Entrepreneurship in Emerging Markets
Strategies for New Venture Creation in Uncertain Institutional Contexts

Paul Tracey • Nelson Phillips

Abstract:

• This paper focuses on the importance of the institutional context in shaping the nature of entrepreneurship in emerging markets. More specifically, the paper argues that while the high degree of institutional uncertainty in emerging markets often acts as a barrier to entrepreneurship, it can also provide important opportunities for entrepreneurs.

• We argue for the usefulness of recent work in neo-institutional theory as an approach to understanding the institutional context of emerging economies, and in particular for exploring the relationship between institutional uncertainty and entrepreneurship in emerging markets.

• Drawing on neo-institutional theory, the paper develops a typology of possible institutional strategies available to entrepreneurs in emerging markets. Three strategies are identified: institutional brokering, spanning institutional voids, and bridging institutional distance. The success factors associated with each strategy are also considered. The paper concludes with a discussion of the implications of the framework for theory development and points to a number of areas for future research.

Keywords: Emerging markets • Entrepreneurship • Institutional uncertainty • Neo-institutional theory • Strategy

Received: 16.09.2008 / Revised: 06.08.2009 / Accepted: 04.11.2009 / Published online: 26.01.2011
© Gabler-Verlag 2010

Sen. Lect. P. Tracey (✉)
Judge Business School, University of Cambridge,
Cambridge, UK
e-mail: p.tracey@jbs.cam.ac.uk

Prof. N. Phillips
Imperial College Business School, London, UK
Introduction

The role of institutions features prominently in the literature on entrepreneurship in emerging markets. For example, Ahlstrom and Bruton (2006, p. 299) argue that “[e]merging economies are characterized by fundamental and comprehensive institutional transformations as their economies begin to mature”. Similarly, Meyer (2001, p. 358) suggests that “[r]apidly changing institutions may generate, at any point in time, inconsistency between the requirements of different institutions as well as uncertainty over future institutional changes”. This body of work has been very useful for understanding the core institutions required for entrepreneurial activity to take place, and the role that informal structures and practices like family and kinship play in the absence of more formal structures such as laws and regulatory agencies.

An important part of this literature is a discussion of how uncertain institutional contexts in emerging markets inhibit opportunities for entrepreneurship (Aidis 2005; Fogel et al. 2006; Luthans and Ibrayeva 2006; Manolova et al. 2008) by making entrepreneurial activity more risky and/or complex. By contrast, in this paper we consider how uncertain institutional contexts create opportunities for entrepreneurship. The idea that deficiencies in institutional environments may lead to opportunities for entrepreneurs has been discussed by a small number of entrepreneurship researchers (e.g. Smallbone and Welter 2008), but the processes through which entrepreneurs might exploit these opportunities have not been explored. In this paper, we therefore examine the following question: How do entrepreneurs exploit low levels of institutionalization in emerging markets?

Drawing on recent developments in neo-institutional theory, we explore how entrepreneurs in emerging markets can exploit institutional uncertainty and create value by solving institutional problems. In doing so, they often act as institutional entrepreneurs (DiMaggio 1988) and their activities can function as important structuring events that lead emerging markets to become more institutionalized. Specifically, we identify three institutional strategies—“patterns of action that are concerned with managing the institutional structures within which firms compete for resources” (Lawrence 1999, p. 162)—that entrepreneurs in emerging markets can adopt. The three strategies are: institutional brokering, where entrepreneurs found ventures that reduce the institutional uncertainty faced by other actors in a particular organizational field; spanning institutional voids, where entrepreneurs found ventures that solve institutional problems in fields where levels of institutionalization are low; and bridging institutional distance, where entrepreneurs transfer and adapt solutions from other institutional contexts.

In developing our arguments we make three contributions. First, we connect the literature on entrepreneurship in emerging markets (e.g. Ahlstrom and Bruton 2006; Hoskisson et al. 2000) with advances in neo-institutional theory (e.g. Greenwood et al. 2008). While there has been some debate about the importance of the institutional context in the literature on emerging markets, little has been done to connect these discussions with related debates in institutional theory. Over the last decade, institutional theorists in organization studies have increasingly integrated questions of agency with their traditional concerns such as stability and conformity making this form of institutional theory especially suited to studying the relationship between institutions and entrepreneurship.
Second, building on these recent insights in institutional theory, we develop a theoretical framework for exploring the complex institutional contexts of emerging markets. Although institutional theory has been identified as a potentially useful way of conceptualizing emerging markets, there “is little IT [institutional theory] research on local start-ups in emerging economies” (Wright et al. 2005, p. 9). One of the reasons for this has been the lack of an appropriate and well-developed theoretical frame. We therefore develop a framework that we believe will help move work forward in this area.

