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The institutional environment and international entrepreneurship interactions

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This Fall issue culminates the *Journal of International Entrepreneurship's* 12 years of successful publication. This issue continues on with the two new features introduced in the previous issue: i) a *second abstract* in French, German or Spanish in addition to the journal's customary abstract in English and ii) a *summary highlight* of the article. The summary highlight briefly summarizes the *Contributions*, *Research question/Purpose*, *Results/findings*, *Theoretical implications and recommendations* and *Practical implications and recommendations*, which appear at the beginning of the article. These additions are designed to make each journal article more accessible to a wider audience and to stimulate readers' interest and feedback to the authors and to the journal.

The overall theme of this issue is the influence of the environment in general, and institutional environment in particular, on the process and outcomes of entrepreneurial internationalization. Such influences are likely to be interactive. The forces of change could be internal to a firm and within its home country or external to the firm and initiated in other potential host countries. Consider, for example, that a few host countries may initiate self-motivated change to remove (or add) barriers, take steps towards free and freer trade for further participation in global trade and investments, or be forced by trading partners to harmonize regulations and standards, among others, all which with significant impacts on the concerned firms, especially on the entrepreneurial and smaller ones. While the impetus for change is either endogenous or exogenous to the firm, the affected firms need to take adaptive actions, which will in turn have secondary effects on their partners and on their task environment, if not on the environment as a whole.

The specific aims of this editorial is to i) briefly highlight the four articles in the issue, ii) point to the common thread of interaction (between the environment and the entrepreneurial initiatives) across the articles, iii) draw attention to the complementary, and even confirmatory, relations among the articles, iv) initiate a discussion of related issues and v) invite scholars to take up the scholarly challenges of related issues arising from the articles in this issue for enriching the field.

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The first paper in this issue is entitled “The institutional environment: an empirical study across countries” and is co-authored by Rakesh Sambharaya and Martina Musteen. As hinted in the title, the paper provides a broad perspective on the institutional environment of some 43 countries and examines the overall impact of such environments on the path of growth and the state of entrepreneurship in those countries. The institutional framework, defined mainly in terms of the normative, regulatory and cognitive aspects, portrays a richer characterization of the environment than the customary economic, cultural, legal and the political dimensions of an environment. Specifically, the article pays a particular attention to the impact of societal openness, the quality of the regulatory aspect and the cultural influences of the environment as predictors of a dichotomized view of entrepreneurship, conceptualized as necessity- and opportunity-driven entrepreneurships. The authors report that a combination of the cognitive and normative pillars of the institutional framework is a better predictor of the necessity-driven entrepreneurship while the cognitive dimensions of the institutional framework are strong predictors of opportunity-driven entrepreneurial activities across the 43-country environments.

The paper suggests that in the necessity- (or need-) driven entrepreneurship, the entrepreneur uses well-tried business models in the prevailing environment, while entrepreneurs challenge the status quo in the opportunity-driven entrepreneurship and consequently cause change in the task and eventually in the overall environments. The paper finds a supportive relationship between the institutional environment and necessity-driven entrepreneurship. However, it points to the complexity of relationship between the institutional framework and the opportunity-driven entrepreneurship. Logically, both types of entrepreneurial initiatives mature over time, but the opportunity-driven initiatives are more likely to experience higher growth and internationalization than the necessity-driven efforts. Logically, they also seek richer growth opportunities in international markets to further their growth through internationalization and, as a direct result, experience the brunt of environmental forces. We will return to this discussion later in this editorial note.

The entrepreneurial-institutional framework relationship suggests that such opportunity-driven entrepreneurs need to evaluate not only the opportunities in, and barrier to, internationalization (e.g. barrier to export or costs of crossing boarders) at home but also they need to examine international opportunities in light of entry and operational barriers at potential host country markets. Small entrepreneurial firms, especially the necessity-driven types, are more likely to i) be more significantly affected by their institutional and task environments than the opportunity-driven initiatives and ii) also internationalize through direct and indirect exports than other modes of entry to control (reduce) their risk exposure, among other factors.

