

2. New ventures in emerging markets: comprehensive review and future directions

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INTRODUCTION

Both researchers and practitioners have paid considerable attention to the significant role of new ventures (that is, firms younger than eight years) in the global economy (Oviatt & McDougall, 1994; Zahra, Ireland & Hitt, 2000). The increasing growth of new ventures has not only added more products and services to the market and stimulated market competition, but also provided more employment opportunities and improved the quality of life of people (McDougall & Robinson, 1990; Vesper, 1980). Thus developing new ventures has been viewed as both a revitalization tool for developed economies and a driving force for emerging markets (Cooper, Willard & Woo, 1986; Li & Atuahene-Gima, 2001; Zhao & Aram, 1995).

Recent literature has suggested that emerging markets are a rich landscape of opportunity allowing new ventures to capitalize on growth (Li, 2001). An emerging market is generally defined as one that often has low per capita income but with a rapid pace of economic development, and government policies favouring economic liberalization and a free market economy (see Hoskisson, Eden, Lau & Wright, 2000). According to Hoskisson *et al.* (2000), emerging markets not only include developing economies in Latin America, the Middle East, Southeast Asia and Africa, but also transition economies such as China, Central and Eastern Europe, and the former Soviet Union. These transition economies are changing from formal planned economies to market economies based on privatization and emphasis on entrepreneurial activities (Zahra, Ireland, Gutierrez & Hitt, 2000).

Compared to their counterparts in developed markets, new ventures in emerging markets face significant challenges from their fast-changing environment. For example, in developed market economies such as the US, new ventures can acquire critical resources (for example, managerial

Table 2.1 Number of contributions, by year

Journal	1990	1991	1993	1994	1995
Academy of Management Executive					
Academy of Management Journal					
Academy of Management Review					
Entrepreneurship: Theory & Practice					1
Journal of Business Venturing	1	2	2	3	2
Journal of International Business Studies					
Journal of Management Studies					
Journal of World Business					
Organization Science					
Strategic Management Journal					
Grand Total	1	2	2	3	3

Note: There was no publication in 1992.

resources and financial resources) from the markets. In contrast, new ventures in emerging markets have great difficulties in obtaining critical resources from markets because in these economies, banks and strategic factor markets are severely underdeveloped (Li & Atuahene-Gima, 2002; Peng & Heath, 1996). Also limitations with regard to the infrastructure (such as transportation and communication) in these markets create challenges for new ventures' resource acquisition. While research on new ventures in emerging markets has been flourishing over the past 15 years, this research is isolated, fragmented and scattered, and must be assimilated if it is to be useful. Periodic reviews of the new venture literature can contribute to integration of the research, yet there has not been a critical review of new ventures in emerging markets. To address the gap in the literature, the present study aims systematically to review and assess the theoretical and methodological aspects of existing studies on new ventures in emerging markets and then provide directions for future research.

We started by surveying 13 top academic and scholarly including: *Academy of Management Executive (AME)*, *Academy of Management Journal (AMJ)*, *Academy of Management Review (AMR)*, *Administrative Science Quarterly (ASQ)*, *Entrepreneurship Theory & Practice (ETP)*, *Journal of Business Ventures (JBV)*, *Journal of International Business Studies (JIBS)*, *Journal of Management (JoM)*, *Journal of Management Studies (JMS)*, *Journal of World Business (JWB)*, *Management Science (MS)*, *Organization Science (OS)*, and *Strategic Management Journal (SMJ)*. Articles that focused on new ventures in emerging markets were included in our survey. We focused on the period 1990–2004. The rationale

1996	1997	1998	1999	2000	2001	2002	2003	2004	Grand Total
				1	2				3
				1	1				2
				4					4
3									4
	1		3			2	1	3	20
	1				1				2
			1		1				2
				2					2
		1						1	2
					1	1			2
3	2	1	4	8	6	3	1	4	43

for choosing the year of 1990 as a cut-off date was that in 1989 former socialism countries including the Soviet Union and Central and Eastern Europe collapsed and their economies started to be privatized and marketized. The process of privatization and marketization significantly encourages entrepreneurial activities in these countries. We chose the year of 1990 to reflect the earliest work in this area since the events of 1989. We further checked the work published in the above journals in 1989 and did not find any article which had a focus on new ventures in emerging markets. Each article in the above journals was individually reviewed to select those which focused on new ventures in emerging markets. While scholars have defined new ventures in different ways, many of them have adopted the cutting-off point of less than eight years old (for example, Lee, Lee and Pennings, 2001, Li & Atuahene-Gima, 2001).