Third, we identify three strategies employed by entrepreneurs in emerging markets to found new ventures in “contexts that are composed of institutions that are not well institutionalized” (Phillips et al. 2009, p. 3). While there is a significant body of research that examines MNC strategies in emerging markets (e.g. London and Hart 2004) and how established local firms in emerging markets can respond to MNCs (e.g. Wu and Pangarkar 2006), there has been surprisingly little work that considers the strategic options available to entrepreneurs in emerging markets (see Peng 2001 for a notable exception). We argue that the institutional uncertainty that characterizes emerging markets creates particular opportunities, and that entrepreneurs can capitalize on this uncertainty to create value in different ways. In doing so, we answer calls for a greater integration of ideas from institutional theory into discussions of entrepreneurship (e.g. Phillips and Tracey 2007) and international business (e.g. Phillips et al. 2009).

We present our arguments in four steps. First, we provide an overview of the literature on entrepreneurship in emerging markets. Second, we discuss the concepts from neo-institutional theory that we believe are useful for understanding entrepreneurship in emerging markets. Third, we present three strategies that entrepreneurs in emerging markets can adopt to take advantage of institutional uncertainty. We conclude with a discussion of the implications of our arguments for entrepreneurship theory and suggest directions for future research.

**Entrepreneurship in Emerging Markets**

Following Hoskisson et al. (2000, p. 249) we define emerging markets as “low-income, rapid-growth countries using economic liberalization as their primary engine of growth”. Thus not all developing countries can be called emerging markets. Specifically, only those developing countries that: (1) Are undertaking a process of economic reform designed to address poverty and improve the living standards of their inhabitants; and (2) have an economy that has recorded positive economic growth over a sustained period can “truly” be classified as emerging markets (Cavusgil et al. 2002).

There appears to be broad agreement among key scholars (e.g. Arnold and Quelch 1998; Cavusgil et al. 2002; Hoskisson et al. 2000; Peng 2003) as well as international development agencies (e.g. OECD 2001; World Bank 2002) that emerging markets include the transition economies of East Asia, Central and Eastern Europe, and the newly independent states of the former Soviet Union, in addition to many of the economies in the Middle East, Latin America, Southeast Asia and Africa. These countries are extremely important, because “approximately 75% of the world’s population lives in emerging economies…
P. Tracey and N. Phillips

[and] the population growth rates of emerging economies are the highest of all countries” (Cavusgil et al. 2002, p. 10).

A notable characteristic of these economies is that the institutions which underpin them are often unstable and underdeveloped. Indeed, “[t]he essence of economic transition is the replacement of one coordination mechanism by another. Yet efficient markets depend on supporting institutions that can provide… the formal and informal rules of the game of a market economy” (Meyer 2001, p. 358). This process of institutional transformation can produce significant changes over relatively short periods, but the transformation process in its entirety is likely to span many years. For example, during the 1980s entrepreneurship and competition in the transition economies of the former Soviet Union were unthinkable because of the protected nature of their markets. While this situation has altered dramatically in recent years, “pervasive changes” remain the most notable characteristic of these economies (Peng 2003, p. 277).

Several distinctive institutional challenges faced by entrepreneurs and firms operating in these contexts have been identified. For example, Peng (2000) distinguishes between formal institutional constraints in emerging markets such as the lack of credible legal frameworks, the lack of stable political structures and the lack of strategic factor markets, and informal institutional constraints such as the prominence of deeply embedded networks and personalized exchanges, both of which make it difficult for “outsiders” to engage in commercial activity. In addition, Cavusgil et al. (2002) argue that a lack of physical infrastructure (e.g. roads, telecommunications, sanitation and power) and high levels of corruption often represent major barriers for entrepreneurs in emerging markets.

The profound nature of these challenges suggests that the outcome of entrepreneurship in emerging markets is often highly uncertain (Zahra 1993). In part this is because “rapid and often hostile… political, economic and social changes… are placing unprecedented demands on entrepreneurial functioning” (Luthans and Ibrayeva 2006, p. 93–94) in these economies. More broadly, the constraints facing entrepreneurs operating in emerging markets have been considered in some detail.

