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Entrepreneurship in Emerging Markets: New Insights and Directions for Future Research

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Entrepreneurship in Emerging Markets: New Insights and Directions for Future Research

Ilan Alon and Daniel Rottig

In recent years, the entrepreneurship and emerging markets research streams have intersected. Emerging markets provide an opportunity to examine entrepreneurship in different contexts and forms. This special issue furthers this research area and provides some new directions in emerging markets research.

The collection of papers that resulted from our call for this special issue was borne out of a special-themed conference of the Academy of International Business Southeast USA Chapter (AIB-SE) in 2011 as well as from submissions directly to this special issue. Those papers submitted for the AIB-SE conference were tripled-reviewed, and selected papers were invited to a paper development workshop. This workshop provided the authors with a valuable opportunity to discuss and further develop their papers, and offered the opportunity to submit their revised papers to the special issue. Special Issue editors Daniel Rottig and Ilan Alon sent all papers submitted for the special issue for another round of tripled-blind review. At last, four papers emerged and are reviewed below in their theoretical context. The paper on "The Internationalization of Chinese Entrepreneurial Firms" was handled by the editor of Thunderbird International Business Review and reviewed separately as one of the authors of the paper is also a co-editor of the Special Issue.

The first two papers deal with the internationalization of small and medium enterprises in the context of Chinese entrepreneurial firms. The next two articles relate to small and medium enterprises in the context of comparative environments of emerging markets in terms of governance and institutions. The final article explores how microfinance institutions may encourage entrepreneurship in emerging markets in five regions: Eastern Europe and Central Asia, East Asia, South Asia, Latin America and the Caribbean, and the Middle East.

The papers are as follows:

1. The Internationalization of Chinese Entrepreneurial Firms
2. Becoming a Global SME: Determinants of SMEs' Decision to Use Intermediaries in Export Marketing
3. How Do SMEs with Single and Multiple Owners Finance Their Operations Differently? Empirical Evidence from China
4. Encouraging Entrepreneurship: Microfinance, Knowledge Support, and the Costs of Operating in Institutional Voids

In the next section we discuss these articles in the context of the extant literature. We weave a discussion of future research inside three key themes.

Emerging Markets and China's Uniqueness

Emerging markets are often distinct from developed countries, particularly those in the West, by way of culture, economic development and political institutions. Given these institutional differences, the examination of new phenomena in these environments can help generalize or modify existing theories and create new ideas for research and theory development. A review of the literature illustrates this notion.

Using data from high-tech, knowledge intensive firms in the Yangtze River Delta, Jiao et al. (2011) found that due to the environmental dynamism of emerging markets, dynamic capabilities interact with innovation strategies to achieve competitiveness. Dana et al. (2008) suggested that government policies may singularly impact entrepreneurship as evidenced in China and India. Relatedly, Anderson et al. (2008) suggested that China is unique in its historical development and suggest that Confucianism and entrepreneurship provided a milieu for creativity and globalization, leading to unprecedented economic growth. Compared to the mainland, for example, the Hong Kong respondents did not appreciate *guanxi,* and did not like or enjoy it. Both mainland and Hong Kong Chinese managers saw a diminishing relevance of *guanxi* as the institutional environment matures. Reus and Rottig (2009) also examined the unique context of China in their meta-analytical study of nearly 27,000 international joint ventures. These authors found that predictions based on extant theories that were developed in a Western context may not hold in a Chinese context, and emphasized the importance of examining unique country contingencies in emerging markets, in general, and China, in particular.

In fact, one of the most researched emerging markets is China as the country experienced a phenomenal transformation over the past three decades and is likely to dominate the world's economic landscape in the 21st Century. This transformation raises important issues, ranging from economic development and political ideology to cultural, social and demographic changes to specific human-resource and entrepreneurship related trends. Wang (2011), for example, examined the human resource quality of Chinese workers and raised concerns over the aging population and the depleting migrant labor force, still 225 million strong. The availability of an entrepreneurial class is particularly important to both the economic development of the country and to its ability to integrate with the rest of the world. An increasing new class of returning professionals (so-called reverse brain drain) is bridging the need for both.

Gao and Kotey (2008) suggested that Chinese economic and social transformation is nothing short of remarkable, creating a blend of Eastern and Western values affecting entrepreneurial-conservative continuum. The Chinese manager has elements of both entrepreneurial and conservative cultures which are key to success in the Chinese context. Both the first and third papers in our special issue deal with China as a case study of an emerging market in the context of entrepreneurship.

