

THE ROLE OF NATIONAL CULTURE IN THE TRANSNATIOAL ENTREPRENEURSHIP PROCESS

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ABSTRACT

Transnational entrepreneurship (TE) is a relatively unexplored field of study. Although researchers emphasize that transnational entrepreneurship is socially and culturally embedded, research to date has not examined the role of national culture in the TE process. This study builds on Hofstede's (1980) framework of national culture and proposes that power distance and collectivism dimensions of national culture affect the TE process. We argue that culture is related to opportunity recognition, the decision to start a new venture, ability to maintain a venture and the size and scope of the venture.

THE ROLE OF NATIONAL CULTURE IN THE TRANSNATIONAL ENTREPRENEURSHIP PROCESS

Transnational entrepreneurship (TE) is a field of study that has been gaining attention in the last few years. According to Drori, Honig and Wright (2009:1001) 'the process of TE involves entrepreneurial activities that are carried out in a cross-national context, and initiated by actors who are embedded in at least two different social and economic arenas'. Researchers to date have identified micro and macro level factors that either encourage or inhibit transnational entrepreneurship. Migration is at the heart of the process because transnational entrepreneurs (TEs) are people who have left their home countries, migrated to another country and started a business engaging in cross-national activities (Drori et al., 2009).

At the macro level, political turbulence, violence, and economic disruptions have pushed people into migration. For example, 20% of Salvadorans fled from their country due to violence, started businesses in the United States and became TEs (Landolt, Autler, & Baires, 1999). Developments in technology have also supported transnationalism. High-speed jet travel, inexpensive long-distance communication including telephones, e-mails, teleconferencing and the internet have helped to enable easy and fast contact at a low cost over long distances and supported the growth in transnational business practices (Castells, 1996; Levitt, 2001; Roberts et al., 1999; Urbano, Toledano, & Ribeiro-Soriano, 2011; Vertovec, 1999).

At the micro level, transnational entrepreneurs possess many of the qualities of entrepreneurs in general (Urbano, Toledano, & Ribeiro-Soriano, 2011). At the individual level, values, abilities, attitudes and personalities have been linked with entrepreneurship as well as transnational entrepreneurship. For example, researchers argue that higher levels of self-efficacy, personal perseverance, human and social capital, and superior social skills play a role in venture success (Markman & Baron, 2003). At the micro level, one factor that differentiates entrepreneurs from TEs is bifocality of the transnational entrepreneur. Bifocality refers to the ability to operate in two different environments (Drori et al., 2006). TEs are foreign-born individuals socially embedded in both their home and host environments and they engage in cross-border business activities. Their success depends on both their home and host country ties (Drori et al., 2009; Portes et al., 2002; Sequeira et al., 2009; Urbano, Toledano, & Ribeiro-Soriano, 2011). While existing research emphasizes the importance of networks for entrepreneurs as well, TEs rely on networks of social relationships both at home and in the host country (Kariv et al., 2009; Sequeira et al., 2009; Curran et al., 1993; Owusu, 2003; Renaud, 2002; Urbano, Toledano, & Ribeiro-Soriano, 2011; Waters, 2003). Bifocality and networks are facilitators of transnational entrepreneurship

Networks are important because they provide access to resources, advice, and support that may result in economic exchanges (Stevenson & Gumpert, 1989). “Transnational entrepreneurship is a culturally oriented, culturally derived, and reliant on the specific community and relationships within which the immigrant is embedded” (Sequeira et al., 2009). Although researchers emphasize the importance of culture in the transnational entrepreneurship process, we still do not know much about the relationship between national culture and networks. This study examines the role of national culture in the transnational entrepreneurship process. It is proposed that the power distance and collectivism dimensions of national culture affect opportunity recognition, venture creation decision, venture maintenance and the size and scope of the venture.

Networks

TEs are embedded in both their home country and host country and they are able to identify and exploit opportunities either unobserved by or unavailable to other entrepreneurs located in a single geographical location (Drori et al., 2009; Ireland and Webb, 2007; Sequeira et al., 2009; Urbano, Toledano, & Ribeiro-Soriano, 2011). TE is a specific form of entrepreneurship in which immigrant entrepreneurs take advantage of opportunities that cross national borders (Portes et al., 2007). Multiple studies in the field build on Bourdieu’s theory and suggest that successful transnational entrepreneurship requires mobilization of social networks, and balancing the degree of dual embeddedness in two different institutional settings (Drori et al., 2006; Patel & Conklin, 2009).