Our argument in this paper is somewhat different. It is, to some extent, a response to Oliver’s (1991, p. 145) observation that the strategic behaviors that actors use “in direct response to the institutional processes that affect them” have been largely ignored in the study of organizations. Although we recognize that institutional uncertainty poses severe challenges for many entrepreneurs in emerging markets, we also contend that it can create significant opportunities for some entrepreneurs. Yet there is relatively little scholarship which considers the ways in which entrepreneurs and other actors exploit institutional uncertainty in order to create value. Our aim is to build on recent developments in institutional theory to show how entrepreneurs in emerging markets can also act as institutional entrepreneurs by adopting strategies which exploit uncertainties and contradictions in their institutional environments. Specifically, we consider the following question: How do entrepreneurs exploit low levels of institutionalization in emerging markets?
Entrepreneurship scholars have increasingly drawn on institutional theory to understand the processes underpinning entrepreneurship in emerging markets. Indeed, Hoskisson et al. (2000, p. 252) noted that “in the early stages of market emergence, institutional theory is preeminent in helping to explain impacts on enterprise strategies”. Certainly, given the key role that institutions play in building stable structures for economic activity (Meyer 2001), the ambiguous nature of the institutional arrangements in emerging markets has a major impact on entrepreneurship.

In this paper we draw on neo-institutional theory (Greenwood et al. 2008) and link it to existing discussions of entrepreneurship in emerging markets. Neo-institutional theory is rooted in sociology rather than economics. Unlike other institutional approaches (e.g. Matthews 1986; North 1990) which generally emphasize conformity to institutional norms and/or the embedded nature of behavior, neo-institutional theory includes an explicit interest in institutional change and the role of actors in shaping institutional processes, making it a particularly powerful perspective for studying entrepreneurship of different kinds (Phillips and Tracey 2007). Moreover, in addition to a concern with formal institutions (such as laws, technologies and the regulatory environment) which has been the focus of much institutional theory to date, neo-institutional theory is also characterized by a concern with informal institutions (such as values, practices and norms), which have been shown to profoundly affect entrepreneurial behavior (Spence 1985). Neo-institutional theory therefore provides an effective framework for thinking about the institutional environment of emerging markets.

Institutions and Institutional Uncertainty

At the broadest level, institutions are self-policing conventions (Douglas 1986). Institutions influence behavior because deviation from the accepted institutional order is costly in some way. For example, institutions such as taken-for-granted business practices, technological standards, industry codes of practice and standard contracts all impose powerful constraints on strategic decision making. Conversely, institutions provide a “cultural toolkit” (Swidler 1986) that enables action and reduces risk as the actions of others become more comprehensible and predictable. Institutions are therefore a double-edged sword: They simultaneously enable and constrain the behavior of actors in an organizational field.

In addition, the more highly institutionalized a particular social pattern, the more costly such deviations become (Lawrence et al. 2001). Institutions contain mechanisms that associate non-conformity with increased costs in several different ways: “economically (it increases risk), cognitively (it requires more thought), and socially (it reduces legitimacy and the access to resources that accompany legitimacy)” (Phillips et al. 2000, p. 28).

An important dimension of this view of institutions is that institutionalization is not a binary concept; institutions cannot be characterized only as existing or not existing. Rather, institutionalization is a process, and the result is a continuum of levels of institutionalization and associated mechanisms of self-reinforcement (Phillips et al. 2009).
Specifically, institutionalization varies from weakly institutionalized, with minimal costs associated with deviation, to very deeply institutionalized, with significant costs associated with deviation. It is therefore a matter of degree.

This has clear ramifications for economic activity in emerging markets: The challenges facing entrepreneurs do not simply stem from the fact that particular structures are not in place; it may also be the case that the institutions that are in place are not deeply institutionalized. While "proto-institutions"—new practices, rules and technologies that become available inter-organizationally and that may become fully-fledged institutions if they diffuse sufficiently (Lawrence et al. 2002)—may exist, these are not strongly associated with the self-reinforcing mechanisms that encourage predictable patterns of behavior and hence reduce risk. The low degree of institutionalization results in a high degree of uncertainty and requires careful responses from potential entrepreneurs who may not be able to rely upon the core institutions—both the formal regulatory and legal frameworks and the informal industry norms and patterns of behavior—required for entrepreneurship.

