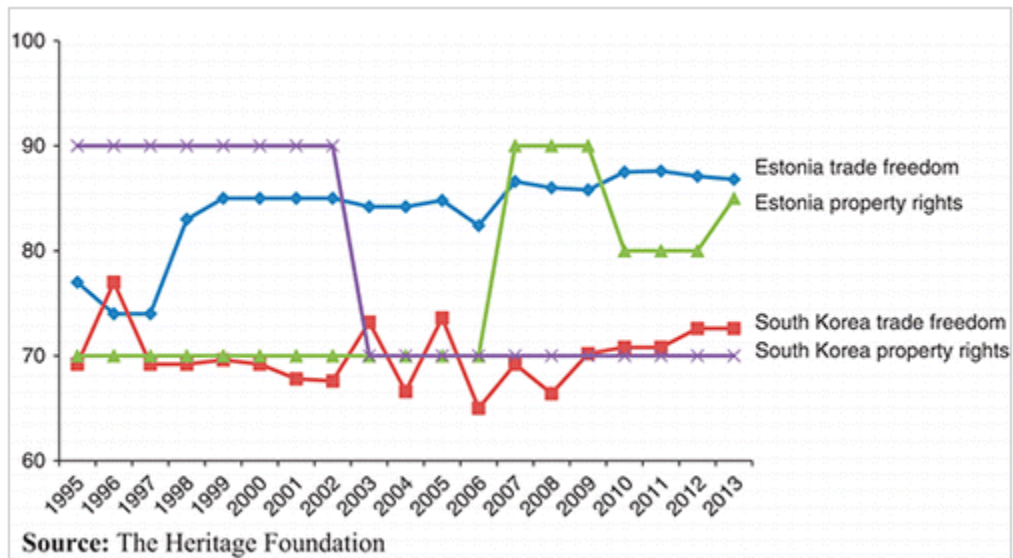
### Key components of economic freedom

Estonia is a relative newcomer but has made significant progress in institutional reforms. As shown in Figures 2-5, Estonia performs better than South Korea in most components of economic freedom. Estonia's overall economic freedom score was much lower than that of South Korea until the late 1990s. In 1999, it overtook South Korea and then consistently exceeded since then (Figure 2). Indeed, Estonia's economic freedom score is higher than those of many OECD members.

Estonia's best relative performances are in trade freedom and property rights (Figure 3). Quite impressive is also the investment freedom component. Only a small number of Estonia's enterprises in strategic sectors such as main port, power plants, postal system, railway, airports and the national lottery are state-owned. The same legal bases apply to SOEs and private enterprises. Foreign and local investors are treated equally. The regulatory frameworks are well developed to adequately protect property rights including intellectual property such as copyrights, patents, trademarks, industrial design and trade secrets.