The second paper in this issue, entitled as “Export barriers in changing institutional environment: A quasi-longitudinal study of New Zealand’s manufacturing exporters”, is co-authored by Eldred T. Kahiya, David L. Dean and Jeff Heyl. It complements the first one by examining the change, both formal and informal, in the exporters’ institutional environment to predict change in the overtime influence of barriers on exports by comparing their prevailing environments at two specific points in time: 1995 and 2010. The authors report that the influence of export barrier has changed across the two time periods, and the change is traceable to corresponding change in the various formal and informal dimensions of the institutional environment, including further economic deregulation across the world, increasing free and freer trade arrangements in both the home (i.e. New Zealand) and the host countries and the enabling influence of communication and information technologies (CITs) enabling people to follow relevant developments in the far corner of the world, among other factors.

As briefly pointed out earlier, the change may be due to conditions internal or external to the firm and to its immediate institutional environment (e.g. home country task environment). Similarly, the change may start by any of the stakeholders adversely affected by, or expecting to benefit from, the change, including concerned entrepreneurs. While the necessity-driven entrepreneurs may prefer the safer path of fulfilling existing opportunities, the opportunity-driven entrepreneurs are likely to create new opportunities to challenge the status quo by introducing their own innovative goods and services, which may disrupt the status quo and initiate a dynamic chain of actions, reactions and interactions, to lead to change. Naturally, not all stakeholders will be equally affected. Those expecting to be adversely affected will adopt a defensive posture and possibly fight the proposed or unfolding change, especially when their interests are significantly threatened. They are likely to lobby against the pending change and even question the legitimacy of the firm and its offerings expected to stimulate, or cause, change. In contrast, the stakeholders expecting to benefit will support the firm's efforts to bring about the change. Consequently, such interactions may impact both the pillars of the institutional environment (e.g. the normative, legal and even the cognitive aspects) and also slowdown, or speed-up, the pace of change. The magnitude and the effect of the eventual change depends on the affected stakeholders' resources and commitments, the differential potency of their longitudinal strategies and the inherent value (e.g. benefits versus the cost) of the proposed offerings driving the dynamic of change.

The third and the fourth papers further elaborate on the above issues. While the third paper discusses story telling as a strategy for a firm to gain legitimacy, especially in the early stages of the innovation's life span, the fourth paper traces the plight of maturing firms and relates their ultimate success (or failures) to their extent of managerial dynamic capabilities.

The third paper in the issue entitled as "Creating legitimacy across international context: The role of storytelling for international new ventures" is co-authored by Poul Houman Anderson and Morten Rask. The authors examine the legitimacy-creating efforts of an international new venture (INV), *the Better Place*, attempting to provide infra-structure services to link electrical vehicles to a country's existing power grids in the diverse institutional contexts of Israel, Denmark, Canada (Ontario), USA (California and Hawaii) and Australia. The Better Place started in the first week of December 2008 and filed for bankruptcy in May 2013, both occurring in Israel. The entrepreneur founding the Better Place aspired to make the world a better place by enabling electric vehicles to replace cars with internal combustion engines. The firm was a highly motivated and developed cutting-edge technology to empower electrical vehicles. Its ambitious business model called for a swap-and-go battery in less than 2 min, the average time required for taking gasoline at a typical gas station. Its early swap-and-go stations succeeded in delivering the service in less than 2 min. However, it experienced very high developmental costs, which required the fastest possible penetration into the largest markets for realizing scale-economies in a relatively short period of time, and these requirements suggested rapid internationalization. As the firm was backed by private venture capital, its need for rapid internationalization transformed it into a true international new venture firm seeking deep and rapid internationalization. It was based in Palo Alto, California, a very logical place for providing battery charging and battery switching for electric cars in a timely fashion. Similar to highly innovative start-ups, this well-financed company ($850 million in private capital) suffered from its share of mismanagement (partly due to inadequate management experience and partly due to suffering from insufficient capabilities for handling its novel offerings) and wasteful efforts. Consequently, it failed to secure an economic beachhead in the expanding need for infra-structural support of the expanding electric car market to secure its long-lasting future. Unfortunately, most INVs with highly advanced technologies are disruptive and experience large uncertainties, especially in the early stages of their life cycle. The Better Place was no exception and faced similar challenges, some of which contributed to its early demise. Their downfalls in most cases are generally attributed to their failure in convincing their potential buyers, suppliers and the society at large that they did indeed deserve their unqualified support for offering viable incremental value and, furthermore, that such collective support would enable them to scale their offering rapidly to reach typical customers in typical markets of the world to become efficient and viable economic (and sociocultural) change agents bringing positive change to the society, if not the world.