Organizational Fields and Entrepreneurial Opportunities

Given that different parts of emerging markets develop and institutionalize at different rates, an important question is how these distinctive institutional spaces should be theorized. In neo-institutional theory, the focus has been on groups of organizations that share sets of institutions. This level of analysis has been conceptualized as the organizational field. An organizational field is defined as:

[T]hose organizations that, in the aggregate, constitute a recognized area of institutional life: Key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products. The virtue of this unit of analysis is that it directs our attention not simply to competing firms... or to the networks of organizations that actually interact... but to the totality of relevant actors (DiMaggio and Powell 1983, p. 148).

Crucially, actors involved in a recognizable area of institutional life have a sense of being part of a common activity with other field members. Actors outside the field will also often recognize that this group of organizations has a particular identity, and will be able to identify the boundary of the organizational field.

In the literature, scholars have made the distinction between mature and emerging fields. Mature fields are characterized by stable and ordered exchanges between participants, and high levels of mutual awareness with respect to the actors that are included and excluded from particular institutional practices (Greenwood and Suddaby 2006). By contrast, emerging fields are characterized by loosely coupled networks of actors, with few widely diffused rules and practices (Maguire et al. 2004). As actors seek to build new understanding and produce new institutional arrangements, their interests and identities are necessarily unstable and ill-defined (Fligstein 2001).

Emerging markets are characterized by a large number of emerging fields. As noted, our argument is that entrepreneurs can both take advantage of the uncertainty that this creates in order to establish new businesses, and play a key role in the development of organizational fields by influencing the processes of institutionalization. In other words,
entrepreneurs in emerging markets have the potential to act as institutional entrepreneurs as they work to create new ventures in uncertain institutional contexts.

Institutional Entrepreneurship

Institutional entrepreneurship—"the activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones" (Maguire et al. 2004, p. 657)—has been the focus of increasing interest among institutional theorists (e.g. Garud et al. 2002; Greenwood et al. 2002; Lounsbury 2002). The activities of institutional entrepreneurs have come to be seen as a key source of change in mature fields (e.g. Greenwood and Suddaby 2006), while in emerging fields they are also considered crucial to the process through which fields become stable and established (e.g. Maguire et al. 2004). In both cases, institutional entrepreneurship has connected institutional theory with questions of agency and intention: "new institutions arise when organized actors with sufficient resources (institutional entrepreneurs) see in them an opportunity to realize interests that they value highly" (DiMaggio 1988, p. 14). Institutional entrepreneurs can be individuals, small or large firms, or governmental or not-for-profit organizations, although here our interest is in the role of individual entrepreneurs in emerging markets.

Institutional entrepreneurship is an important concept in that it highlights the ways in which actors work toward their strategic objectives by deliberately leveraging resources in order to create and/or manipulate the institutional structures in which they are embedded (Lawrence 1999; Dorado 2005). Garud et al. (2002, pp. 196–197), for example, argue that "[a]ssuming the role of champions... [institutional entrepreneurs] energize efforts towards collective action and devise strategies for establishing stable sequences of interaction with other organizations" in order to create new institutional configurations.

Institutional entrepreneurship in emerging markets is likely to involve a different set of skills than those associated with institutional entrepreneurship in established markets due to the fact that much of the institutional landscape in emerging markets is made up of organizational fields which are relatively weakly institutionalized. As in all emerging fields, a key aspect of institutional entrepreneurship in emerging markets is the capacity of actors to build networks and alliances, and to legitimate new sets of practices amongst other key actors as organizational fields take shape (Garud et al. 2002; Maguire et al. 2004).

Institutional Strategies in Emerging Markets

The crux of our argument thus far is that, rather than seeing institutional uncertainty as a barrier to entrepreneurship, some entrepreneurs in emerging markets seek to found ventures that exploit institutional uncertainty in some way. One way to understand the activities of these entrepreneurs is to conceptualize them as institutional entrepreneurs following institutional strategies: "simply put, institutional strategy is not so much concerned with gaining competitive advantage based on existing institutional structures as it is concerned with managing those structures" (Lawrence 1999, p. 167).
In the context we are discussing here, these institutional strategies involve managing the institutional context of a given organizational field in order to create value. As discussed above, fields characterized by low levels of institutionalization pose severe challenges for traditional entrepreneurship: The creation of new ventures without formal institutions, such as functioning laws and regulatory frameworks, as well as informal institutions, such as shared industry norms and common business practices, involves high levels of risk and complexity (Peng 2001). In these circumstances, we suggest that entrepreneurs are more likely to adopt institutional strategies than entrepreneurs in developed economies. This is partly because entrepreneurs may be forced to develop new institutional arrangements within an organizational field if they are to overcome the difficulties associated with low levels of institutionalization. Moreover, the weakly entrenched nature of the institutions in some organizational fields means that there is likely to be more opportunity for institutional entrepreneurship in emerging markets.

