



Informal institutions and international entrepreneurship



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ABSTRACT

This study examines the influence of three informal institutions, performance orientation, self-expression and social desirability, on the extent of internationalization by early stage entrepreneurial firms. We employed multi-level modeling techniques using 20,656 individual-level responses obtained from the Global Entrepreneurship Monitor (GEM) survey for 39 countries from 2001 to 2008, and supplementing with country-level data obtained from the World Values Survey (WVS) and the Global Leadership and Organizational Behavior Effectiveness (GLOBE) study. The results demonstrate that high performance orientation, high self-expression, and low social desirability of entrepreneurship in societies increase the extent of internationalization by early-stage entrepreneurial firms. The study promotes new theory and empirical findings on the relationship between informal institutions and entrepreneurial agency.

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1. Introduction

International new ventures (INVs) are originally defined as those that seek to derive significant competitive advantage from cross-border transactions especially those involving multiple countries (Oviatt & McDougall, 1994). Born Globals (BGs) are young entrepreneurial start-up firms that start international business, mainly exporting, soon after their founding (Knight & Cavusgil, 2004). Both the above are forms of international entrepreneurship that involve cross-border transactions which provide opportunities to access new markets (Smallbone & Welter, 2012). The study of INVs and BGs has since become an important part of the growing literature on international entrepreneurship (McDougall & Oviatt, 2000; Young, Dimitratos, & Dana, 2003; McDougall, Oviatt, & Shrader, 2003).

Whereas many well established firms internationalize by following a slow path of development or through a stage-based process (Johanson & Vahlne, 1977), INVs and BGs go international at the early stages of their formation. For instance, Hewerdine and Welch (2012) conceptualize them as firms that internationalize at the time of organizational emergence and international

entrepreneurs 'envision and realize the emergence of their business as an international entity' (Fletcher, 2004: 300). Key dimensions of internationalization have evolved since the 1970s when much of the extant theory on internationalization by multinational enterprises was developed (Rialp, Rialp, & Knight, 2005). The growing significance of INVs and BGs challenges traditional internationalization frameworks thereby warranting further theory development. Despite the understanding that early internationalization is likely to be driven by globalization of markets and advances in technology, there has been scant research that attempts to explain, among other research issues related to the phenomenon, why some such firms internationalize early while others do not (Busenitz, Gomez, & Spencer, 2000; Knight & Cavusgil, 2004; Zahra, 2005). *Why do some new enterprises opt to go international from inception, whereas many others opt to focus on their domestic markets (Zahra, 2005)?* Particularly, the impact of the home-country context on the internationalization of INVs and BGs needs to be better understood and integrated into existing theoretical and conceptual frameworks that explain their internationalization (Zander, McDougall-Covin, & Rose, 2015).

We attempt to address this question by specifically examining the influence of home country factors on such firms. Given the strong link between such firms and entrepreneurs who drive these firms, we need to better understand the context in which entrepreneurial intentions and motivations of such individuals induce early internationalization decisions (Zahra, Korri, & Yu,

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2005). Understanding the impact of home contextual factors helps us to theorize about and empirically compare international entrepreneurship behaviors around the world (Hayton & Cacciotti, 2013). The extant literature suggests that contextual factors may help predict early internationalization over and above individual-level factors, such as entrepreneurial orientation and market orientation (Liu, Li, & Xue, 2011), business group affiliation, international experience, and technological and marketing resources (Gaur, Kumar, & Singh, 2014). Detailed understanding of such factors also contributes to the debate on the influence of 'socio-spatial contexts' on entrepreneurship (Trettin & Welter, 2011: 575). We examine such contexts from an institutional theory perspective.

The use of institutional theory in understanding international entrepreneurship research is limited. A review by Peiris, Akoorie, and Sinha (2012) shows that only four studies have used institutional theory as a theoretical framework to understand international entrepreneurship. Institutional environments, both formal and informal, facilitate or constrain entrepreneurial aspirations, intentions, and opportunities, affecting the speed and scope of entrepreneurial entry rates (Shane, 2004). The arguments on the role of institutions in international entrepreneurship have been limited to primarily on formal institutions leaving open the need to incorporate informal institutions (i.e. normative and cultural-cognitive) into the framework in order to provide a richer explanation of the phenomenon (Szyliowicz & Galvin, 2010).