For the TE, a major scarce resource and a key success factor is the ability to locate foreign partners quickly and to manage complex business relationships across cultural and linguistic boundaries (Saxenian, 2002). Possessing a greater social network differentiates TEs from domestic entrepreneurs. TEs are able to tap into the resources of and need to have networks in both countries (Portes et al., 2002). Social network theory explains how social interactions among members in a network result in flows of resources among agents and firms. Networks comprise of connections between the transnational entrepreneur and friends, family, business

partners and anyone who can help create opportunities by combining resources of their contacts (Burt, 1992; Patel & Conklin, 2009).

Studies focusing on transnational entrepreneurial behavior and motivation suggest that the success of the TEs depend on the resources available to them (Light & Gold, 2000). TEs are dependent on resources to run their business and networks help them acquire resources in the form of professional knowledge and skills and cultural capital (Drori, Honig, Wright, 2009). Thus, TEs who have access to a network at the home and the host country and TEs that are culturally embedded in both the home and the host country increase their negotiation potential and are able to recognize, seize and act upon opportunities for business to create and maintain a business (Portes et al., 2002).

Collectivist Values and Transnational Entrepreneurship

An opportunity is defined as a future situation that the decision makers deem personally desirable and feasible (Keh et al. 2002; Krueger 1993). Entrepreneurs who see an opportunity, see a potential for gain and means to resolve an issue (Jackson and Dutton 1988). Evaluation is the key to differentiate an idea from an opportunity. So how does culture effect opportunity recognition? Individualistic cultures have norms, values, beliefs such as; being responsible for oneself, individual achievement and emotional independence from organizations or groups (Cullen 2002; Hofstede 1980). Individualism pertains to societies in which the ties among members are loose (Cable and Judge 1994; Cullen 2002).

In collectivist cultures, on the other hand, organizational belonging is emphasized and an individual's identity is based on group membership. Collectivism pertains to societies in which people from birth onward are integrated into strong, cohesive in-groups. These groups protect individuals throughout their lifetimes in exchange for unquestioning loyalty to the group (Hofstede and Hofstede, 2005). Greater number of ties in the home environment (Portes & Bach, 1985) enhances social capital through increased cohesion, loyalty, and trust among members sharing ethnic characteristics.

In the home and host environment, greater resources are accessible TEs who are members of these networks of social relationships (Portes et al., 1999). An advantage of social ties is that they expand the TE's cognitive boundaries of rationality (Simon, 1976) by creating greater access to knowledge and information. Cohesive networks, which are based on trust and reciprocity, further increase cognitive boundaries of rationality by aiding in the transfer of tacit knowledge. Increased rationality helps TEs recognize and act upon opportunities (Granovetter, 1985; Uzzi, 1997). Cohesive ties based on trust and reciprocity are found in collectivist societies and members of collectivist societies have access to a cohesive social network. Therefore, individuals embedded in collectivist societies at home and in the host country are likely to have increased their cognitive boundaries of rationality and are more likely to recognize opportunities.

Proposition 1: There is a positive relationship between collectivist values at home and in the host country, and TEs opportunity recognition.

Entrepreneurs don't just come up with ideas but also perceive opportunities and act on them (Keh et al., 2002). The connection between entrepreneurship and new venture formation has

been relatively well established in research (Aldrich and Cliff 2003; Lumpkin and Dess 1996). Many definitions of entrepreneurship include some reference to venture or enterprise creations (Mueller and Thomas 2000). Therefore, entrepreneurs differ from non-entrepreneurs in terms of their desire and motivation to start a new business

Being a part of a loyal group found in collectivist societies may provide valuable resources for the individual (Tiessen 1997). These resources may come in the form of financial, intellectual or emotional support (Muzychenko, 2008). This support and protection, in turn, is expected to encourage entrepreneurs to start a new business. The protection and support provided by the group in collectivist societies create a safety net for the TE and reduce uncertainty and the risk associated with starting a new business. Research suggests that friendship networks (Shane et al. 1991) and resource leverage provided by the group (Tiessen 1997) are among factors that support venture creation decision. Therefore:

Proposition 2: There is a positive relationship between collectivist values at home and in the host country, and TEs decision to start a new business.