Table 2.1 shows that 43 articles were published on the subject between the years 1990–2004. *JBV* had the greatest number of publications, numbering 20. This is not surprising given this journal's focus on new ventures and entrepreneurship. *AMR* and *ETP* followed, at some distance, with four publications. Note that, in 2000, *AMR* had a special issue on privatization in emerging markets in which all four papers on this subject were published. *AME* had three publications. *AMJ*, *JIBS*, *JMS*, *JWB*, *OS* and *SMJ* had two publications apiece. Interestingly, among the journals we have surveyed, we could not locate any related work on this subject in such journals as *ASQ*, *MS*, and *JoM* during this period.

The remainder of the chapter is organized into three sections as follows: (a) current theoretical perspectives used in this context are reviewed,

(b) methodological issues are summarized, and (c) directions for future research are recommended.

THEORETICAL PERSPECTIVES ON NEW VENTURES IN EMERGING MARKETS

Hoskisson *et al.* (2000) suggested that there are three leading theories which guide strategy research on emerging markets: institutional theory, transaction cost economics/agency theory, and resource-based view. While our review has shown the prominence of institutional theory and the resource-based view in research on new ventures in emerging markets, we also found that there are other theories which play an important role in this research context, such as social capital and networking perspective and resource dependence theory. However, the application of transaction cost economics/agency theory in this area is very limited. In the next sections, we examine how these theories are applied in emerging market contexts and whether these contexts permit development of new concepts or modification of old ones.

Institutional Theory

Institutional theory suggests that institutions influence individuals, groups and organizations within it through the way it is structured and managed (Meyer & Rowan, 1977; Scott, 1995). There are two different broad approaches of institutional theory: the economic approach and the sociological approach. The economic approach suggests that, because of market imperfection, institutions can facilitate market interactions by reducing both transaction and information costs. As North (1990) has argued, institutions provide the rules of the game that regulate economic activities. The sociological approach suggests that institutions influence individuals, groups and organizations within it through the way it is structured and managed (Meyer & Rowan, 1977). Organizations are then driven by the demands of institutions to incorporate practices that may not be efficient (Meyer & Rowan, 1977). Organizations' actions and outcomes are trained by their social environments (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Organizational actions, which are consistent with these expectations, have a greater chance of increasing their legitimacy. DiMaggio and Powell (1983) posit that organizations are malleable to the institutional forces around them which urge them towards conformity, where isomorphism or the similar resemblance of organizations exists owing to the common constraints they face. Organizations that work within

the practices and rules of the institution will gain legitimacy and ultimately survival.

Institutional theory is pre-eminent in research on new ventures in emerging markets because 'government and societal influences are stronger in these emerging economies than in developed economies' (Hoskisson *et al.*, 2000:252). The political, economic, legal and cultural environments of emerging economies play an important role in affecting entrepreneurial ventures. Instead of taking the institution for granted, as is often done in research in Western societies, institutional theory suggests that new ventures face many challenges from unsupportive cultural attitudes, under-developed legal structures, governmental corruption, high taxation and lack of resources, leading to restrictions in new venture actions. In addition, many cultures from emerging markets are hostile towards entrepreneurs, fearing subsequent exploitation. Cultures may hold the role of an entrepreneur in low esteem.

