



How culture influences the way entrepreneurs deal with uncertainty in inter-organizational relationships: The case of returnee versus local entrepreneurs in China



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ABSTRACT

Entrepreneurship is widely associated with uncertainty that stems from inter-organizational relationships. The concept of uncertainty, however, has mostly been analyzed as a uni-variate variable that addresses perceived environmental uncertainty. In this conceptual paper we analyze the concept of uncertainty stemming from inter-organizational relationships in the entrepreneurial context as a multivariate concept, utilizing Milliken's framework, which examines uncertainty by differentiating between state, effect and response uncertainty. Cultural influences are critical in determining how entrepreneurs perceive, analyze and deal with uncertainty in inter-organizational situations. By using illustrative cases of returnee versus local entrepreneurs in China, we propose that entrepreneurs influenced by Western cultures tend to treat state uncertainty as a focal change event, whereas entrepreneurs from Eastern cultures are more likely to consider the contextual factors; entrepreneurs influenced by Western cultures tend to limit effect uncertainty in the professional work setting by looking at cause-effect in an analytical way, whereas entrepreneurs from Eastern cultures are more likely to look at effect uncertainty beyond work; and entrepreneurs influenced by Western cultures tend to respond to perceived uncertainty by analytical-strategic thinking, whereas entrepreneurs from Eastern cultures are more likely to connect multiple factors holistically and to react to uncertainty by engaging the wider community. We argue that in a globalizing world it is pertinent for entrepreneurs who operate in the international environment to have a better understanding of the various facets of uncertainty and how these are related to culture when dealing with inter-organizational relationships.

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1. Introduction

Entrepreneurs frequently encounter environmental change as a result of inter-organizational relationships, as well as resulting uncertainty and ambiguities. Thus, uncertainty is a salient aspect of the entrepreneurial experience (Alvarez & Barney, 2005; Schendel, 2007). Despite the crucial role uncertainty plays in entrepreneurship, the extant research largely tends to treat it as a uni-variate variable and mostly focuses on the perceived uncertainty of the environment (Song & Montoya-Weiss, 2001) without analyzing its complexity, including the content, nature and effect of the uncertainty.

One of the first researchers to treat uncertainty as a multi-faceted variable and operationalize it as such is Milliken (1987, 1990). She suggests that uncertainty can exist regarding the nature of the perceived change, but also regarding the effect of the change on the firm and the appropriate response of the firm to the perceived change, thus creating a multivariate approach that not only analyzes the perception of uncertainty (which she calls "state uncertainty") but also looks at its effects ("effect uncertainty"), as well as the response to uncertainty ("response uncertainty") that prevails in organizations (Ashill & Jobber, 2010). While some scholars have started examining the implications of uncertainty on entrepreneurial action in multivariate terms (McKelvie, Haynie, & Gustavsson, 2011; McMullen & Shepherd, 2006), there is still little research that explores the various aspects of uncertainty and how entrepreneurs deal with it.

Hofstede (1980), in his seminal work "Culture's Consequences", was among the first to show empirically that while uncertainty always exists, it is not necessarily perceived in a similar way in

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different cultures. Thus, he found that tolerance for uncertainty (which he labeled “uncertainty avoidance”) varied considerably among people in the different countries in his sample. He examined rule orientation, employment stability and stress as measures of uncertainty avoidance and found that significant differences exist between cultures regarding the way they deal with uncertainty.

While Milliken (1987, 1990) examines the way in which organizations perceive, interpret and respond to uncertainty, Hofstede’s work (1980) mainly focuses on how uncertainty is perceived by individuals in different cultures. Thus, while both researchers examine uncertainty as a multi-faceted variable, one examines how culture influences the perception of uncertainty while the other looks at the effect and organizational response to uncertainty in strategic terms.

In this paper we seek to combine both streams of literature, while using the context approach (Hall & Hall, 1987; Peng, 2009), which examines the context in which social interaction as well as inter-organizational relationships exist. While Western European countries and North America are defined as low-context cultures in which communication is taken at face value, Asian countries are considered high-context cultures in which communication relies on the unspoken context as well as the spoken. Western culture tends to focus on managing or reducing uncertainty (Lind & Van den Bos, 2002), whereas Eastern culture might tolerate, accommodate or even embrace uncertainty (Mor, Morris, & Joh, 2013; Pun, Chin, & Lau, 2000). Therefore, we argue that cultures can significantly influence the entrepreneur’s perception of uncertainty, as well as its effect on the entrepreneurial organization and the entrepreneurial response to uncertainty.