**Figure 2** A comparison of overall economic freedom score of Estonia and South Korea

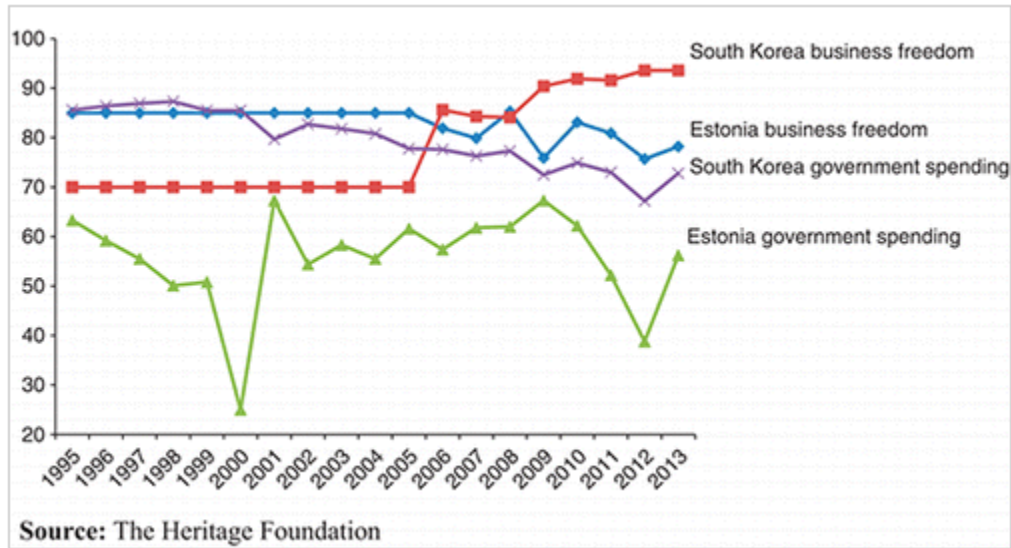


**Figure 3** A comparison of trade freedom and property rights of Estonia and South Korea

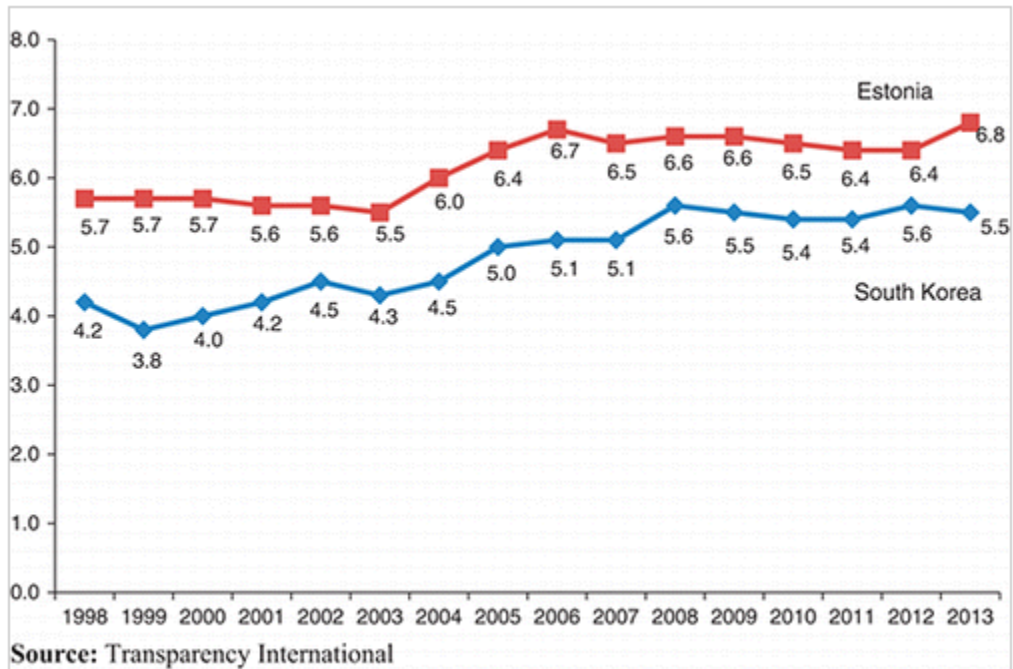
While South Korea falls significantly behind Estonia in broader institutional reform measures, it has exhibited superior performances vis-à-vis Estonia in terms of business freedom and government spending (Figure 4). Especially impressive is the business freedom index of 93.6 (100 equaling the freest business environment), which measures the difficulty of starting, operating and closing a business. This is also reflected South Korea's rank of No. 24 (compared



to Estonia's No. 47) out of 185 economies considered in the World Bank's Ease of Doing Business 2013. To start a business, five procedures are needed, which take seven days in both Estonia and South Korea. The procedures cost 14.6 percent of per capita GDP in South Korea compared to 1.6 percent in Estonia. Whereas paid-in minimum capital, the amount that an entrepreneur is required to deposit in a bank or with a notary before the registration and up to three months following incorporation, is 22 percent of per capita GDP in Estonia, no such requirement exists in South Korea.



**Figure 4** A comparison of business freedom and government spending in Estonia and South Korea



**Figure 5** A comparison of corruption perception indices of Estonia and South Korea

According to the Heritage Foundation, South Korea's top income tax and corporate tax rates were 35 and 22 percent in 2012. Adding surtax and value-added tax (VAT), the overall tax burden reached 25.1 percent of GDP. Government spending is about 30 percent of GDP. In Estonia, on the other hand, while the top income and corporate tax rates are at 21 percent, the overall tax burden reaches to 34 percent of GDP after adding VAT and excise taxes. Taxes are deferred until profits are distributed (Ratso, 2006). Government spending was over 38 percent of GDP in 2012.

South Korea's economic freedom-related scores are better than Estonia's only in the two components presented in Figure 4. Of special concern in South Korea's context is the extremely low score (46.5) in the labor freedom component. South Korea is experiencing a deteriorating labor freedom condition whereas Estonia is making progress on this front. A related point is that South Korea is also characterized by a low degree of personal freedom. Out of the 104 countries considered in the Legatum Prosperity Index, which considers factors such as economic fundamentals, entrepreneurship and innovation, democratic institutions, education and health, safety and security, governance, personal freedom and social capital, South Korea ranked 26th in 2009. However, the country's rank was 70th on personal freedom component of the index. Despite a high level of freedom of movement, religion and speech, only 64 percent of South Koreans were satisfied with their "freedom of choice in their daily lives" (prosperity.com, 2010). Orientation toward minorities and immigrants is especially problematic. Only 55 percent of South Koreans believed that people in the country were welcoming to immigrants. Likewise, only 60 percent thought that the country is good for ethnic and minority residents. According to the OECD Factbook, the proportion of foreign born population in 2010 was only 2 percent of the total population in South Korea compared to 17.6 percent in Estonia.

Estonia's score of 66 in the freedom from corruption component in 2013 puts the country ahead of South Korea (score 55). Figure 5 compares Transparency International's (TI) corruption perception indices of Estonia and South Korea. Estonia has been the least corrupt country in East Europe and cleaner than some of the West European countries. The Estonian Ministry of Justice invited TI to take a lead role in the drafting of the country's anti-corruption strategy (State.gov, 2011). The country has procedures in place to ensure political accountability and to deal with conflicts of interest (Stiftung, 2004). Especially the "Honest State" program started in 2004 has been effective in reducing corruption. Effective procedures have been established for auditing local governments, which were arguably the greatest source of corruption. The program also requires public servants to file electronic declarations of economic interests. Additional components include the establishment of the National Ethics Council and an anonymous hotline to report corruption. The country has also increased the number of specialized investigators and prosecutors who focus on corruption (State.gov, 2011). Mart Laar, the Estonian prime minister known for his reforms commented that he expected serious objections to his reform measures. Nonetheless, his government implemented them and he lost the office to prove it (Laar, 2007).

Estonia is a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions since 2005. As a signatory to the convention, Estonia is obligated to criminalize bribery of foreign public officials in conducting international business.

## Incentives to start a business

Both countries have a number of incentive-based policies to start a business. Whereas state-funded VC firms in other countries only act as a funding source, Estonia's SmartCap, the VC arm of Estonian Development Fund, also educates investors and provides legal and technical assistance to start-ups. In the future, SmartCap is expected to invest in VC funds instead of investing directly in firms.