Institutional context can drive strategy and also shed light on how new ventures emerge, compete, grow and survive (Khanna & Palepu, 1997). Peng and Heath (1996) argued that firms in transition economies are more likely to use network-based strategies rather than internal growth strategies because of institutional constraints. In another paper, Peng (2001) specifically evaluated how institutions in emerging markets influence new venture strategies. He argued that, given institutional constraints such as lack of property rights, new ventures can create value through three important strategies, prospecting, networking and boundary blurring. Tan (1996) argued that entrepreneurial strategies of innovativeness, proactiveness and risk taking are spurred by regulatory hostility, dynamism and complexity in China as compared to Western economies.

In his seminal study, Stinchcombe (1965) noted that new ventures tend to have a high failure rate because their stable links to clients, supporters or customers have not yet been established when they begin their operations. Thus legitimacy building becomes a critical issue for new ventures. Legitimacy increases the probability that a new venture can appeal to such resources as human capital and financial resources. In emerging economies where legal systems are weak and the private sector is often stereotyped as exploitive, legitimacy of new ventures is threatened. The newness of emerging market firms creates special needs for legitimacy (Hitt *et al.*, 2000). Strategic behaviour can be seen as a response to the illegitimate status of entrepreneurs in China (Tsang, 1996). Hostile institutional forces may decrease the effectiveness of generic strategies, leading entrepreneurs to seek out creatively other strategies. Venture capitalists were more willing to connect Chinese firms to joint venture partners for legitimacy (Hitt *et al.*, 2000). More specifically, Ahlstrom and Bruton (2002) noted that the laws

and government policies toward private entrepreneurial firms in China are subject to a broad and varied interpretation of a range of officials who enact and enforce them. In the search for legitimacy, the private firms in China follow different types of strategies such as coopting officials by providing stock or other interest in the firm to the officials or by hiring local officials or their relatives.

Institutions also affect behaviours of venture capitalists in emerging markets. Bruton and Ahlstrom (2003) observed that venture capitalists adhere to institutional norms in selecting firms, monitoring funds and determining exit from funds. For example, the absence of strong regulatory and normative institutions makes it more likely venture capitalists will fund firms near to their offices. Also, because accounting information is less reliable, other means such as relationships with the entrepreneurs or others that know the entrepreneurs better are crucial. Moreover, for venture capitalists, exit opportunities through initial public offering (IPO) are very limited because the financial market is in a nascent stage.

Research has made strides towards understanding how unique cultural characteristics of institutions affect new ventures in emerging markets. Culture may influence the degree of entrepreneurship in an organization. Institutional factors including economic, political/legal and social factors may moderate the relationship between a country's culture and its entrepreneurial orientation. Countries differ in their support for entrepreneurship. Takyi-Asiedu (1993) argued that many countries may be similar on cultural dimensions, yet have different propensities and tolerances toward entrepreneurship. For example, as culture and ideology barriers have been lifted in China since its reform, entrepreneurship begins to flourish (Chang & MacMillan, 1991). In another study, Begley and Tan (2001) applied the theory of face adapted from Earley (1997) to predict interest in entrepreneurship in East Asian versus Anglo-Saxon countries. They found that social status will positively predict interest in entrepreneurship better in East Asia than in the West and that shame at business failure will negatively predict interest in entrepreneurship better in East Asia than the West. Since new ventures are risky, people in East Asian society that are aware that venture failure means loss of work may be especially conservative in assessing their feasibility.

The Resource-based View

The resource-based perspective (Barney, 1991; Wernerfelt, 1984) suggests that resources and capabilities create a competitive advantage when they are firm-specific, rare, durable and difficult to imitate or replace. Resources are typically defined as inputs to the production process, while capabilities

are the ability to coordinate and deploy those resources to perform tasks. Resources may be tangible (for example, equipment, finance), or intangible (for example, brand name, trade secrets). Capabilities may consist of sub-routines and master routines (for example, product development, distribution) that integrate sub-routines into performance (Nelson & Winter, 1982). Strategy then becomes the effective use of resources in efforts to gain profits, or rents, in excess of a break-even point (Penrose, 1959).