In this section we explore the kinds of institutional strategies that entrepreneurs can follow in emerging markets. Building on our previous discussion of institutional theory, the literature on entrepreneurship in emerging markets, and the literature on institutional strategies, we propose that there are three institutional strategies available to entrepreneurs in emerging markets: Institutional brokering, spanning institutional voids, and bridging institutional distance. In the following three subsections we consider each strategy in turn.

Institutional Brokering

The first institutional strategy we identify occurs when entrepreneurs found ventures that reduce the institutional uncertainty faced by other actors in a particular organizational field. In doing so, entrepreneurs create value by moderating the risk of economic transactions. The introduction of institutions that reduce uncertainty plays a key role in emerging markets, because these institutions form the building blocks of market-based economic activity. Peng (2001, p. 96) notes that entrepreneurs who reduce uncertainty in this way are entrepreneurs in the classical sense of the term because they perform the role of intermediaries. Specifically, “they blur the boundaries separating different sectors by taking advantage of the information and resource asymmetries across sectors”.

We consider that there are two important requirements for this strategy to be successful. First, the business model that the entrepreneur develops must reduce the institutional uncertainty faced by a second party in a way that the second party cannot easily do alone. This second party might be a foreign company seeking to do business in an unfamiliar environment, or a local entrepreneur or firm without the knowledge or connections required to manage their institutional environment independently. Moreover, grouping together transactions from several actors may produce significant economic efficiencies. For instance, the complex networks of “hawala” or “hundi” money transfer in south Asia (Buencamino and Gorbunov 2002), which involve groups of small businesses organizing international money transfer, is an example of a new organizational form created by entrepreneurs that reduces institutional uncertainty for other entrepreneurs and businesses in emerging markets, and that has become highly institutionalized in particular geographic contexts.
Second, it is necessary that the business models that entrepreneurs develop allow them to appropriate some of the wealth they generate for their partners in a consistent and sustainable way; simply reducing the institutional uncertainty faced by others is not sufficient. For example, in Russia it is common for international entrepreneurs to work through local distributors or intermediaries (Karra et al. 2006). Usually, the intermediary takes possession of the merchandise as it enters the country, and then sells it on with a significant margin in return for managing the local environment on other entrepreneurs’ behalf.

Most notably, intermediaries that organize the very sensitive and risky problems of personal and company security, and that interface with government officials to organize licensing and taxation issues, provide a valuable service to entrepreneurs and businesses in emerging markets. In many cases, the intermediary knows little about the core business that he or she is involved in. However, through their networks and deep local knowledge, the intermediary can make sense of the institutional environment for their partner and, in turn, generate substantial revenues for both parties. Managing institutional uncertainty is a critical issue in emerging markets (Peng 2002), and can therefore create significant opportunities for entrepreneurs who can identify ways to reduce it. Furthermore, the greater the uncertainty faced by members of the field, the greater the brokering opportunities available to entrepreneurs. Stated as a proposition:

**Proposition 1:** The greater the institutional uncertainty in an emerging market, the greater the opportunity for entrepreneurs to act as institutional brokers by creating ventures that reduce risk for other actors.

**Spanning Institutional Voids**

The notion of an institutional void has received increasing attention in management studies and international business. In the management literature, Hensmans (2003, p. 366) defines institutional voids as “political spaces of legitimation unarticulated by incumbent archetypes”. In international business, Khanna and Palepu (2006, p. 62) use the term to refer to “the absence of specialist intermediaries, regulatory systems, and contract-enforcing mechanisms” in an economy. We build on Khanna and Palepu (2006) and consider that an institutional void refers to the absence of the institutions that facilitate economic activity, as well as the absence of an associated set of rewards and sanctions to enforce those rules, norms and belief systems.

The objective for entrepreneurs working to span institutional voids is for their approach to solving a given institutional problem to become the standard taken-for-granted solution. Within these voids there are few commonly accepted business practices, organizational structures, dominant designs, industry standards or other types of institutions that guide the behavior of actors in more developed organizational fields. This means that spanning an institutional void is a particularly demanding form of institutional entrepreneurship and is likely to involve high levels of ambiguity and risk.