Likewise, start-ups in South Korea receive government incentives in a number of forms such as tax cuts and delayed deadlines for paying income taxes if the returns are invested in new businesses. In 2013, the South Korean government pledged US\$2.9 billion in funding for start-ups, with special focus on the technology sector, and earmarked US\$89 million for entrepreneurs in financial distress (Nam, 2013). South Korea's public sector investments in selected industries such as clean technology have also been substantial. Thanks to this policy, South Korea is referred as one of Asia's "clean technology tigers."

In South Korea's early stage of development, government-sponsored schemes encouraged the growth of the chaebol such as Hyundai and Samsung. In this regard, a criticism of the South Korean model of development was the institutional context that was characterized by strong favoritism toward and support for the chaebol (Wielemaker and Gedajlovic, 2011). In recent years, however, a good deal of attention has been devoted to the issue of promoting SMEs. For instance, start-ups were supported through a wide variety of measures by the government of President Kim Dae-Jung, which included providing information needed to start and operate a business, consulting services and financial supports. These measures helped workers who lost jobs due to the AFC to start own businesses (Kim and Cho, 2009).

## Corporate governance, investor protection and bankruptcy legislation

Estonia has committed to the development of a superior corporate governance practice. It revised legal frameworks based on EU directives. Some problematic issues identified earlier such as audit requirements and standards and the lack of institutional arrangements for SOE oversight and monitoring have been addressed. There are voluntary guidelines for the role of independent directors. These are important because market mechanisms do not provide sufficient incentives for good corporate governance due to a small market for listed companies and low liquidity. Observers have noted that Estonian companies closely follow legal corporate governance requirements (OECD, 2011).

In South Korea, the chaebol are accused of engaging in dishonest accounting practices and illegal political contributions and other frauds. They are criticized for the dependence on the founders and their families "to an unhealthy degree" (economist.com, 2011a). Foreign investors have expressed concerns that poor corporate governance has led to a relatively low market valuation of South Korean companies. In the past two decades, the chairmen of seven of the top ten chaebol were convicted of corruption and received jail sentences averaging 22 years. However, most of them served no prison time (Mundy and Jung-a, 2013). As a recent example, in October 2013, 100 people including a top former state utility official were indicted of corruption involving the issuance of fake safety certifications for nuclear reactors parts.

Prior research indicates that countries with weak investor protection laws have smaller and narrower capital markets (La Porta et al., 1997). A country's level of financial development, on the other hand, is tightly linked to various entrepreneurial performance and impacts indicators such as GDP growth, physical capital accumulation, and the efficiency with which physical capital is employed (King and Levine, 1993).

Especially the protection of minority shareholders has been a top concern for the corporate governance landscapes of many emerging economies (Bertrand et al., 2002). Prior research indicates that countries with better protection of minority shareholders have higher firms valuations (La Porta et al., 2002). In South Korea, the chaebol's control and influence seem to have negative impacts on corporate governance. Starting the early 2000s, the government directed efforts toward strengthening the rights of minority shareholders. In 2004, South Korea's National Assembly approved a bill, which aims to protect minority shareholders (Chung and Wan, 2004). The new law's provisions would allow minority shareholders to file class action lawsuits against companies. Despite these efforts, observers note that South Korea provides less protection to minority shareholders than in the US and many western economies.

Prior researchers have found that the fear of failure negatively affects entrepreneurship and that the effects are higher in high-income countries such as Estonia and South Korea than in low income countries (Ardagna and Lusardi, 2008). McKinsey Global Institute's Richard Dobbs noted: "In the US, failing and trying again is a badge of honor. It is not in Korea." In countries such as South Korea, where such a fear is present (Nam, 2013), lenient bankruptcy laws can alleviate the fear. However, whereas the US bankruptcy laws are extremely forgiving to entrepreneurs (Armour and Cumming, 2008), South Korea lacks such forgiveness. For instance, consider the provisions regarding automatic stay on assets. While Canada and the USA have a provision of an automatic stay on assets, which means that creditors cannot seize the company's assets used as collateral for loans after the bankruptcy proceedings have started, South Korea has no such provisions (Lee et al., 2011). Creditors may take business as well as personal assets of struggling companies' founders. One entrepreneur noted: "If that was the case in the US, half of Silicon Valley would be empty" (Nam, 2013).

### Values, culture and entrepreneurial skills

A dimension of entrepreneurial culture concerns workers' motivational orientation and cultural attitude toward work. In this regard, from the perspective of entrepreneurial motives, a recent study found that South Koreans work 2,200 hours/year, which is 50 percent higher than in Germany or the Netherlands (economist.com, 2011a).

Equally important in South Korea's case are diaspora-based networks in Europe, Americas and Australia, which help immigrants from Korea to access resources and develop business ideas as well as markets (Kitching et al., 2009). A different dimension of culture, however, has driven Estonia's success. Estonians' preference for privacy and distance with others arguably provide them with more time to explore and experiment with varieties of ideas (businessinsider.com, 2012).

In a discussion of cultural factors related to entrepreneurship, it is also important to look at the differential rate of development of institutions to support entrepreneurship in CEE economies. In this regard, it may be helpful to consider them in terms of the degree of religious-secular differentiation. Historically compared to the so called, Latin group (Croatia, Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovakia), Orthodox countries (Belarus, Bulgaria, Romania, Russia, Ukraine) lacked the religious-secular differentiation (Pipes, 1992). Note that among the believers, dominant religions in the Orthodox economies are various forms of Orthodox Christianity whereas Roman Catholic is the dominant religion in the Latin group. Prior research has suggested that the rate of institutional change required for reform is faster in the Latin group than in Orthodox countries (Kshetri, 2010).