The resource-based view suggests that new ventures' idiosyncratic resources and capabilities define a competitive advantage (Barney, 1991). What resources and capabilities stand out in shaping new venture performance in emerging markets? Research in this direction is very limited and existing studies tend to apply the concepts from the developed markets in the emerging market context. For example, drawing upon Eisenhardt and Schoohoven's (1990) work, Bruton and Rubanik (2002) found that founding team size of new technology ventures is positively related to venture performance in Russia because it provides greater financial resources available to the technology ventures in transitional economies. In Russia, there are virtually no funds available to technology start-ups except those that are internally generated. Thus, the more members involved in the founding team, the more likely they can gather greater financial capital. Lee, Lee and Pennings (2001) examined the influence of internal capabilities on firm performance by using data from Korean technological start-ups. They found that internal capabilities operationalized as entrepreneurial orientation, technological capabilities and financial resources invested during the development period are important predictors of new venture performance.

From a strategic point of view, innovation focus is critical for technology ventures in emerging markets. Li (2001) argued that product innovation may contribute to new venture performance in an emerging market in two ways. First, new ventures may rely on product innovation to exploit aggressively the growth opportunities in the market. Second, new ventures can use product innovation to gain competitive advantages, thus buffering environmental threats to their survival and growth. With a sample of new technology ventures in China, Li and Atuahene-Gima (2001) found that product innovation strategy is positively related to new venture performance. Similarly, with a sample of technological start-ups in Russia, Bruton and Rubanik (2002) demonstrated that technological innovativeness can contribute to new venture growth.

Resource Dependence Theory

The basic premise of resource dependence theory (Pfeffer & Salancik, 1978), drawn from work in sociology and political science, is that organizational

behaviour can be explained by looking at the organization's context. Organizations are not internally self-sufficient because they depend on resources from external environments. Organizations are dependent on a resource environment that can impose constraints and create uncertainty. Resource dependence theory has two broad tenets (c.f. Li & Atuahene-Gima, 2001). The first tenet is that firms attempt to manage uncertainty and mitigate the effects of external forces in order to enhance their performance. The second tenet is that firms are constrained by and depend on other organizations that control critical resources for them. Thus managers make strategic choices concerning interorganizational and other external relationships in an attempt at 'altering the system of constraints and dependence confronting the organization' (Pfeffer & Salancik, 1978:267).

Resource dependence theory is particularly appropriate for research on new ventures in emerging markets because both new ventures and their context in emerging markets are characterized by lack of resources. As Hitt *et al.* (2000:451) argued, 'Given poorly developed financial markets, weak institutions for distribution of capital, and volatility in economic development, capital generally has low availability and high costs in emerging market countries.' These conditions produce a resource gap between firms in emerging markets and those in developed markets. New ventures in emerging markets are challenged with attaining and maintaining valuable, rare and inimitable resources to sustain their competitive advantages. Managers of these ventures are forced to find creative ways to secure and train human capital (Diomande, 1990).

Steensma *et al.* (2000) drew on resource dependence theory to examine small manufacturing enterprises' (SMEs) propensity to form technology alliances. They argued that, in contrast to their larger counterparts, SMEs experience resource dependence and must secure critical resources and know-how from larger, and potentially more powerful, trading partners. They found that technological uncertainty has a stronger and positive effect on SMEs' propensity to pursue technology alliances in countries with higher levels of uncertainty avoidance, such as Mexico.

Using resource dependency theory, Li and Atuahene-Gima (2001) examine the contingency effect of product innovation strategy on performance in Chinese new technology ventures. They argue that the effectiveness or ineffectiveness of product innovation strategy in China depends on the perceived environmental conditions and the relationship-based strategies adopted. Institutional support and environmental turbulence enhance the effectiveness of the ventures' product innovation strategy while strategic alliances for product development hinder the positive effect of product innovation strategy on new venture performance.

Ahlstrom and Bruton (2001) used resource dependence theory to explain how private Chinese firms build legitimacy. Organizational legitimacy implies that a firm needs to get support for its existence, goals and activities from external constituencies. In China, *guanxi*, or connections with key individuals, is useful in building legitimacy through the reciprocal obligatory relationships between individuals.

