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# Legitimation Strategies for Clean Technology Entrepreneurs Facing Institutional Voids in Emerging Economies

Deborah E. de Lange

Ted Rogers School of Management, Ryerson University, 55 Dundas St. West, Toronto, ON M5B 2K3, Canada

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## ABSTRACT

This research develops theory on the legitimation of firms in the context of new entrepreneurial clean technology ventures attempting to grow and develop in emerging economies where they face institutional voids. Where there are conditions of inadequate or non-existent energy infrastructure, this is often a symptom of a lack of market oriented institutions or institutional voids. This research clarifies how organizational fields, potentially supportive of new industries, form through local entrepreneurs' efforts at legitimating their start-ups. It proposes that organizational fields can substitute for the institutional voids so that the new firms can develop. Legitimation strategies that foster the supportive organizational fields include endorsements from notable local individuals such as an iconic local entrepreneur or a community leader, and by broader acknowledgement, gained through well recognized non-market partnerships and validation by exporting to wealthy markets.

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## 1. Introduction

Renewable energy firms in emerging markets (EMs) face hurdles in starting up and survival. Building legitimacy is crucial for any new firm (DiMaggio and Powell, 1983; Oliver, 1991; Scott, 2001; Suchman, 1995). However, the entrepreneurial legitimation strategies that will work for EM start-ups facing institutional voids are different variations of those used by firms in developed countries where entrepreneurial supports are more prevalent, and this has implications for theory building. Institutional voids exist where there are a lack of market institutions. This research considers this situation and addresses the research question, "How may an EM entrepreneur build legitimacy by developing or influencing an organizational field so that the field becomes supportive of the start-up, thereby filling institutional voids?" First, legitimacy is defined as, "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." (Suchman, 1995: 574). Also, Scott (2001): 84) describes an organizational field as "a community of organizations that partakes of a common meaning system, and whose participants interact more frequently and fatefully with one another than with others outside the field." Additionally, fields may be "... formed around the issues that become important to the interests and objectives of a specific collective of organizations" (Hoffman, 1999: 352). When the participants in the field accept a start-up as an important and legitimate entity, it will be able to derive resources for survival and growth (Suchman, 1995).

The aim of this work is to build on previous theory related to organizational field formation and legitimacy building for start-ups (Hoffman, 1999; Rao, 1994; Stuart et al., 1999; Suchman, 1995). It shows how, contrary to some previous research on legitimacy, entrepreneurs can manipulate their environments under the EM conditions, as described in this work. Some illustrations

E-mail address: [debbie.delange@ryerson.ca](mailto:debbie.delange@ryerson.ca).

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from the clean technology industry in EMs are provided as firms in this industry often face the described difficult conditions (Gadl and Knobloch, 2011; Talukdar et al., 2010; UNDP, 2000; UNEP, 2011; World Bank, 2010).

Certain areas outside of major EM cities offer vastly different conditions than those found in more industrialized areas. In the developed world, new clean energy firms have faced resistance from entrenched interests who have challenged start-ups' legitimacy and value (Energy and Policy Institute, 2014). In these industrialized regions, it is expected that newer substitute technologies will be contested by strong incumbent industries with a preference to diminish competition (Porter, 2008). Much research has examined the controversy of adoption of various sustainable solutions in developed country contexts by large firms (Hoffman, 1999; Delmas and Montes-Sancho, 2010; Delmas and Toffel, 2008; Reid and Toffel, 2009). For example, earlier institutional theory research examined the US chemical industry that had a long history of polluting (Hoffman, 1999). This prior work in organizational field change, suggesting that fields form around issues provides a basis for this research (Hoffman, 1999). However, rather than studying firms in mature stages of their lifecycles, i.e., large corporations within established markets (Delmas and Montes-Sancho, 2010; Delmas and Toffel, 2008; Hoffman, 1999; Sanders and Tuschke, 2007), this research considers small entrepreneurial firms, "that start from weak market positions with few resources" (Katila et al., 2012: 117). Clean energy firms, as part of the larger clean technology industry, tend to be exemplary of this description so this work focuses on them, but this research could be applied to many other clean tech subsectors and industries with similar characteristics.