While both countries have highly educated populations, South Korea's educational level is higher. According to the OECD Report, Education at a Glance 2012, South Korea's entry rates for university-level education and vocationally oriented tertiary education were 71 and 36 percent compared to Estonia's 43 and 29 percent, respectively. As a proportion of GDP, South Korea's spending on tertiary education is higher than any other industrial country except for the USA (economist.com, 2011a).

Prior research indicates that the concentration of immigrants is positively related to entrepreneurial development (Kshetri, 2014). Estonia is benefitting more from immigrants and foreign born population than South Korea. Some organizations in Estonia also have a number of creative ideas to help turn latent skills, talents and abilities into marketable products. For instance, Garage48 (<http://garage48.org>), which started in Estonia in 2010 and expanded to other European countries and Africa, organizes "hackathons" and helps "turn an idea into a working service or prototype within just 48 hours" (economist.com, 2013a).

#### Changes in societal norms and values related to entrepreneurship

Some entrepreneurially successful economies have demonstrated that entrepreneurship-friendly social norms can emerge. Until the 1980s, Irish youths were attracted to jobs in the government and financial services. Defaulting on loans was judged as an immoral practice. The social norms also stigmatized bankruptcy (Isenberg, 2010). The Irish economy subsequently produced many multi-millionaire entrepreneurs. As of 2008, Ireland had over 30,000 euro millionaires and most of them were self-made (Brown, 2008). Entrepreneurs gradually started treating a business failure as a learning opportunity instead of a personal failure or stigma.

Just like Ireland, societal norms and values related to entrepreneurship are rapidly shifting in Estonia and South Korea. For instance, Skype cofounder Taavet Hinrikus noted: "In the 80 s every boy in high-school wanted to be a rock star. Now everybody [...] [...] wants to be an entrepreneur" (economist.com, 2013b). Entrepreneurs in South Korea are overcoming the stigma and fear of business failure. There are also formal and informal supports to failing and failed entrepreneurs. In her meeting with Facebook CEO in June 2013, South Korean President Park Geun-hye praised the company for "taking on challenges without fear of failure" (Nam, 2013). Some noted that her comment would reinforce the idea: "It's OK to fail" (Nam, 2013).

Also a cultural change in respect of entrepreneurship as a career option has emerged. Just like in China and Japan, working in a large corporation or the government was traditionally considered

as a prestigious and desirable career route. Daniel Cho, who quit his job at a multinational firm to start a mobile-application developer, was quoted as saying: “Just a few years back, giving up a high-paying job at an established company to start a venture firm was foolhardy. Risk taking was something to be avoided” (Nam, 2013). The changing attitude toward failure can also be considered as a cause for such a shift. For instance, there was no customer demand for the personal-diary program developed by Cho's company. Despite this failure he was able to secure new investments (Nam, 2013).

## Access to and the development of finance, market, R&D and technology

Table II compares some indicators related to access to finance, market, R&D and technology in Estonia and South Korea.

**Table II** Some indicators related to access to finance, market, R&D and technology in Estonia and South Korea

Indicator	Estonia	South Korea	Remarks
Savings ratio (% of disposable income, 2012) <sup>g</sup>	4.5	7.5	
Annual savings (US\$ per capita – current prices, 2012) <sup>f</sup>	379.5	951.6	
Remittance inflows (% of GDP) 2009 <sup>g</sup>	1.7	0.3	
VC availability worldwide rank <sup>c</sup>	30	98	
VC availability score (worldwide mean = 2.7) <sup>c</sup> , 2011-2012	3.3	2.2	Based on the following question: “In your country, how easy is it for entrepreneurs with innovative but risky projects to find venture capital?” (1 = very difficult; 7 = very easy)
Total patents grants at the EPO 2012 <sup>f</sup>	6.0	1500.7	
Biotechnology patents grants at the EPO 2012 <sup>f</sup>	1.0	65.6	
ICT patents grants at the EPO 2012 <sup>f</sup>	3.0	795.8	
Total patents grants at the USPTO 2012 <sup>f</sup>	2.0	13,114.6	
Per capita expenditure on R&D (US\$)	256.3	908.0	
Gross domestic expenditure on R&D as a percentage of GDP (2012) <sup>f</sup>	1.6	4.0	
Business enterprise funds expenditure on R&D as % of total expenditure on R&D 2012 <sup>f</sup>	44.8	71.6	
Government funds expenditure on R&D as % of total expenditure on R&D 2012 <sup>f</sup>	42.6	26.7	
Higher education funds expenditure on R&D as % of total expenditure on R&D 2012 <sup>f</sup>	0.6	1.1	
Private non-profit funds expenditure on R&D as % of total expenditure on R&D 2012 <sup>f</sup>	0.1	0.4	
Public expenditure on education (% of GDP) 2006-2009 <sup>g</sup>	7.0	6.5	
Fixed-broadband subscriptions per 100 inhabitants <sup>b</sup>	25.1	35.7	

**Notes:** <http://tinyurl.com/7v2j9v9>; <http://tinyurl.com/buyoxwp>; <sup>f</sup>euromonitor, [www.portal.euromonitor.com/Portal/Pages/Search/GeographyTreePage.aspx](http://www.portal.euromonitor.com/Portal/Pages/Search/GeographyTreePage.aspx); <sup>g</sup>OECD Factbook