In spanning an institutional void entrepreneurs are first required to create a proto-institution and make it available to other actors (Lawrence et al. 2002). For the proto-institution to become institutionalized it needs to be widely adopted by key actors in the
new field. The ability to build networks and alliances, and to legitimate new institutions among relevant actors, is therefore a particularly important aspect of this form of institutional entrepreneurship (Lawrence and Phillips 2004). The difficulty for entrepreneurs, however, is that the interests and identities of the key actors may be very uncertain (Fligstein 2001); it may not be clear who the key actors are likely to be or the roles they are likely to adopt. Thus, for entrepreneurs wishing to create new ventures that span these voids, a key task is to ascertain the actors with whom they need to engage and how they should relate to them.

Maguire et al. (2004) argue that successful institutional entrepreneurs operating within institutional voids in emerging fields tend to: (1) Have identities and roles that allow them to build legitimacy and access resources amongst diverse stakeholders; (2) have the ability to develop lines of argument that appeal to diverse stakeholders and the political skills to build stable coalitions among them; and (3) be able to make connections between existing organizational practices and the new practices, and align the new practices with the values of key stakeholders. We suggest that these skills are also crucial for entrepreneurs spanning institutional voids in emerging markets as they seek to build the necessary legitimacy among disparate actors.

The Grameen Bank provides an interesting example of the way that entrepreneurs in emerging markets can span institutional voids. The entrepreneur who created it, Muhammad Yunus, realized that there was no mechanism for the rural poor in Bangladesh to access capital. In response, he created an alternative banking system based on trust and community support that involved risk being shared among community members. In order to make this formal institution work, he also had to support the development of an associated set of informal norms and practices. In doing so he used his status as a university professor and his links with the government in Bangladesh to legitimate these norms and practices and to raise capital. The bank began as a localized activity in the Tangail district of Bangladesh in 1979. It has since expanded across most of the country and by 2006 had 6.7 million borrowers spread over 86% of the villages in Bangladesh. His venture has become the standard solution to providing access to capital for the poor in Bangladesh and in many other regions around the world.

We therefore suggest that spanning institutional voids is a key strategy employed by entrepreneurs in emerging markets. While entrepreneurs in established organizational fields also use this strategy, we argue that it will be particularly prominent in emerging markets because these economies are characterized by a greater number of institutional voids. By building new institutions and corresponding sets of rewards and sanctions to support them, entrepreneurs can exploit undeveloped institutional spaces in order to create value. This leads to the following propositions:

**Proposition 2a:** The greater the number of institutional voids in an emerging market, the greater the opportunities for entrepreneurs to found ventures that span them.

**Proposition 2b:** The greater the number of institutional voids in an emerging market, the more likely an entrepreneur is to act as an institutional entrepreneur, because their actions in spanning these voids may lead to the emergence of new institutional arrangements.
Bridging Institutional Distance

The third institutional strategy we identify as being available to entrepreneurs in emerging markets is bridging institutional distance. In international business, institutional distance has been used to conceptualize the challenges faced by MNCs seeking to establish operations in different countries, and is defined as the extent to which the institutions in the home and host countries differ from one another (Kostova 1999; Phillips et al. 2009). This literature has focused in particular on two strategic issues (Xu and Shenkar 2002): (1) The barriers faced by MNCs in building legitimacy in their host country; and (2) the barriers faced by MNCs when transferring organizational practices from the parent company to the subsidiary in the host country. Kostova and Zaheer (1999) argue that the greater the institutional distance between home and host countries, the more difficult it becomes for MNCs to build legitimacy and transfer practices: “In other words, a large institutional distance triggers the conflicting demands for external legitimacy (or local responsiveness) in the host country and internal consistency (or global integration) within the MNC system” (Xu and Shenkar 2002, p. 610).

In the context of entrepreneurship in emerging markets, we conceptualize bridging institutional distance as the practice of translating (Sahlin-Anderson 1996) or transposing (Boxenbaum and Battilana 2005) an institution between countries characterized by significant institutional differences in order to create new ventures in an emerging market. Most obviously, this involves transferring institutions from a developed economy in order to exploit an emerging market. For example, we have studied the case of an entrepreneur who transferred the concept of the specialized menswear store from North America and Western Europe to Russia in the mid-1990s; prior to this, clothing in Russia was sold mainly in large department stores or in street markets. The entrepreneur successfully implemented this strategy by adapting the Western concept of a menswear store to the realities of the Russian context in order to overcome a large institutional distance between the two. This successful example of institutional bridging formed a key part of the rapid transformation of the clothing retail sector that occurred in Russia following the liberalization of the economy in the early 1990s.

