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Home country institutions, social value orientation, and the internationalization of ventures

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ABSTRACT

We examined how home country formal institutions and the venture's value orientation influenced the venture's likelihood of internationalization based on a data set that was adapted from the Global Entrepreneurship Monitor (GEM) data in the year 2009, covering 7668 individual ventures in 25 countries. Better-developed home country formal institutions are found to have a supportive impact on the venture's likelihood of internationalization. The supportive impact is also found to be weaker for socially oriented ventures than for profit-oriented ventures. The venture's social value orientation negatively moderates the home country formal institutions–likelihood of internationalization relationship. The negative moderating effects can be explained as follows: Socially oriented ventures in the better-developed home country institutional environment are less likely to develop coping skills against uncertain and risky institutional environments, which are common in their host countries. Besides the theoretical contributions, this paper also highlights the implications for both business researchers and policy makers.

1. Introduction

The world economy has experienced significant changes during the last quarter century, characterized by market liberalization and globalization. The development of the world economy has not yet eradicated poverty or income inequality. Social problems, such as global poverty, endemic disease, homelessness, famine, and pollution, cannot be fully resolved by either governments or the markets. Nonprofit organizations can step in to fill the gap and alleviate social problems, but they are not a panacea, since their reliance on external funding limits their capabilities in terms of tackling social issues. Once the inflow of external funding ceases, the nonprofit mechanism stops working (Yunus, 2007). Social entrepreneurship (SE) emerged from this background as an alternative economically sustainable solution that generates social value and alleviates social problems (Dees, 1998; Emerson & Twersky, 1996).

International business (IB) researchers have also noticed the global nature of SE activities (Lepoutre, Justo, Terjesen, & Bosma, 2013) and the development of SE as a research field (Mair & Marti, 2006). The development of the emerging field of SE extends the research realm of IB (Chen, Saarenketo, & Puumalainen, 2016; Ghauri, Tasavori, & Zaefarian, 2014; Roy & Goll, 2014; Sinkovics, Sinkovics, & Mo, 2014; Zahra, Newey, & Li, 2014). The study of SE activities in the IB context can be diverse (Jones, Coviello, & Tang, 2011) and largely challenging: On the one hand, some scholars are interested in the cross-country comparison of SE activities (Lepoutre et al., 2013). Similar to regular profit-oriented entrepreneurship (Busenitz, Gomez, & Spencer, 2000), SE also differs in terms of levels and types across countries, and is influenced by different types of institutions to different extents (Stephan, Uhlaner, & Stride, 2015). On the other hand, some scholars have started to study the internationalization of socially oriented entrepreneurial ventures. Some entrepreneurial opportunities aiming at social change (e.g. to fill the global poverty gap) or environmental sustainability (e.g. to fight against climate change and energy depletion) are inherently of an international nature (Zahra, Rawhouser, Bhawe, Neubaum, & Hayton, 2008; Zahra et al., 2014). Socially oriented ventures established around those social entrepreneurial opportunities would thus be likely to undertake international activities, even in the early stage. The internationalization of socially oriented ventures is theoretically predicted to be different from the internationalization of profit-oriented ventures (Zahra et al., 2008, 2014). Both profit-oriented ventures and socially oriented ventures often face similar resource-deficient internal environments, due to limited tangible or financial organizational resources. Some profit-oriented ventures can alternatively leverage intangible knowledge-intensive capabilities (Cavusgil & Knight, 2015) and quickly copy successful experience from one host country to the other. On the contrary, the host countries that socially oriented ventures target frequently have institutional voids and institutional failures of different natures. When

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socially oriented ventures enter a new host country, they need to gather tactic knowledge regarding the local socioeconomic context, and obtain localized human resources and embeddedness in local networks within their new host country, which is usually costly and time consuming (Zahra, Gedajlovic, Neubaum, & Shulman., 2009). In addition, socially oriented ventures also need to fill different institutional voids in different host countries in order to cross the internationalization barriers and enable operations in the host countries. For socially oriented ventures, ready markets in which successful experience can simply be copied rarely exist (Zahra et al., 2008). Thus, the internationalization of socially oriented ventures is different from the internationalization of profit-oriented ventures. However, this difference has not yet been empirically confirmed or measured in the literature.

The internationalization of socially oriented ventures is largely ignored in the literature, despite its relevance to both IB and entrepreneurship research. The IB literature mainly focuses on the internationalization of profit-oriented ventures, while the SE literature seldom involves any discussion on the issue of internationalization. The paper is aimed at first 1) testing the home country formal institutions–likelihood of internationalization relationship, which has been previously tested but has generated mixed findings in the literature (Marano, Arregle, Hitt, & Spadafora, 2016; Peng, Wang, & Jiang, 2008; Wu & Chen, 2014), and then 2) exploring how the venture's value orientation moderates the relationship, which will help to bridge the gap between the IB and SE literature.