Formal institutional factors such as the regulatory and economic contexts provide a partial explanation of cross-national variability of entrepreneurship (Bowen & De Clercq, 2008; Djankov, La Porta, Lopez-de-Silanes, & Schleifer, 2002; Stephan & Uhlaner, 2010; Stephan, Uhlaner, & Stride, 2014; Van Stel, Storey, & Thurik, 2007). However, it is not unusual to see different attitudes towards entrepreneurship across societies with similar formal institutions (Lee & Peterson, 2000; Thomas & Mueller, 2000), suggesting that informal institutions (i.e., culture, social structures, and work routines), help explain such variability (Hayton, George, & Zahra, 2002; Scott, 1995; Uhlaner & Thurik, 2007). Informal institutions shaping the propensities of the social groups from which entrepreneurship stems (Baughn & Neupert, 2003), we believe must also influence the decisions of early-stage entrepreneurs to internationalize. Our belief is in line with the growing recognition of the effect of cultural institutions and national culture in shaping a firm's cross border strategic initiatives (Zahra et al., 2005).

Our study specifically examines how informal institutions such as societal-level (1) desirability of entrepreneurship, (2) performance orientation and (3) self-expression, influence internationalization by early entrepreneurial firms. These variables measure values and normative beliefs that are components of entrepreneurial motivation in various models of entrepreneurial intention (Krueger, Reilly, & Carsrud, 2000). These informal institutions influence the need for achievement and utility maximization motives that drive entrepreneurial intentions (Douglas & Shepherd, 2002; Hayton et al., 2002; Shane, Locke, & Collins, 2003). Our theory leads to an empirical design accommodating two levels – the country-level for the institutions, and the firm-level for the extent of internationalization. Using data from the Global Entrepreneurship Monitor (GEM), Global Leadership and Organizational Behavior Effectiveness (GLOBE) study and World Values Survey (WVS), we adopt multi-level estimation techniques to test our hypotheses.

Our results support the contentions that lower levels of social desirability of entrepreneurship in the home country will spur internationalization by early stage entrepreneurial firms, whereas higher levels of performance orientation and self-expression

values are positively related to internationalization by early stage entrepreneurial firms. Our multi-level study contributes to literature by explicitly exploring the effect of informal institutions on international entrepreneurship. Our key contribution is in linking societal and individual level variables to understand the specific boundary conditions of domestic informal institutions that facilitate or constrain the extent of early internationalization by entrepreneurial firms.

The article is organized as follows. We discuss the theoretical background leading to our hypotheses. We draw theoretical inputs from international entrepreneurship theory and institutional theory to develop our hypotheses on how social desirability, performance orientation, and self-expression values influence early internationalization by entrepreneurial firms. We then elaborate our methods and present our results. We conclude by discussing our findings and their implications for theory, practice, and policy.

2. Theoretical background

2.1. International entrepreneurship

Opportunity-based definition of entrepreneurship has become widely accepted in the literature (Brown, Davidsson, & Wiklund, 2001). This definition is in line with Austrian economists' views of entrepreneurship as opportunity seeking, recognition and exploitation through novel resource recombinations (Kirzner, 1973; Schumpeter, 1934). Such opportunities exist in domestic and international markets (Zahra & Dess, 2001). *International entrepreneurship* as defined by Oviatt and McDougall (2005) is the discovery, enactment, evaluation, and exploitation of opportunities across domestic borders for goods and services. International entrepreneurship research, which emerged in the early 1990s as a response to the dynamic nature of newly internationalizing firms, is perceived to be different from the traditional patterns of firm internationalization (Oviatt & McDougall, 1994). At the core of international entrepreneurship is the creation of new firms and the internationalization of new venture firms and/or born globals (Kshetri & Dholakia, 2011; Naudé & Rossouw, 2010; Shane & Venkataraman, 2000). Specific to this line of enquiry is understanding the phenomenon of early internationalization of such startups.

Internationalization of new firms is broadly understood using two frameworks i.e. Process theories and International New Venture (INV) Theories (Kalinic & Forza, 2012). As per process theories of internationalization, internationalization involves gradual acquisition, integration and use of knowledge about foreign markets and operations, and incrementally increasing commitments to foreign markets (Johanson & Vahlne, 1977, 1990). On the other hand, the INV theory of internationalization argues that the impact of technological, social and economic factors pushes firms into the international marketplace soon after their inception. Firms in the latter model do not follow the gradual incremental pattern of internationalization (McDougall & Oviatt, 2000). Contextual influences, industry conditions, and the thinking of entrepreneurs themselves are believed to be key factors determining the international involvement by startups (Oviatt & McDougall, 2005). Some of the external environmental conditions include type of sector (high/low, manufacturing/service), geographic context (country, rural, urban) and local networks (Rialp et al., 2005). A firm's external environmental context also includes social conditions both at *home* and abroad that may have an influence on the extent of internationalization (Liu, Xiao, & Huang, 2008). We examine the influence of some of these socio-cultural conditions at *home* through the understanding of informal institutions.

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