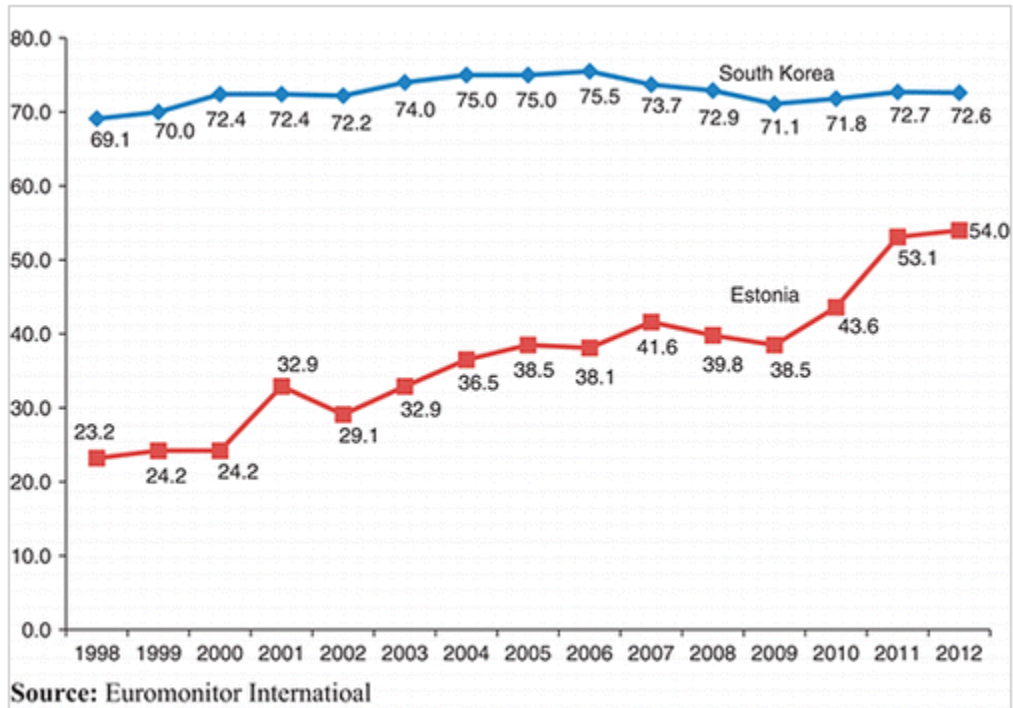
**Sources:** <sup>a</sup>UNDP (2011); <sup>b</sup>ITU (2011); <sup>c</sup>WEF (2011); OECD (2013); *Global Finance Magazine* (2014)

## R&D and technology

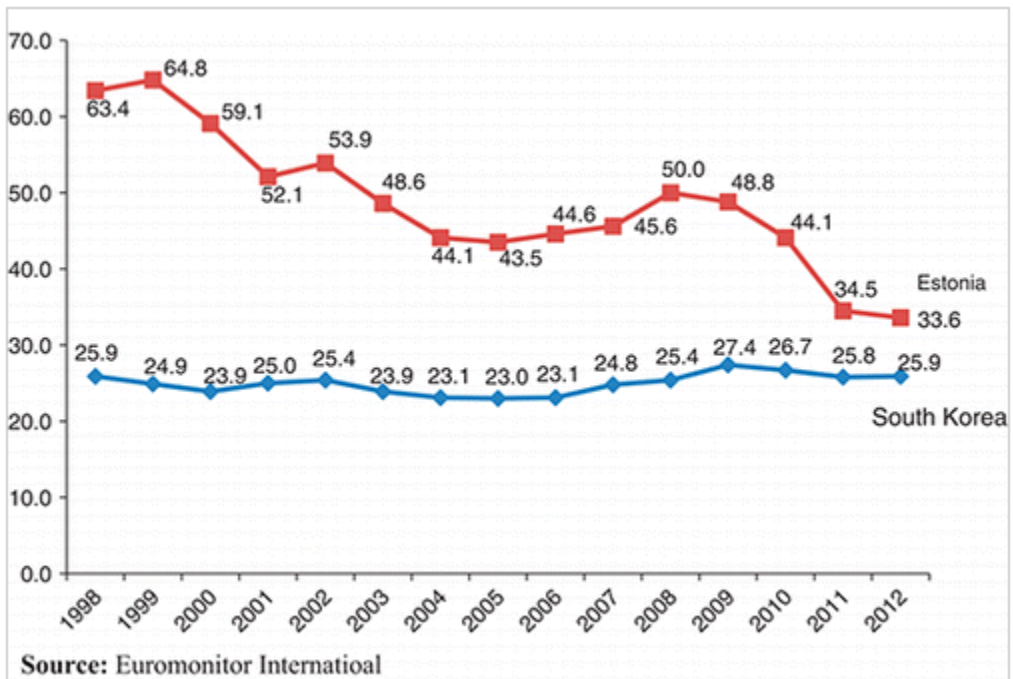
R&D spending and technology diffusion among firms are positively related to entrepreneurial development (Ahmad and Hoffmann, 2008; Kshetri, 2014). South Korea' high degree of innovativeness is thus likely to stimulate high-quality entrepreneurship. As noted earlier, South Korea ranked No. 2 in innovation index in 2008, compared to Estonia's rank of No. 23 (Andrew et al., 2009).

South Korea's gross domestic expenditure on R&D as a percentage of GDP is among the highest in the world and is 150 percent higher than in Estonia. As indicated in Table II, businesses have played a key role in driving South Korea's R&D landscape. Businesses' R&D expenditure as a proportion of total R&D expenditure is much higher in South Korea (Figure 6). That said, Estonia is closing the gap. On the other hand, while the government expenditure on R&D as a

percentage of total R&D expenditure has been stable for Korea for the past decade and a half, this proportion is rapidly declining in Estonia (Figure 7).



