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ABSTRACT

The increasing economic importance of born global firms makes it worthwhile to study what leads to their success in the emerging markets. The institutional environment defines, reacts, and limits entrepreneurial opportunities, and also affects the speed and scope of entrepreneurial capability. Given the relatively low base of resource, these firms need to deploy some unique strategies such as utilizing information communication to survive in today’s hostile and competitive international environment. Propositions regarding the relationships between institutional environment, international entrepreneurial capability, informal communication and their effect on the international performance were developed. Theoretical and managerial contribution and future research directions were also provided.

KEYWORDS


INTRODUCTION

Institutions are “macro-level rules of the game” in a larger sense. They include formal constraints such as rules, laws, constitutions and informal constraints such as social norms, conventions and self-imposed coeds (North, 1996). Institutional environment has significant influence on the shape and pace of entrepreneurship in the emerging markets (Ahlstrom & Bruton, 2002; Peng & Heath, 1996; Smallbone & Welter, 2006). After decades of suppression of private initiative under the communist rule, institutional reforms made entrepreneurial endeavors possible in emerging markets such as China (Manev, Yan, & Manolova, 2005). The reforms also created institutional hiatus, which has severely constrained the entry and growth of new and smaller firms in international markets (Meyer & Peng, 2005).

Recently, major new international business participants are arising in emerging market countries which have been giving birth to a special breed of young and export-focused small and medium enterprises (SMEs), often called born global firms. This is a new generation of multinational firms that are active in global markets. They have drawn the attention of academics as well as consultants. These organizations enter the global marketplace soon after their inception, in many cases, by-passing the domestic market (e.g., Knight & Cavusgil, 1996). Their international entrepreneurial behavior emphasizes opportunity recognition and exploitation in international markets (McDougall & Oviatt,
Dimitratos and Plakoyiannaki (2003) argue that further attention should also be given to the deeper organizational aspects that can contribute to the international entrepreneurial behavior of particular firms. One aspect is a stable pattern of collective activities that enables firms to effectively transform inputs into superior value propositions (e.g., Zollo & Winter, 2002). For born globals, the ability to leverage resources through a combination of innovative, proactive, and risk seeking activities to discover, enact, evaluate and exploit business opportunities in foreign markets is especially important.

Yet, foreign market is usually considered very risky, in terms of its complexity, dynamism, and hostility (Luo & Tan, 1998), and the intensity of competition in hostile environment exerts more pressure on born global firms (Lumpkin & Dess, 2001). International business environment in emerging markets is even more competitive and apparently brutal most of the time to them. On the other hand, emerging markets are experiencing rapid economic growth, industrialization, and modernization. The trade environment in these countries is liberalizing, and they are receiving massive amounts of foreign direct investment from abroad (Peng & Heath, 1996); already, emerging markets are providing about one-third of the world’s total exports. Emerging markets possess numerous advantages that are driving their rise. The presence of low-cost labor, knowledge workers, government support, low-cost capital, and powerful, highly networked conglomerates have helped make these countries formidable challengers in the global marketplace (Knight & Cavusgil, 1999). New global challengers are top firms from rapidly developing emerging markets that are fast becoming key contenders in world markets. Accordingly, emerging markets have begun to produce more and more multinational enterprises (MNEs) that compete head-to-head with MNEs from the advanced economies. The emerging market firms possess distinct advantages and are becoming key competitors to MNEs from advanced economies, which have traditionally dominated international business. Therefore, emerging markets, though highly risky, attract strong interests of both scholars and practitioners (Zhang, Knight, Tansuhaj 2015).

Unfortunately, most of the research on international entrepreneurship has been studied extensively in the West. It is assumed in the current literature that the focal entrepreneurial firms operate in a market-based economy where property rights are protected and has substantial discretion over the allocation of resources. It is not clear; however, whether such research will have any bearing on entrepreneurial firms operating in former centrally planned economies undergoing transition toward market-driven economies (Amstrong, 2005). As these transitioning emerging economies move toward market-based economies, improved knowledge about entrepreneurship has become more important both for theory and practice. Yet despite the political and economic importance of these emerging economies, Western management theorists haven’t really considered relevant issues that have emerged during the transition, leaving most of the discussions to economic analysts and area specialists. As some of the emerging markets, such as China and South Korea slowly become integrated into the world economy, the relevance of Western models becomes a practical matter as much as a theoretical issue (Shenkar & Von Glinow, 1994; Peng & Heath, 1996; Tan & Li, 1996). After more than 20 years since the start of the reforms in some of the emerging economies such as China and some Central and Eastern Europe countries, it is still debatable how conducive the various institutional environments are for promoting entrepreneurship. Yet, a large part of the research has been case-based (McCarthy, Puffer, & Naumov, 1997; Peng, 2001). Moreover, most of the existing institutional studies on entrepreneurship in emerging economies have narrowly focused on informal institutions, especially on national culture (Busenitz et al. 2000; Busenitz & Lau, 1997; Mueller & Thomas, 2001). This study takes a more holistic view of institutional environment and argues that all three institutions, namely regulatory, cognitive, and normative institutions (Scott, 2001) have positive effect on the development of entrepreneurial capability. It also incorporates the institutional
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