In spite of the Better Place's highly advanced technology with supportive partners and limited successes earlier on, the bankruptcy of the Better Place pointed to its failure in gaining scale in a relatively short span of time to enable it to provide a clean alternative to gasoline-powered cars, and thus, it could not play a significant role in disrupting the massive power and inertia of the traditional auto-industry by providing a viable (and credible) environmentally friendly alternative for expanding beyond the narrow segments of "innovators" and "early adopters", which hardly require any convincing. In their article, Anderson and Rask suggest that the Better Place failed in establishing its legitimacy and also the viability of its value proposition early-on even in the friendly markets of California and Denmark. Sadly, the Better Place was not the first casualty of underestimation of the resistance to disruptive change and strong adverse reactions against drastic change by entrenched stakeholders. In spite of Tesla Motors' apparent success so far, many prior efforts in replacing the internal combustion vehicles have not been successful. Stated differently, as an example of opportunity-driven INV, the Better Place failed to fully understand the long-established institutional barriers and did not adapt to its institutional environment, shaped mainly by powerful stakeholders favouring the status quo, which caused its eventual demise. The history of electric cars is replete with valiant start-up efforts that failed to gain timely legitimacy, or societal acceptance, to save them. They are forgotten disappearances.

The fourth article in this issue, entitled as "Dynamic managerial capability of technology-based international new venture – a basis for their long-term advantage", authored by Liliya Altshuler Oxtorp, is complementary to, expands on and provides a different perspective on the discussion of previous articles. It examines the longer-term development and viability of technology-based INVs beyond their initial years. The study presents, and is based on, a 3.5-year longitudinal case study of a maturing firm after meeting the challenges facing it in the first 8 years of its early life, including the difficulties of adapting to recessionary economic environment, change in ownership, internal and partner's resistance to change, and eventually routinizing its rules, structures, managerial and operational processes for further efficiency and growth. Based on the extensive information of the longitudinal case study, the paper formulates eight propositions that provide a relatively comprehensive perspective on the growth of INVs beyond the initial challenges of starting-ups. In that sense, this paper complements the discussion of the third paper that explored the challenge of a technology-intensive INV in the very early stages of its life spans.

Combined, the papers of this issue point to at least two broad issues:

First, that there is a need for a developing a distant horizon to enable a comprehensive understanding of the entire institutional and task environments, beyond the customary consideration of the economic and technical dimensions of the environments, in the early stages of a firm's life span, if not before its establishments, in order to foresee the major bumps on the road to growth. This is not to restrict entrepreneurship in taking bold steps, but it guards against slower growth rate, or early exits, due to inadequate information or having a rose-coloured view of the complex global environments facing internationally oriented entrepreneurship, which are tantamount to walking towards a cliff in pitch darkness.

Second, possessing, or having access to, the necessary competencies and capabilities for adequately negotiating with, and adapting to, the adverse pressures of the competitive and institutional environments in a timely manner is essential and only a common sense. Although the extant literatures of entrepreneurship and international business have already pointed to the above requirements, they have not charted clear pathways for international entrepreneurs to safely pass through the mine fields of highly diverse, complex, interrelated and difficult-to-negotiate environments of the global markets, and therefore, the need is still there.

In summary, and based on the terminologies used in the papers included in this issue, the opportunity-driven international entrepreneurs carry a heavier burden, than their domestic counterparts, for adapting to the diverse institutional environments of their suppliers, buyers and competitors for gaining legitimacy and attracting societal supports in a timely manner for amassing the necessary requirements of growth and internationalization. We are witnessing the dawn of massive efforts by opportunity-driven entrepreneurs in articulating the vision for formulating, and even devising, potent technologies to reduce inefficiencies and solve the global and ecological challenges facing humanity. Although the ultimate objectives are somewhat clear, the pathways to achieve them neither are smooth nor clear. The journal calls on the scholarly and policy communities to congregate together to identify the complex set of issues constituting as insurmountable barriers and explore the ways by which the educational institutions, as well as the practical and scholarly communities, can assist international entrepreneurship to reduce their adverse impact and eventually eradicate them altogether. Naturally, the journal is ready to dedicate one, or a series of, special issues exploring potent entrepreneurial solutions for broad issues facing us.

In the final analysis, and on a personal note, I believe that if feasible and globally applicable solutions can be found, international entrepreneurship institutions are the best agents to conceive, nurture and give them a long-lasting life.

I thank you in advance for your feedback.

Hamid Etemad,
November 2014, Montreal.