This study examines new clean (renewable) energy firms that have no other similar local competition because they grow out of smaller emerging market communities lacking reliable electricity supplies, a symptom of institutional voids (Martinot et al., 2002). Thus, they are much more embedded in their organizational fields than are large firms and they find it difficult to make unilateral decisions that also affect the community (Greenwood and Suddaby, 2006; Martinot et al., 2002). Because these areas are not industrialized, path dependence is not a factor here so that new firms are not imprinted by historical conditions, as in previous research (Farjoun, 2002; Katila et al., 2012). While these new firms have an advantage in avoiding a history of incumbents, regulations, and local norms associated with corporate governance and power structures (Delmas and Toffel, 2004; DiMaggio and Powell, 1983; Kitchener, 2002), they also lack direction due to the non-existence of previous models and a paucity of available supports due to institutional voids.

Institutional voids exist in some places in EMs because these countries are in the process of industrializing and this process is regionally uneven. An institutional void means that there are weakened or non-existent socio-political structures, norms, and institutions, such as legal, regulatory, and consumer protection mechanisms that usually facilitate market operations (Khanna and Palepu, 1997, 2010; Liu, 2011; Mair and Marti, 2009; North, 1990; Tracey and Phillips, 2011). Some specific examples of barriers that inhibit entrepreneurs' progress when they face institutional voids include poor communication systems, lack of infrastructure, and difficulty accessing intellectual capital (Cavusgil et al., 2002; Tracey and Phillips, 2011). In developed areas, the internet often enables entrepreneurs because everyone has a fast internet connection. Also, available expertise abounds, not only because of general familiarity with technology, but also because universities are usually nearby. None of this is present for entrepreneurs in the contexts of this research.

Mair and Marti (2009) suggest that although contexts with institutional voids lack sufficient institutions to support markets, they may abound in other types of institutional arrangements. For example, informal systems may substitute for formal institutions (Liu, 2011; Puffer et al., 2010). This latter research is a prelude to this work's specific description of how an entrepreneur may develop or influence an organizational field to become supportive, so as to substitute for institutional voids, through several legitimation strategies related to endorsements. This approach to using existing circumstances for filling institutional voids, which could be termed as "bricolage" (Mair and Marti, 2009), and building a supportive organization field may also be considered as developing an alternative institutional ecosystem.

EM entrepreneurs attempt to shape or transform a developing organizational field so as to resolve the barriers they face. In a general sense, previous research has named this type of enactment "institutional entrepreneurship" (DiMaggio, 1988; Tracey and Phillips, 2011). Fig. 1 depicts a general process where a start-up (#1 in the figure), led by a founding entrepreneur, implements one or more legitimation strategies (#2 in the figure) which may include/lead to other important supporting actors entering the field (#3 in the figure), which then creates reasons (legitimation) for many others to engage (#4 in the figure), resulting in wider and longer term adoption in a supportive organizational field. The propositions explain these dynamics in more detail.

Prior studies also suggest that there are benefits in new markets for new technology firms because they may have more control than if they were to arise in established markets, by avoiding competitors and entrenched consumers (Hart and Christensen, 2002; Katila et al., 2012; Morey et al., 2011). Some research has suggested that EM entrepreneurs have some power to shape environments and even take advantage of institutional voids (DiMaggio, 1988; Pongeluppe and Saes, 2014; Tracey and Phillips, 2011). Entrepreneurs could do this by acting as brokers so as to reduce uncertainty, by spanning institutional voids through proto-institutions, and by bridging institutional distances by translating institutions from developed to emerging economies (Tracey and Phillips, 2011). In contrast, this research explains how the entrepreneurs are solving the problems they face in institutional voids for adoption of their new technology offerings, through the antecedent legitimation processes required for micro-enterprises' initial start-up, survival and growth.

Only a very small body of work has considered the rise of new firms where they face institutional voids (Ahlstrom and Bruton, 2006; Ahlstrom et al., 2008; Alvarez and Barney, 2014; Mair and Marti, 2009; Puffer et al., 2010; Tracey and Phillips, 2011). Thus, this context is opportune for not only extending theory on legitimation and change in organizational fields, but also for making the link between institutional theory and the international business literature on institutional voids. This research will contribute by theorizing on how the new EM ventures develop legitimacy and a supportive organizational field, a field that ultimately fills those institutional voids that would otherwise stunt the growth of these firms.

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