**Figure 6** Business enterprise funds expenditure on R&D as a percentage of total expenditure on R&D



**Figure 7** Government funds expenditure on R&D as a percentage of total expenditure on R&D



Prior research has documented the importance of a strong national innovation system (NIS) in the country (European Commission, 2013). Private industries as well as government-sponsored research institutes and strategic partnership between them have played critical roles in facilitating the country's R&D spending. The South Korean government has introduced several policy measures in facilitating technological learning (European Commission, 2013).

Estonia's R&D level, although currently relatively lower, is increasing rapidly. According to Statistics Estonia, in 2010, R&D expenditure as a proportion of GDP reached to 1.63 percent compared to 1.43 percent in 2009 (Statistics Estonia, 2011). Moreover, Estonia is praised for its systematic approach to R&D and technology transfer through programs such as a science park for incubation of small enterprises and a technical university innovation center (Tamkivi, 1999). The Estonian government also has plans to stimulate business R&D and innovation through direct funding as well as non-financial measures. The innovation vouchers program, for instance, had a budget of 7.5 million for 2007-2013, which aimed to increase SMEs' competitiveness through knowledge and technology transfer, expansion of cooperation with R&D institutions and increase of IPR protection capability. Various non-financial measures such as the Innovation and Entrepreneurship Awareness and Competence Raising Program (2009-2013) are also in place (OECD, 2012).

Fast broadband connections have also facilitated entrepreneurship in the two countries. According to Net Index, Estonia had the world's fastest broadband internet speed (46.35 Mbps) in 2012 whereas South Korea had the third highest (31.03 Mbps) (Kolyako, 2012).

#### Development of financial markets

A well-developed financial market facilitates entrepreneurship and economic growth by, inter alia, reducing the costs of external finance to firms. Countries with higher levels of financial development are thus characterized by faster development of industrial sectors (Rajan and Zingales, 1998). Not long ago, a lack of access to capital was often the biggest roadblock for latent entrepreneurs in both countries due to underdeveloped financial markets. As noted earlier, strong favoritism and support for the chaebol have created an unfavorable environment for SMEs in South Korea. Likewise, insufficient collateral hindered Estonian SMEs' ability to access bank lending (Saar and Unt, 2006).

In recent years, however, both economies have improved conditions to facilitate SMEs' access to finance. As an EU economy, European Investment Bank provides long-term financing for Estonian SMEs. South Korea is under public pressure to increase SMEs' access to financing. The government is encouraging banks to shift lending away from the chaebol and toward consumers and SMEs. Likewise, according to the World Bank, South Korea's gross savings for 2009-2013 were 31 percent of GDP compared to Estonia's 25 percent (<http://data.worldbank.org/indicator/NY.GNS.ICTR.ZS>). A higher saving rate also leads to a better access to finance for SMEs in South Korea.

South Korea also has a well-developed VC industry, which is the world's fourth-largest. The government's support has been a key driving force. According to the Korean Venture Capital Association (KVCA), in the first half of 2012, more than 25 percent of the US\$296 million VC



investment in South Korea came directly or indirectly from the state (Woodman, 2012). It is, however, also observed that the government's excessive support to the VC industry has created a potential moral hazard problem. While some companies can secure VC fund relatively easily there are cases of the abuse of such funds. Some individuals reportedly received support of the government-backed VC and established fake companies (Chung, 2009). Some argue that government support to the VC sector is hindering the development of self-sustaining investment ecosystem (Woodman, 2012).

Global venture capitalists are showing interests in FSU economies such as Estonia, especially in the ICT sector. These economies have abundance of young people with talents in math and engineering due to the legacy of highly technical academic institutions. According to the European Private Equity and Venture Capital Association's (EVCA), VC investments in Estonia increased from 0.03 percent of GDP in 2006 to 0.33 percent in 2007, which compares favorably with the EU mean of 0.11 percent in 2007 (Heinlo, 2009).

#### Access to markets

Access to markets, both domestic and foreign, plays an important role in driving entrepreneurial activities. In this regard, both Estonia and South Korea have well-developed competition and antitrust laws in place, which make it easy for a new company to enter the domestic market. Estonian firms also have an easy access to the combined population of over 500 million EU inhabitants. Estonian Foreign Ministry's efforts to help entrepreneurs access the foreign markets also deserve mention. The Ministry supplies entrepreneurs with information about how the state can assist and advise them in their efforts to enter new markets. Estonian Foreign Minister Urmas Paet stated: "An important task of Estonia's foreign representations is aiding Estonian entrepreneurs. [...] the export of goods from Estonia increased by 48 percent during October and November [of 2011], compared to the same period a year before. We plan to continue protecting the interests of Estonian entrepreneurs and investors abroad [...]. We will also continue organizing, in co-operation with the Chamber of Commerce and Industry, business missions for entrepreneurs to target markets, as well as seminars concerning target markets and meetings with the relevant ambassadors" (Estonian Foreign Ministry, 2011).

South Korea, on the other hand, has entered into free trade agreements (FTAs) with major economies. For instance, the US-South Korea trade agreement, which entered into force in 2012, makes it easier for South Korean firms to sell to US customers. Likewise, the EU-South Korea FTA became effective in July 2011. It is the first completed agreement in a new generation of FTA launched by the EU in 2007. It was also the EU's first trade deal in Asia and went further than previous agreements in lifting trade barriers.

A final point that should be stressed in a discussion of access to markets is that, South Korea has made a significant progress in the development of global brands. It has a number of well-known global companies such as Samsung, LG and Hyundai. Branding, sales and marketing are still relatively weak in Estonia (economist.com, 2013a).