This paper makes the following contributions. First, we analyzed 7668 individual ventures across 25 countries and investigated the complex relationships among home country formal institutions, the venture's social value orientation, and the venture's likelihood of internationalization. We concluded that better-developed home country formal institutions had a supportive impact on the likelihood of internationalization for ventures. We also found that the supportive impact was weaker for socially oriented ventures than for profit-oriented ventures. The venture's social value orientation has a negative moderating role on the positive relationship between the home country formal institutional development level and the venture's likelihood of internationalization. This negative moderating role can be explained as follows: Socially oriented ventures embedded in better-developed home country formal institutions are less likely to develop coping skills against the uncertain and risky host country institutional environment. These coping skills are critical competitive advantages for socially oriented ventures since the ventures can deploy the coping skills to fill the institutional voids, cross the internationalization barriers, and enable operations in host countries with deep social problems.

Second, the findings of this paper have implications for both business researchers and policy makers. On the one hand, we found that socially oriented ventures were more likely to internationalize than profit-oriented ventures were. There is a gap between the propensity of the phenomenon of the internationalization of socially oriented ventures and the lack of relevant research in the IB field. The gap fosters the need for more empirical evidence and better theoretical understandings of the phenomenon of the internationalization of socially oriented ventures. On the other hand, policy makers should note that socially oriented ventures can also internationalize and that they might need different policies to support their internationalization.

2. Literature review and hypotheses development

2.1. The home country institutional environment and the internationalization of ventures

Institutions refer to the regulative, normative, and cognitive elements that are deeply embedded in the social structure (North, 1990; Scott, 1995). Institutions act as authoritative guidelines, both formal and informal, that regulate and constrain individuals' actions (Powell & DiMaggio, 1991) to provide stability and meaning to social behavior (Scott, 2005). Institutional environments at home and in the host countries have strong impacts on the entrepreneurial decision-making process, including entrepreneurial ventures' decision making in terms of internationalizing their operations, since national and international institutional environments explicitly or implicitly influence how entrepreneurs perceive opportunities in the international markets, and therefore shape entrepreneurs' motivations to internationalize their ventures' operations (Zahra, Korri, & Yu, 2005). However, IB studies incorporating institution-based views focus more on the role of host country institutional environments (Buckley et al., 2007; Hoskisson, Eden, Lau, & Wright, 2000; Peng, 2003) than on the role of home country institutional environments (Marano et al., 2016). One reason for this might be that IB studies, especially studies on internationalization, have traditionally focused more on market selection and entry modes (Aspelund & Moen, 2005; Lopez, Kundu, & Ciravegna, 2009; Stray, Bridgewater, & Murray, 2001), which are directly influenced by host country institutional environments. On the other hand, home country environments are considered one of the key push factors for the internationalization of ventures in the international entrepreneurship literature (Etemad, 2004). An unfavorable domestic market can create an impetus for internationalization that often stems from necessity (e.g. unfavorable home country environments vs. the need to create profit) rather than from proactive motivations and strategies (Bell, McNaughton, Young, & Crick, 2003). However, studies on the impacts of home country environments have tended to focus more on the size of the home market or on the possibility of home market saturation (Coviello & Munro, 1995; Madsen & Servais, 1997; Moen, 2002), rather than on the institutions in the home country. Impacts of home country institutional environments on the likelihood of internationalization and on internationalization patterns and processes are still far from being fully understood (Wu & Chen, 2014).

Institutions are traditionally divided into formal institutions and informal institutions (North, 1990; Scott, 1995, 2005). Formal institutions refer to the objective constrains and incentives arising from formal laws, regulations, policies, and other written materials that regulate and constrain individual and organizational actions in an explicit way; informal institutions refer to the slowly changing, culturally transmitted, and socially constructed informal rules and procedures that regulate and constrain individual and organizational actions in a more implicit way. Both the formal institutional environment and the informal institutional environment (sometimes referred to as the "cultural environment" in the IB literature) have impacts on the international entrepreneurial process (Zahra et al., 2005). Notwithstanding the importance of the impacts of the informal institutional environment (Del Junco & Brás-dos-Santos, 2009; Gupta & Fernandez, 2009; Hunt & Adams, 1998; Marano et al., 2016; McGrath & MacMillan, 1992), this paper focuses on the impacts of the formal institutional environment, since the impacts of formal and written rules on the behavior of individual ventures and on the behavior of the markets are more explicit, easier to measure, and theoretically better understood (Hoskisson et al., 2000; Peng, 2003).

The strength of a national formal institutional environment can be conceptualized along two dimensions (Levitsky & Murillo, 2009; Wu & Chen,2014): 1) institutional development: how the formal and written rules are enforced in practice; and 2) institutional instability: how rapidly the institutional environment changes over time. In the IB context, the level of institutional development can be translated into how legal systems (e.g. laws to protect investor and private property rights) (López de Silanes, La Porta, Shleifer, & Vishny, 1998) and business regulations (e.g. contract enforcement, product liability regulations, and supervision and oversight of the financial market infrastructure) (Chacar, Newburry, & Vissa, 2010; Wan & Hoskisson, 2003) are compiled or enforced in practice in order to facilitate the functioning of markets (Peng, 2003; Wu & Chen, 2014). The level of institutional instability is related to the level of uncertainty that a firm faces when attempting to predict the trajectory of institutional changes