However, bridging institutional distance might also involve transferring institutions between organizational fields in two emerging markets. For example, the concept of developing businesses that deliver very low cost products and services to consumers at “the bottom of the pyramid” (Prahalad 2004), pioneered by entrepreneurs in Brazil, is increasingly used as a strategy by entrepreneurs in India, China and other emerging markets to sell products such as personal computers and take advantage of the significant collective buying power of low income consumers. Thus business models designed for consumers in emerging markets are increasingly being transferred to other emerging markets through a form of institutional bridging.

Moreover, institutional bridging need not be confined to the introduction of a new organizational form from one context to another; it might also involve the transfer of a set of organizational practices, norms, technologies, or any other form of institution. For example, Chandra and Tirupati (2003) describe how an Indian dairy co-operative adapted supply chain practices from the dairy industries of the USA, New Zealand and Denmark in order to overcome the fragmented nature of the Indian dairy market by building trust,
transferring innovation and developing systems of co-ordination amongst suppliers. This “revolution” in the Indian dairy industry has led to the emergence of India as one of the largest global producers of milk.

Entrepreneurs that bridge institutional distance might belong to the country into which the new institution is being transferred, the country from which the institution is being transferred, or even a third country. However, in each case it is crucial that they have a deep understanding of their home and host contexts. This deep knowledge of the home and host contexts allows entrepreneurs to assess (1) whether a given institution has the potential to be transposed effectively, and (2) the extent to which a given institution will need to be altered in order to “fit” the new context. Moreover, not all entrepreneurs are equally likely or able to transfer institutions (Boxembaum 2006), and multiple embeddedness is a key condition which enables individuals to transpose institutions between jurisdictions (Sewell 1992). This is because some institutions may be extremely difficult to translate even if they have been shown to be very effective in another organizational field. Indeed, Biggart and Guillén (1999, p. 726) note that “even countries wishing to adopt… practices presumed to be most efficient or effective can incorporate only those that ‘make sense’ to the actors being organized”.

We therefore suggest that bridging institutional distance represents a third institutional strategy available to entrepreneurs in emerging markets, and posit the following proposition:

Proposition 3: The greater the institutional distance between the home and host contexts, the greater the opportunities for entrepreneurs in emerging markets to create value by transposing institutions.

Clearly, the greater the institutional distance between the contexts being bridged, the more difficult and risky it will be for entrepreneurs in emerging markets to transpose a given institution and create a new organizational field (Kostova and Zaheer 1999). Thus the tension between local legitimacy and internal consistency, outlined above in the context of MNC investment, is likely to feature prominently when entrepreneurs in emerging markets seek to bridge institutional distance. Indeed, for small institutional distances (e.g. Romania to Bulgaria), it is likely that a given institution can be transferred directly between fields. For larger distances (e.g. the USA to China), it is likely that the entrepreneur will need to adapt a given institution so that it fits with the host context. However, while risk increases as the institutional distance increases, the potential rewards also increase: Because bridging large institutional distances is more complex, it is also less subject to the forces of standardization and imitation. Developing a product or service that is more difficult to replicate or copy will lead to significantly higher levels of value being created (Alvarez and Busenitz 2001). These lines of reasoning lead to the following propositions:

Proposition 4a: Increased institutional distance between the home and host contexts leads to increased risk for entrepreneurs following a bridging strategy in emerging markets.

Proposition 4b: Increased institutional distance between the home and host contexts leads to increased rewards for entrepreneurs who successfully transpose institutions to emerging markets using a bridging strategy.
Conclusions

In this paper, we have argued that while the high degree of institutional uncertainty that characterizes emerging markets often acts as a barrier to entrepreneurship, it can also provide important opportunities for entrepreneurs. Building on insights from neo-institutional theory, we have developed a framework for understanding the activities of entrepreneurs who exploit this uncertainty. We have framed this kind of entrepreneurship as a form of institutional entrepreneurship where the entrepreneur develops an “institutional strategy” (Lawrence 1999) in order to exploit aspects of an emerging organizational field to create value. More specifically, we have proposed three institutional strategies available to entrepreneurs in emerging markets: Managing institutional uncertainty, spanning institutional voids, and bridging institutional distance.

Contributions to Entrepreneurship in Emerging Markets

In developing our arguments, we make three contributions. First, we have connected the literature on entrepreneurship in emerging markets with relevant literature on neo-institutional theory. This combination provides a theoretical frame to examine the institutional strategies of entrepreneurs in emerging markets. We believe that drawing on neo-institutional theory allows researchers in this area to better conceptualize the complex institutional dynamics of emerging markets.