Social Capital and Network Perspectives

Social capital is the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition (Coleman, 1988). Granovetter (1985) suggests that economic actions and outcomes of firms are embedded in and influenced by their social relations with outside actors. Social capital inherent in social ties or networks enhances actors' abilities to achieve their goals. According to Coleman (1988), members of a closely knit network can trust each other to honour obligations, which diminishes the uncertainty of their exchanges and enhance their ability to cooperate in the pursuit of their interests (c.f. Gargiulo & Benassi, 2000:184). Social capital refers to the 'goodwill that is available to individuals or groups. Its source lies in the structure and content of the actor's social relations' (Adler and Kwon, 2002:23). Social ties and networks can enable firms to gain access to resources and information, facilitate the flow of knowledge among partners, and obtain external legitimacy and status (Gulati, 1998). This is particularly beneficial to young, resource-deficient firms such as new ventures. External ties can enable them to acquire resources from external sourcing, and thus increase the effectiveness of their strategies based on specialization in innovation.

While social capital and networks exist in any economies, they are especially important in emerging markets, for two major reasons. First, given institutional constraints in emerging markets, networks can act as substitutes for governmental support or legitimacy, resource access and market reputation (Xin & Pearce, 1996). Networks (such as managerial ties) in emerging markets can compensate for the lack of market-supporting institutions such as transparent laws and regulations (Peng & Heath, 1996). Second, many cultures in emerging markets emphasize the roles of networks in doing business. For example, Chinese culture uses the concept of *guanxi* to describe social networks. The terms *blat* in Russia and *chaebol* in Korea refer to the same type of social networks.

Existing work applying social capital and network theory to new ventures in emerging markets has largely centred on obtaining access to resources. Zhao and Aram (1995) argued that Chinese businesses understand the

importance of forming dependable relations. In a case study of six young Chinese firms, they found that the range and intensity of networks influenced entrepreneurial success and attainment of needed external resources. Networks may lead to legitimacy and access to capital. For example, Li and Atuahene-Gima (2002) found that Chinese new ventures' strategic alliances with foreign firms on downstream activities (that is, the adoption of agency business activities) can help these ventures acquire both financial and technological resources. Social capital also affects investment decisions of venture capitalists. Batjargal and Liu (2004) found that Chinese entrepreneurs' social capital has significant effects on investment selection decisions of venture capitalists in interaction with growth potential and technology/products of the venture. Strong ties between entrepreneurs and venture capitalists have significant direct effects on investment process decisions such as contractual covenants, investment delivery and venture valuation.

Despite the significant value of networking in new ventures in emerging markets, its limitation should also be acknowledged. Lee, Lee and Pennings (2001) examined the influence of internal capabilities (entrepreneurial orientation, technological capabilities and financial resources) and external networks (partnership-based and sponsorship-based networks) on firm performance by using data from Korean technology-based ventures. Their results show that internal capabilities are important predictors of new venture performance. Among external networks, however, only the linkages with venture capital companies were positively related to new venture performance. Indeed, Li and Atuahene-Gima (2001) found that political networking (a firm's resource allocation to cultivate relationships with government officials, banks and administrative and other regulative agencies) played no significant role in Chinese technology ventures. The reason is that transaction costs associated with building political connections attenuate benefits for new technology ventures. Political networking activities may drain the finances of the new ventures as well as hamper their efficient management. These results suggest that the value of relationship-based resources in emerging markets is declining as the market becomes more free and competitive.

PSYCHOLOGICAL THEORIES

Social psychology and social cognitive theories have also been applied in the studies of new ventures in emerging markets. Social cognitive theories illustrate how individuals characterize their external environment (Shaver & Scott, 1991). Many researchers have shown that personal characteristics of