## Discussion and implications

In this paper, we analyzed and compared the paths taken by two entrepreneurially successful economies and identified economic, and institutional factors that have acted as facilitators and inhibitors. Doing this, we provided insights into the diverse possible paths to development. Table III compares the determinants of entrepreneurship in the two economies. It summarizes the new insights, perspectives and knowledge gained from this study regarding the diverse entrepreneurship development paths of the two economies.

**Table III** A comparison of the determinants of entrepreneurship in Estonia and South Korea

Estonia		South Korea	
<i>Regulatory environment</i>			
Government spending in 2013 was 38.2% of domestic output (compared to South Korea's 30.1%) but is showing an improving trend (Figure 3)	It is likely to lead to a more efficient resource allocation, and encourage productive choices and private-sector activities	Business freedom of 93.6 in 2013 (Figure 3)	There is no minimum capital required to start a business, which facilitates entrepreneurial activity and innovation
High trade and investment freedom (Figure 4)	Investment environment attractive and foreign investors have the same legal rights and as domestic ones	Higher degree of corruption (Figure 5)	Foreign investors' concerns regarding poor corporate governance practices Favoritism and support for the chaebol have worked against SMEs: corrupt chaebol executives have got away with criminal activities
		Low degree of and deteriorating labor/personal freedom	Problematic orientation towards minorities and immigrants
<i>Values, culture and entrepreneurial skills</i>			
Preference for privacy and physical distance	More time to explore and experiment with varieties of ideas	Bureaucracy and Confucian-based culture	Emphasis on family connections, regional ties and friendships
Religious-secular differentiation	Faster institutional change required for reform compared to orthodox countries	Asian value of respect for authority Better-educated workforce	Hard working habits among employees Key contributor to the country's competitiveness
<i>Access to and development of finance, market, R&amp;D and technology</i>			
Business enterprise funds expenditure as a proportion of total expenditure on R&D higher in South Korea but is closing the gap VC market more developed than most EU economies	Entrepreneurial firms are likely to become more competitive in the future	Government's excessive support of the VC problems/ frauds	Instances of moral hazard/frauds
Plans to stimulate business R&D and innovation through direct funding/non-financial measures (e.g. innovation vouchers program) EU membership	Easier access of VC to entrepreneurial firms. SmartCap's role in educating investors and giving legal and technical assistance Expected to enhance SMEs' competitiveness through knowledge and technology transfer, expansion of cooperation with R&D institutions and increase of IPR protection capability Estonian firms have easy access to the combined population of over 500 million EU inhabitants	A higher saving rate  R&D spending as % of GDP is among the highest in the world mainly driven by businesses FTAs with the EU and the USA	Better access to finance for SMEs  High capacity for innovation  Easier access to major world markets

The World Economic Forum's (WEF) global competitiveness index, which is based on “institutions, policies, and factors that determine the level of productivity of a country, conditions of public institutions and technical conditions” can be considered as an appropriate summary indicator of an entrepreneurial ecosystem. As shown in Figure 8, South Korea outperforms Estonia on this index. However, a comparison of South Korean SMEs and large firms in terms of efficiency, profits and value added per worker indicates that national competitiveness of a country does not automatically translate into SMEs' competitiveness. Moreover, South Korea's poor performance vis-à-vis Estonia in indicators such as investment freedom, freedom from corruption, trade freedom and labor freedom (Figures 4 and 5) can be attributed to favoritism and support for the chaebol. There is a low entrepreneurial propensity within the broader society as a whole. For instance, according to the Global Entrepreneurship

Monitor, South Koreans perceive fewer entrepreneurial opportunities compared to any other industrialized country except Japan. The chaebol have been accused of sucking up the entrepreneurial finance. They also act as a barrier to market entry for the start-ups. There is even a popular saying in South Korea: “Everyone knows you don’t compete with the chaebol” (economist.com, 2011b). In terms of entrepreneurial impacts, a comparison of South Korea's richest and poorest 10 percent of the population indicates a trend toward a more unequal income distribution. Moreover, older people in South Korea are more likely to be relatively poor. For instance, whereas the 66-75 age group is likely to be at least as rich as the general population in other industrialized countries, this group is three times as likely to be poor in South Korea (economist.com, 2011a). A related point is that there are five times more men than women entrepreneurs in the country (economist.com, 2011b).

Especially speaking of Estonia's transition to market economy and the development of a successful entrepreneurial ecosystem, prior researchers have suggested the existence of more variation across CEE economies than predicted by many analysts (Fischer et al., 1996; Kshetri, 2009, 2010, Spenner and Jones, 1998). This paper provided more detailed insight into this heterogeneity by examining Estonia's successful transition to a market economy and by analyzing the development of entrepreneurship.

Regarding the first two determinants of entrepreneurship discussed earlier – regulatory environment (formal institutions) and values, culture and entrepreneurial skills (informal institutions), it is worth noting that while formal institutions are key determinants of entrepreneurial activities (e.g. VC), their effects also depend on informal institutions (Li and Zahra, 2012). Indeed, formal and informal institutions are inter-dependent (Hayek, 1979). North (1994) argued that informal rules such as values and norms provide legitimacy to formal rules. Likewise, Axelrod (1997) commented: “Social norms and laws are often mutually supporting. This is true because social norms can become formalized into laws and because laws provide external validation of norms.” To put things in context, South Korea's deep- rooted corruption can be attributed to its bureaucracy and Confucian-based culture, which emphasize on family connections, friendships and regional ties (Olsen, 2011). On the other hand, Estonia's positive record in transparency of public administration and political corruptibility can be partly attributed to the Scandinavian culture (Stiftung, 2004).