Entrepreneurship in Emerging Markets

Etemad (2004) suggested that the internationalization of small firms from emerging markets is different than that of larger firms and, therefore, the process these firms follow may diverge. Similarly, Zafar and Atif (2004) made a clear argument that internationalization of Asian firms is directly tied to its entrepreneurial spirit, and changing institutional environments. Using a sample of 3,948 Chinese firms obtained from the World Bank's Investment Climate Private Enterprise Survey to investigate early international entrepreneurship (international new ventures) in China, Naude and Rossouw (2010) found that:

(1) 62% of the exporting firms start export operations within 3 years
(2) Foreign shareholders within the firm and an entrepreneur with previous exporting experience increase the chance for early internationalization
(3) Marked differences in the behavior of indigenous and foreign-invested firms
(4) Among indigenous firms, the more foreign experience its entrepreneur has, the less likely it is to start exporting early
(5) Business networks are significant determinants of export behavior, but delays the internationalization process of indigenous firms

Sutherland (2009) examines how business groups help China's internationalization via outward foreign direct investment (OFDI). Using national-level data on business group OFDI, Sutherland found that natural resource deficits trump strategic-asset-seeking motivations for OFDI. The author acknowledges that the data relies on national statistics, and suggests the business group as an analytic variable of interest. A special kind of business group is the family conglomerate, common in East Asia. Kim et al. (2004) suggested that large, diversified, family-owned conglomerates are dominant in Asia, show the evolutionary patterns of their growth, and form a platform for Western companies seeking a beachhead in Asia.

Our first paper explores an often forgotten unit of analysis in studies of internationalization, that is, the entrepreneur. Ilan Alon, Orly Yeheskel, Miri Lerner & Wenxian Zhang use the resource-based view and internationalization theory to explain the export behavior of Chinese entrepreneurial firms. Based on multi-year data on Chinese firms from the Global Entrepreneurship Monitor (GEM), these authors show that a contextualized resource-based view can adequately explain some of the variation in export behavior among young Chinese firms. Exports by small Chinese firms are driven by the social and intellectual capital of the entrepreneur and their entrepreneurial proclivity, and the innovativeness/uniqueness of the product/offering. The conceptual framework developed by the authors move past national statistics, industry considerations and the macro level of analysis to a more particularized examination of individual and nascent entrepreneurs, in line with the aforementioned study by the World Bank.

Using the Republic of Korea as a case in point, the second paper in the special issue "Becoming a Global SME: Determinants of SMEs' Decision to Use Intermediaries in Export Marketing" by Hyuksoo Cho and Patriya Sipakit Tansuhaj shows how technological advances have made it feasible for small and medium-sized enterprises (SMEs) to become active in global markets through IT-mediated electronic intermediaries (e-intermediaries) instead of relying only on traditional export channels. *Alibaba* in China exemplifies the e-intermediaries helping Chinese manufacturers linking to international buyers. E-intermediaries may offer SMEs a level playing field for competing with their larger competitors. Based on Transaction Cost Economics (TCE), the authors develop a model that can address the question of which transaction costs and characteristics are closely related to e-intermediary use by SMEs.

The third paper in our special issue, "How do SME with Single and Multiple Owners Finance Their Operations Differently? Empirical Evidence from China," by Alexander Newman, Daniel Borgia and Ziliang Deng examines corporate governance and financing in the largest emerging economy. The authors confirm that asset-based financing is difficult for SMEs in China, especially ones that are single-owner based. Examining panel data of Chinese SMEs and using pecking-order theory, the authors suggest that single owners will have a negative impact on leverage and a negative moderating impact on the relationship between firm size and leverage, profitability and leverage, asset structure and leverage. Aside from financing, Naude and Rossouw (2010) suggested that exporting companies in China face some adverse domestic barriers.

Microenterprises and microfinance organizations have grown in importance in recent years (Prahalad and Hammond, 2002). How these organizations affect entrepreneurship in emerging markets is still under-explored and research in this realm has just recently begun to emerge. Naidu and Chand (2012), for example, examined the existence of micro enterprises in Fiji and Tonga. Micro enterprises flourish in emerging markets, but are hardly developed in the West. The authors suggest that financial problems are paramount and fall into three broad categories: financing problems; operational and administrative problems; and sales and debtors problems. Similarly, Klonowski (2012) suggested that financing is one of the biggest entrepreneurial challenges in emerging markets, such as Poland.