the entrepreneurs can affect new venture outcomes although these relationships are fairly weak (McClelland, 1965; Solomon & Winslow, 1988). Supported by social psychology research (Locke & Latham, 1990), Baum, Locke and Smith (2001) suggested that personal characteristics are powerful predictors of performance when combined with the adequate competencies, motivation and strategy. As a result, cognition processes mediate the relationship between interpretation of opportunities and action. Social cognitive theories also explain how entrepreneurial potential can be tested (Krueger & Brazeal, 1994). Krueger and Brazeal (1994) use Shapero's (1982) model of the entrepreneurial event and Ajzen's (1991) theory of planned behaviour, arguing that both perceived desirability and self-efficacy are antecedents to the propensity of entrepreneurs to act or start a new venture. Cognitive processes like self-efficacy can help cope with hostile entrepreneurial environments (Luthans, Stajkovic and Ibrayeva, 2000). In a study of 168 entrepreneurs in Singapore, Lee and Tsang (2001) found that experience, networking activities, number of partners, internal locus of control and need for achievement had a positive impact on venture growth.

Other researchers have also explored the ways in which culture influences social cognitive processes such as entrepreneurial orientation. Entrepreneurial orientation (Lumpkin and Dess, 1996) consists of autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. These dimensions are internal processes that mediate the relationship between the environment and new venture entry. Entrepreneurial orientation may be specific to entrepreneurs through their context, experience, education and disposition. Lee and Peterson (2000) created the cultural model of entrepreneurship stating that a society's propensity to generate autonomous, risk taking, innovative and competitively aggressive and proactive entrepreneurs depends on the cultural foundations. Wright, Hoskisson, Busenitz and Dial (2000) showed that entrepreneurial orientation (EO) is gained not only through managerial incentives, but also through entrepreneurial mindsets. Some studies find that EO is different among the population in emerging markets. Ray (1994) found that risk is contextually determined, and entrepreneurs have higher risk taking responses than non-entrepreneurs in Singapore. Holt (1997) similarly found a great difference between values of Chinese entrepreneurs and managers of state-owned/controlled enterprises where entrepreneurs are more self-determined and independent.

METHODOLOGICAL ISSUES

In reviewing the research methodologies of the studies conducted on new ventures in emerging markets, a number of aspects were examined including

the fieldwork period, data collection methods, sample size and sampled countries.

Overall, research on new ventures in emerging markets is very limited and scattered. For the ten journals we surveyed (*ASQ*, *MS* and *JoM* were not included because they have not published any paper on this subject), there were only 43 publications during the 15-year period 1990–2004. On average, there was only 0.29 of a paper on this topic per journal per year. Except for *JBV*, the journals started to publish work on this subject in the middle of the 1990s or even in the early 2000s. For example, *ETP* had the first publication on this topic in 1995, and *OS* had the first one in 1998. *AMJ*, *AMR* and *AME* did not have their first one until 2000 and *SMJ* even started in 2001. Clearly, research on new ventures in emerging markets is at an embryonic stage and research attention to this subject is extremely limited. This is in contrast to the significant role of new ventures in these markets and their overall contributions to the global market.

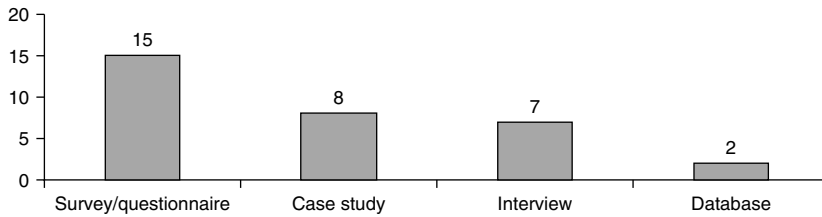
Data Collection Method

Data collection is challenging in emerging markets where governments are often very protective of their data and barriers to communication with entrepreneurs exist. For example, a recent regulation issued by the Chinese government notes that organizations or individuals from foreign countries are not allowed to conduct independently any social survey activities by themselves in China. Instead, they have to entrust a certified domestic survey institute with conducting these activities. The certification for doing foreign-related surveys will be screened and approved by the National Statistics Bureau. This regulation poses significant constraints on scholars from other countries who are interested in China-related issues. Thus collaborating with local researchers may be a key means of gaining access to data sources (Li & Atuahene-Gima, 2001). A similar point was also made by Lee and Miller (1999) in the context of Korea. Also, in emerging economies, respondents have difficulties in understanding terms and concepts familiar to those in developed markets (Hoskisson *et al.*, 2000). It is important for researchers to check and make sure that language terms are understood properly by respondents.