Zhang and Dodgson's (2007) case study of a Korean firm showed how social networks help entrepreneurial firms establish and achieve legitimacy. In their study of Chinese immigrant entrepreneurs, Wong and Ng (2002) found that their immediate and extended family members were critical to the successful management of the business. This is mainly because family networks are instrumental in the establishment of supplier links, clients, and necessary resources (Sequeira, Carr & Rasheed, 2009). Another study by Urbano, Toledano, & Ribeiro-Soriano (2011) found family networks to be beneficial in the case they studied from Morocco. Through existing family relationships, TEs were able to recruit cheap personnel, up-to-date information and low-cost financing capital for transnational activities. Therefore:

Proposition 3: There is a positive relationship between collectivist values at home and in the host country, and TEs ability to maintain the business.

However, it is possible to propose an alternative relationship between collectivist values in the host country and TE. Research suggests that in highly cohesive and collectivist societies, venture capital investments from overseas may be refused. Zhang and Dodgson's (2007) case study revealed that high levels of patriotism which resulted from high levels of collectivism manifested itself as extreme forms of nationalism and became a liability for firms in Korea which is a collectivist society. In their case study, strong nationalism led to antagonistic attitudes towards foreigners and foreign investment which in turn limited growth opportunities for the company. Therefore an alternative relationship is possible:

Proposition 4: There is a negative relationship between collectivist values in the host country and TE's decision to start a new business.

Power Distance and Transnational Entrepreneurship

Social status is another factor that may influence the TE process (Honig, 1998). Those immigrants that begin business with a very narrow scope may be of a lower social status than those that begin other types of businesses (Sequeira, Carr & Rasheed, 2009). In high power

distance societies, the inequality among people is accepted as a fact of life. High power distance cultures have norms, values and beliefs such as: everyone has a place, some are high, some are low, the powerful are entitled to privileges and the powerful should not hide their power. The dependence on powerful individuals starts early in life first in the family, then continues during school years and adult life (Shane et al. 1991). From a network perspective, people considered lower class in high power distance societies may not have access to the same educated, powerful network and access to resources that the upper class people do.

In their review of the history of entrepreneurship, Hunter and Wilson (2007) found that historically successful businessmen were from the upper-echelons of society. Especially in high power distance cultures individuals may not be encouraged to start a new venture because becoming a successful entrepreneur may change their place in the society and disturb the power balance among members of the society. Scope of the business of individuals considered to be lower class may be limited and these TEs may exhibit lower levels of self-efficacy due to the various initial negative. Lower self-efficacy leads to reduced perseverance and unwillingness to engage in challenging activities (Bandura, 1997), as well as risk aversion.

All these factors discussed above affect venture creation decision, venture size and scope. TEs from the lower class are more likely to have limited perception of opportunities, limited participation in the home community, and the owners' lower social status may hinder growth opportunities for the business (Sequeira, Carr & Rasheed, 2009). Therefore, if high power distance exists at home and in the host country, TEs from the upper class are more likely to perceive opportunities and start a new venture. Also, the size and scope of the size will be limited if the Transnational Entrepreneur is from the lower class. They will not have access to the resources available to those that are available to TEs from the upper class.

Proposition 5: Social status at home and in the host country will moderate the relationship between high power distance values and opportunity recognition, venture creation decision, and venture size and scope.

DISCUSSION

Transnational entrepreneurship is a relatively new field of study. Although researchers emphasize that TE is a socially and culturally embedded process, studies to date have not examined the role of national culture in the TE process. In this study, we build on Hofstede's cultural framework and propose that collectivism and power distance in the society impact TE activity. Collectivist values in the home and host country increase TEs opportunity recognition, likelihood to start a new venture and ability to maintain the business. However, an alternative relationship is possible between collectivist values at the host country and TEs decision to start a new business. If high collectivism leads to extreme nationalism, people in the host country may be resistant to immigrant entrepreneurs. Therefore, collectivist values in the host country may discourage TEs to start a new business.

Power distance also affects the TE process. Social status gaps that exist in high power distance societies lead to different outcomes for individuals considered upper class versus lower class. Upper class individuals in high power distance societies are more likely to perceive opportunities and act on them. Also, the size and scope of the TE business will be greater.

Therefore, social status will moderate the relationship between high power distance values and opportunity recognition, venture creation decision, and venture size and scope.

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