Our fourth and last paper in the Special Issue entitled “Encouraging Entrepreneurship: Microfinance, Knowledge Support, and the Costs of Operating in Institutional Voids” by Subrata Chakrabarty and A. Erin Bass contribute to the literature by examining the role of microfinance and microenterprises in building an entrepreneurial landscape. The authors suggest that a permissive foreign direct investment (FDI) regime and a low loan default rate positively moderate the impact of microfinance on entrepreneurship. Using data from multiple regions (Eastern Europe, Central Asia, East Asia, South Asia, Latin America, the Caribbean and the Middle East), the authors confirm a model that shows no direct impact of microfinance organizations on costs of operating at the bottom of the pyramid, but an indirect, moderating impact of both FDI and loan default on the relationship between microfinance organizations and costs of operating at the bottom of the pyramid.

Future Research on Emerging Markets Entrepreneurship

Entrepreneurship is developing in emerging countries as most of these countries are slowly abandoning their protectionist attitudes and anti-business ideologies. Entrepreneurship is a force of modernization in these countries, allowing for both economic development and personal growth. The research featured in this special issue shows the importance of the individual entrepreneur and the intermediaries in facilitating the internationalization of small and medium sized firms in emerging markets. The research also shows how corporate governance and alternative organizations are impacting entrepreneurship in these markets. Existing theories can help in framing and analyzing the research questions asked, yet, international business scholars should also attempt to develop theories that are indigenous to emerging markets in order to account for the unique characteristics of these countries. Such theories are needed for research on entrepreneurship in emerging markets, too, as some of the entrepreneurial phenomena are unique to emerging markets (such as, for example, microfinance organizations and bottom of the pyramid entrepreneurship).

Another phenomenon concerns the return of expatriated from emerging markets who are increasingly returning back home to these countries. Developed countries' slowed growth contrasts with the high growth rates and positive institutional changes happening in emerging markets, attracting returnees as well as capital in-flows to emerging markets. Alon et al (2010) examined how the entrepreneurial class of returnees has affected China's development, examining gender differences among entrepreneurs as a variable. The number of female entrepreneurs who made singular contributions in China has increased in recent years (Zhang et al., 2011). As compared to non-returnees, Alon et al. (2010) found that returnees are relatively more educated, start their businesses faster or reach executive positions at a relatively young age, utilize more extensively their external contacts and knowledge in addition to local "guanxi", and innovate by bringing established foreign ideas back home. However, the role of returnees in creating new ventures, and their contribution to globalizing the economy of their respective home countries, is still largely unexplored.

Furthermore, the service sector in emerging markets is quickly developing (i.e. taking a greater share of the total economy in terms of both output and employment), although their portion of the overall economy is still dwarfed by industry and agriculture. Nonetheless, the fast growth of the service economy coupled with globalizing influences (such as institutional changes, resource development and industry competition) provide an opportunity for the internationalization of services from emerging markets. For example, Frazer (2003) examined a special type of foreign investment in Asia by small Australian firms. Using a sample of Australian fast-food franchisors, Frazer recognized the potential of franchising development in the service sector in China. Alon (2001) examines how Kodak entered China after recognizing the potential for its Kodak Express retail outlets to serve local consumers. The author notes that "[a]ccording to Kodak, China poses unparalleled opportunities for low-cost production and marketing of products to the world's largest nation. According to Kodak's estimate, China will become the largest market in the world for photographic products and services." (Alon, 2001, 737). While emerging markets are known for its manufacturing prowess, the service industry is swiftly developing and its internationalization will quickly follow.

Finally, ethnic groups are an entrepreneurial source both in emerging markets and among emerging market entrepreneurs in host markets. In studying international links via ethnic entrepreneurship, Assudani (2009) examined whether these groups are useful vehicles for entrepreneurship. Different conceptual lenses may explain ethnic entrepreneurship in emerging markets, including institutional and business group theories as well as the resource-based view, and so further our understanding about entrepreneurship in emerging markets.

We hope that research on emerging markets and entrepreneurship will continue to develop and that this special issue and the articles featured therein will contribute further to the creation and discussion of knowledge about this important topic.

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