We next try to answer the specific questions posed above. Table III provides preliminary answers to the first two questions. As to the first research question, various components of formal and informal institutions have been key sources of entrepreneurial success of Estonia and South Korea. Both countries have been able to develop regulatory climates that are supportive of entrepreneurial activities. To get OECD memberships, both faced pressures to develop institutions around the principles of free market and democracy. As are the cases of other newly joined countries, the OECD accession process was a catalyst behind Estonia's reforms. Moreover, Estonia had introduced substantial reform measures earlier in order to join the EU. Especially for small countries with limited natural resources such as Estonia, economic and political reforms are of paramount importance to drive entrepreneurship.

As to the second question, there are major similarities as well as differences between the key ingredients of the two economies’ entrepreneurial ecosystems. A comparison in terms of major

components of formal institutions as measured by corruption perceptions index, regulatory quality index, corporate governance and economic freedom index indicates that Estonia has been more successful in improving institutions related to entrepreneurship. Estonia's favorable regulatory climate is reflected in entrepreneurs' positive assessment of the country. For instance, a survey conducted among 500 entrepreneurs as well as in-depth interviews with entrepreneurs and entrepreneurship experts in the three Baltic States (Estonia, Lithuania and Latvia) indicated that Estonia had the "most appealing business environment" among the three states. Whereas entrepreneurs in Lithuania and Latvia were concerned about high tax rates, and frequent changes to laws and regulations, entrepreneurs in Estonia were less concerned about such barriers (lithuaniantribune.com, 2013).

While Estonia has an overall higher economic freedom index, South Korea performs better in some components such as government spending and business freedom. The latter factor is important in that businesses can be created, operated and closed with relative ease and convenience in South Korea. This is also reflected in the country's significantly better rank in starting a business.

South Korea has addressed factors that are directly linked to entrepreneurial performance. These include heavy spending on R&D and making technological infrastructures widely available. However, South Korean records leave much to desire in broader institutional reforms in areas such as economic freedom, personal freedom and corporate governance.

A hard-working culture exists in South Korea due primarily to the Asian value of respect for authority. Olson (2008) cites a civil servant at the South Korean Ministry of Agriculture and Fisheries: "It's the culture. We always watch what the senior boss thinks of our behavior. So it's very difficult to finish at a fixed time." In Estonia's case, the preference for privacy, distance with others and a high degree of religious-secular differentiation are fundamental causes of prosperity.

One way to understand the two economies' differences in institutions' propensity to change would be to consider two opposite types of social organizations – "the holistic order" and "the extended, functionally differentiated order" (Zweynert and Goldschmidt, 2006). A holistic society is characterized by an ideology, mostly in the form of a religion, that "claims validity for all spheres of action and thought" and an action's legitimacy is evaluated on the basis of a "general binding moral prescripts imposed by a superior authority" rather than by economic, political or juridical logics (Zweynert and Goldschmidt, 2006). Ideology contributing to the holistic order could be driven by a religion (e.g. Islam and Orthodox Christianity) or a value system (e.g. Asian values) (Chang et al., 2006; Kshetri and Ajami, 2008). In this regard, Asian values, despite some positive effects on entrepreneurial performance (e.g. hard-working workforce), also have negative aspects. On the other hand, the religious-secular differentiation in Estonia puts its culture closer to a functionally differentiated society with a higher potential for institutional changes (Kshetri, 2010).

Regarding the third research question, economies in the rest of the world, especially developing economies, have much to learn from the two economies' successes. The above discussion indicates that well-focussed efforts to stimulate entrepreneurial activities such as those in South

Korea as well as broader institutional reforms such as those undertaken in Estonia can contribute to the development of entrepreneurial ecosystem. The two economies' developmental models have relative advantages and disadvantages. From a developing country's perspective, the preference of one model over the other depends on the ultimate objectives that policy makers want to pursue. For instance, if economic growth is the primary goal, the South Korean model might be more appropriate. Despite South Korea's success in poverty reduction, however, Estonian model is more pro-poor and pro-SMEs. If poverty reduction is a primary goal, broader institutional reforms such as those carried out by Estonia might be more appropriate.

The two economies can also learn from each other. In order to shift to a higher gear, South Korea's entrepreneurial weakness must be addressed through broad institutional reforms that include strengthening corporate governance, and adopting policies that are friendly to immigrants and immigration. In Estonia's case, while continuing attention must be paid to institutional reforms, immediate action is needed to improve policies that affect basic economic, technological and infrastructural conditions.

### **Concluding comments**

A comparison of entrepreneurial patterns of Estonia and South Korea indicates that there are many possible paths of entrepreneurial success. The government has played more prominent roles in shaping the entrepreneurship ecosystem in Estonia. Businesses' roles in shaping the entrepreneurship ecosystem, on the other hand, are more evident in South Korea.

While Estonia performs better in overall institutional quality, South Korea is stronger in factors directly linked with entrepreneurship. Heavy R&D spending, mainly driven by the businesses, and an aggressive strategy emphasizing on the deployment of sophisticated technologies are among South Korea's major strengths. Compared to South Korea, the entrepreneurial ecosystem in Estonia lacks diversity and most successful entrepreneurial initiatives are in the ICT sectors. However, high-quality institutions in Estonia have opened up opportunities to broader range of the population compared to South Korea's chaebol-dominated economy.

Other emerging, developing and less developed economies have much to learn from the entrepreneurial paths of these two economies. The two countries' cases make it clear that attempts to improve key indicators related to the fundamental as well as more proximate causes of prosperity may lead to different paths of success.

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