Second, we have argued that the institutional uncertainty that characterizes emerging markets can provide significant opportunities for entrepreneurs. This is an important insight that has allowed us to conceptualize three institutional strategies that entrepreneurs can adopt to exploit these uncertainties. Researchers have tended to focus on the barriers that institutional uncertainty creates for entrepreneurs (e.g. Aidis 2005; Fogel et al. 2006; Luthans and Ibrayeva 2006; Manolova et al. 2008) and as a result to under-emphasize the opportunities. Our arguments help to highlight the fact that institutional uncertainty can also be an important source of opportunity. We hope that this will encourage more research and thinking in this important area.

Finally, and perhaps most importantly, we have introduced neo-institutional theory as a framework for considering the distinctive nature of emerging markets. We believe neo-institutional theory offers a more appropriate view of institutions for the study of emerging markets than other strands of institutional theory for two reasons. First, it has an explicit interest in the role of individual and organizational actors in institutional change. Second, it highlights both formal and informal institutional processes. Combined, these differences make neo-institutional theory a much more powerful framework for understanding the complex dynamics of emerging markets.

Directions for Future Research

The above discussion highlights some important areas for further research. First, there is a need for more research and theoretical investigation into the role that institutional context plays in shaping entrepreneurial strategies in emerging markets. As noted, there has been some work on the barriers to entrepreneurial activity created by institutional uncertainty.
However, while the existing work forms a crucial first step in understanding entrepreneurship in emerging markets, more work is needed to explain the relationship between institutional uncertainty and entrepreneurial activity in these contexts. For example, there are likely to be additional strategies to the ones that we have identified. What are these strategies, and to what extent do they differ from the three outlined above? Moreover, in extreme cases of uncertainty, does the relationship that we propose between institutional uncertainty and these types of entrepreneurship still hold? Does it vary by industry or sector (e.g. service versus manufacturing), or by type of emerging economy (transition versus developing)? Another interesting question concerns what happens to these new ventures when uncertainty declines.

Second, while there has been considerable research on the entrepreneurial capabilities—"the ability to identify a new opportunity and develop the resource base needed to pursue the opportunity" (Arthurs and Busenitz 2006, p. 199)—that underpin success in traditional entrepreneurship and international entrepreneurship (Karra et al. 2008), there has been little parallel work examining the entrepreneurial capabilities that underpin success in the kinds of institutional strategies that form the focus of this paper. While some of the entrepreneurial capabilities identified in the entrepreneurship and international entrepreneurship literatures are likely to be relevant, presumably there are additional capabilities that are critical to institutional entrepreneurship in emerging markets. For example, Karra et al. (2008) posit international opportunity identification and a preference and capacity for cross-cultural collaboration as crucial capabilities required for international new venture creation, but do these also apply to institutional entrepreneurs in emerging markets?

Finally, the role of entrepreneurs in structuring organizational fields in emerging markets is a fascinating research topic with important implications for the field of entrepreneurship, for the study of emerging markets, and indeed for scholarship on economic development. Most notably, we have suggested that the actions of entrepreneurs can have important and lasting consequences. In neo-institutional theory, the influence of institutional entrepreneurs on emerging fields which are not yet highly institutionalized is well known. As Lawrence and Phillips (2004, p. 707) argue, the "emerging institutional structures that define the field are highly vulnerable to the initial decisions of institutional entrepreneurs". In other words, institutional entrepreneurs can have a powerful bearing on the shape of an emerging field. It would be interesting to investigate empirically field formation in emerging markets, the role of entrepreneurs in this process, and the extent to which this is similar to or different from the role played by entrepreneurs in developed economies.

The directions for future research that we have outlined highlight the observation that entrepreneurs in emerging markets may find high degrees of institutional uncertainty provide commercial opportunities which have, in turn, the potential to drive processes of institutionalization. However, these aspects of entrepreneurship in emerging markets have been largely overlooked and remain poorly understood. Considerably more conceptual and empirical investigation is required to enhance our knowledge of the processes of institutionalization in emerging economies, and the role that entrepreneurs play in them.
Endnotes

1 We would like to thank one of our reviewers for raising this important point.

2 At least three different terms are used interchangeably in the literature—organizational field (e.g. DiMaggio and Powell 1983), interorganizational field (e.g. Leblebici et al. 1991), and institutional field (e.g. Phillips et al. 2000). We will use the term organizational field in this paper.

References