China is witnessing a rapid increase in the number of entrepreneurs in the country. The rising importance of entrepreneurship across industry sectors, business opportunities and the economic environment at large are attracting many individuals to become entrepreneurs (Zhou, 2013). Chinese local entrepreneurs are strongly influenced by Chinese culture. By contrast, returnee entrepreneurs are (for example) scientists and engineers trained in the United States or other Western countries who return to their home countries to start up new ventures (Wright, Liu, Buck, & Filatotchev, 2008). They are strongly influenced by Western cultures due to their prolonged stay in the West. In this paper we will develop a conceptual model that addresses the ways in which Chinese entrepreneurs who are influenced by different cultures deal with the different aspects of uncertainty in inter-organizational relationships. We will exemplify the model by means of illustrative case studies of two local and two returnee Chinese entrepreneurs and the way they deal with uncertainty, focusing on their supplier relationships.

In the following pages, we first present a literature review regarding uncertainty, entrepreneurship and cultural influences on individuals’ cognition and reasoning logic from a cross-cultural comparative perspective (West versus East). Subsequently we develop a conceptual framework regarding cultural influences on the entrepreneur’s perception of uncertainty, the effect it has on the entrepreneurial organization and the responses of the entrepreneurs to uncertainty. A set of propositions derived from this conceptual framework is presented as well. We use illustrative case studies from local and returnee entrepreneurs in China to elucidate our argument and conceptualization. We conclude this paper by outlining theoretical and managerial implications, as well as future research directions.

2. Uncertainty and entrepreneurship

Uncertainty plays a critical role in entrepreneurship (Folta, 2007). The entrepreneur’s ability to deal with uncertainty can

significantly affect his or her entrepreneurial success (Schendel, 2007). For instance, in forming and exploiting opportunities entrepreneurs organize firms under the condition of uncertainty (Alvarez, Barney, & Anderson, 2013), and it can even be argued that entrepreneurial action involves the process of transforming uncertainty into opportunities (McMullen & Shepherd, 2006). Furthermore, prior research found that perception of risk mediates the relationship between problem framing and risky decision-making behavior (Sitkin & Weingart, 1995). In the entrepreneurial context, perception of risk determines the choices in the entrepreneur’s new venture decisions (Forlani & Mullins, 2000). Therefore, we argue that perceived uncertainty on the part of the entrepreneur denotes the extent to which environmental dynamism may affect his or her perception of environmental uncertainty.

However, most literature on uncertainty only addresses the way in which the environmental uncertainty is perceived by entrepreneurial ventures (McKelvie et al., 2011; Song & Montoya-Weiss, 2001) and not how it affects the organization. Milliken (1987, 1990) argues that perception of uncertainty is not the only parameter that should be taken into account. No less important is the way it affects the organization and the way the organization responds to that perceived uncertainty. In her work, Milliken attempts to examine why different organizations, when confronted with the same environmental change, choose different strategies to deal with it. Her model is based on the assumption that three different types of uncertainty exist: namely state, effect and response uncertainty. *State* uncertainty means that organizational decision-makers find at least one element in the environment to be unpredictable, meaning that they do not know and/or understand how key elements in their environment will change. Thus, state uncertainty relates to the unpredictability of the state of the world. This is usually called perceived environmental uncertainty, and this is the type of uncertainty most frequently addressed in the literature. According to Milliken, uncertainty can further exist regarding the effect such a change in the environment will have on the organization; in other words, there may be a lack of understanding of the cause-effect relationship. Thus, while the decision-makers understand that change is taking place in their environment, they do not understand how to interpret this change and how it is going to affect their organization. This kind of uncertainty is called *effect* uncertainty. *Response* uncertainty addresses the lack of knowledge and understanding decision-makers have regarding their options, as well as the outcome of each possible response. Thus, while they may be aware of the changes taking place in the environment and the effect they will have on their organizations, they do not know how to respond to such changes.

Recent research has supported Milliken’s approach in conceptualizing different types of uncertainty. A study that examined new product development in software firms, using Milliken’s concept of uncertainty (state, effect and response uncertainty), found that entrepreneurs make different decisions with regard to exploitation of opportunities depending on the type of uncertainty involved in the process (McKelvie et al., 2011). Another study validated the construct of uncertainty by showing that managers make a meaningful distinction between different types of uncertainty by following Milliken’s distinction between state uncertainty, effect uncertainty and response uncertainty (Ashill & Jobber, 2010).

While research on uncertainty is developing, so far no study has explicitly investigated culture’s influences on state, effect and response uncertainty. We argue that understanding the relationship between culture and uncertainty can advance theoretical development in uncertainty research in a significant way. Prior scholarship has recognized that national culture is closely related to individual behaviors toward uncertainty (Hofstede, 1980; Venaik & Brewer, 2010). Research shows, for instance, that in

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