Chapter 11
Entrepreneurs’ Responses to Illegitimate Institutional Pressures in Monterrey, Mexico

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ABSTRACT
The mass media can play an important role in capturing the dynamic between social groups and the institutional environment. To investigate entrepreneurs’ responses to the impact of organized crime and violence on Small and Medium-Sized Enterprises (SMEs) in Monterrey, Mexico, a deductive Content Discourse Analysis (CDA) was developed. The sample was constructed by integrating international newspapers available in the database FACTIVA and Mexican newspapers from 2006 to 2012. The results made it possible to observe the dynamic between informal and formal institutions in the emergence of adaptation of SMEs’ business model. The adaptations observed tend to respond to the change in the behavior of social groups in Monterrey, Mexico, as a consequence of organized crime and violence. This chapter explores this CDA.

INTRODUCTION
Micro, small and medium-sized enterprises (SMEs) are key economic agents, and large segments of the population and of the economy depend on their activities. In Latin America and the Caribbean (LAC), SMEs account for approximately 99% of all enterprises, are responsible for a great portion of employment generation (67%) and provide a wide variety of products and services (ECLAC, 2013). Mexico has introduced changes to its innovation and technology change development policies, which are essential factors for accelerating SME growth (OECD, 2013). However, political instability and fragile institutions can be determinants of lower economic growth (Alesina, Özler, Roubini & Swagel, 1996), which challenges the survival of SMEs.

The LAC region is undergoing a process of social change (e.g., Eckstein & Merino, 2001), and Transnational Criminal Organizations (TCO) have become one of the most significant challenges for entrepreneurs in the LAC region (OECD & ECLAC, 2013; Latinoberómetro, 2010). Entrepreneurs, referred to in this chapter as the owners of the SMEs, face illegitimate institutional arrangements...
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because they cannot rely on secure property rights enshrined in the rule of law, and they usually lack bargaining power against powerful drug-cartels (Parker, 2009, p. 20) and the public bureaucracy (Estrin & Prevezer, 2011). This chapter argues that these challenges force entrepreneurs in Mexico to adapt the operations of their SMEs operations to respond to institutional constraints (Welter & Smallbone, 2011; Oliver, 1991).

Political instability in fragile institutions remain vulnerable (Aidis, Estrin, & Mickiewicz, 2008; Parker, 2009) to illegitimate institutional arrangements (Sutter, Webb, Kistruck & Bailey, 2013) stemming from corruption (e.g., Vassolo De Castro & Gomez-Mejia, 2011) and transnational crime organizations (TCO) (e.g., Koonings & Kruijt, 2004; Ayres, 1998; Williams, 1995), among other challenges.

Mexico presents a critical paradox: (1) TCO, such as drug-cartels, have destabilized Mexico’s institutional context; at the same time, (2) Mexico’s currently stable economy (OECD, 2013a) and the 27% increase in entrepreneurship activities between 2005 and 2008 (Ernst & Young, 2011; Naranjo & Campos, 2011) suggest that SMEs, national and international multinational firms can actually prosper, even within Mexico’s fragile institutional context.

This chapter reports on a critical discourse analysis (CDA) (Leitch & Palmer, 2010; Fairclough, 2005) based on international and Mexican media news. I applied institutional theory (Scott, 2013; North, 1990) to analyze entrepreneurs’ responses (Welter & Smallbone, 2011; Oliver, 1991) to illegitimate institutional arrangements (Sutter et al. 2013) in Mexico. This study seeks to advance the argument that institutional theory ‘had become more enduring in its application’ (Hoskisson, Wright, Filatotchev & Peng, 2012, p. 2) to study the development of emerging economies. The Mexican experience would be a useful step forward in the discussion of concepts of entrepreneurship and SMEs’ development in the Latin American region, where SMEs comprise 99% of business, employ approximately 67% of the Latin America’s workforce and play a key role in enhancing its potential growth (OECD & ECLAC, 2013).

First, I present the theoretical background of institutional theory and responses to the institutional context (Oliver, 1991; Welter & Smallbone, 2011). Then, the methodology is developed and the results are presented with the aim of drawing implications for politicians, entrepreneurs and academics for further developing entrepreneur education in Latin America. These suggestions are presented as concluding remarks to challenge the argument that management research exerts ‘almost no influence on public policy and public sector management’ (Rynes & Shapiro, 2005, p. 926).

RELEVANT LITERATURE

Institutional Theory

Institutions based on the neo-institutionalism approach have been referred to as the ‘rules of the game’ (North, 1990) for exchanging inputs and outputs between the market (private sector), government and society (Peng, 2003). Institutions have been classified as formal and informal.

Formal institutions are openly established with written laws and regulations, such as political, economic and education systems, which are guaranteed by state agencies; similarly, disapproval of these institutions can also be sanctioned by the state (Lauth, 2000, p. 24). Mexico has introduced changes to its innovation policy, improving the legal framework. The Mexican government is increasing its support for SMEs’ technological innovation and technology transfer (OECD, 2013a), which are major forces in economic growth (OECD, 2012). However, these efforts will only be fruitful if Mexico can also strengthen its formal institutions, including institutional regulative pillars (Scott, 2013) such as the rule of law to protect entrepreneurs and their SMEs.