As shown in Table 2.2, while different data collection methods have been employed, a survey with questionnaires was the most frequently used data collection method, mainly for reasons associated with convenience and economy. Next come case studies and personal interviews, which were used more extensively for small sample sizes. The heavy reliance on surveys with questionnaires as a principle data collection method, however, despite its cost advantages, limits our in-depth understanding of the subject of

Table 2.2 Data collection methods*

Data collection type	Number of times used
Survey/questionnaire	15
Case study	8
Interview	7
Database	2



Note: * Many studies used multiple data collection methods, so this number cannot be aggregated to equal the total number of articles.

interest. Given the embryonic nature of this area, it may be important to use a personal approach (such as case studies and personal interviews) in order to gain useful insights into this interesting phenomenon. For example, the methodology proposed by Eisenhardt (1989) for theory development through case studies may be appropriate in the context of emerging markets.

Sample Size

The sample size ranged between three and 1470 firms. As shown in Table 2.3, the majority of research has sample sizes less than 100. Small sample size was largely influenced by the data collection methods available where many of the case studies and personal interviews yield small sample sizes. Small sample size may also result from a low response rate for questionnaire surveys in emerging markets. For example, in Korea, Lee, Lee and Pennings (2001) reported a response rate of 14.8 per cent. In China, Luo and Peng (1999) reported response rates of around 25 per cent from mail survey. While these response rates are not great, they are reasonable given the fact that most studies required the direct involvement of founders, CEOs or other senior executives. Indeed, in a study of new ventures conducted in the US, McDougall *et al.* (1994) had an 11 per cent response rate.

Table 2.3 Sample sizes*

Size range	Total number
1–100	15
101–200	6
201–400	2
401–600	1
601–800	0
801–1000	1
1001–1200	0
1201–1400	1
1401–1600	1

Note: * Many studies had no samples, so the total above cannot be aggregated to equal the total number of articles.

Nonetheless, small sample size may affect the validity and generalizability of previous findings. Scholars have to find creative ways of improving response rate for survey-based research. Li and Atuahene-Gima (2001, 2002) reported a response rate of over 60 per cent in China during a series of studies where they adopted a face-to-face interview method (on-site interview) for data collection in order to improve the response rate. This method of data collection is thought to be better than traditional mail surveys in emerging markets because it offers a chance for the researchers to clarify questions, and enhance the respondents' understanding of the issues under study (Li & Atuahene-Gima, 2002). Lee and Miller (1999) also noted the importance of this method for data collection in Korea even though it is costly and time consuming.

Sampled Countries

Table 2.4 shows the countries which were covered in previous research. In total, the studies covered 16 emerging markets, which is 25 per cent of the 64 emerging markets (that is, the most comprehensive list of these markets to date) identified by Hosikisson *et al.* (2000). Obviously, research on new ventures in emerging markets has not covered different markets in a relatively broad way. The studies have largely focused on several key countries, including China (9), Korea (5), Russia (4) and Singapore (4). The majority of the studies only focused on a single country, while there were very few with a focus on several emerging markets. Several others went on to compare emerging markets to the developed markets.

Table 2.4 Number of sampled countries*

Area sample	Number of samples
Asian countries	18
Africa/Middle East	2
Central and Eastern Europe	7
Latin America	1
Country	Number of samples
China	9
Korea	5
Russia	4
Singapore	4
Indonesia	2
Hungary	2
Czech Republic	1
Nigeria	1
Philippines	1
Taiwan	1
Thailand	1
Mexico	1
Belarus	1
Ukraine	1
India	1
Poland	1

Note: * Many studies sampled multiple countries.

China has been a promising area for researchers. This is not surprising given that China has more than 25 per cent of the world's population and its economic growth has been sustained at 8 per cent every year. Different from other transition economies which adopted a shock therapy, the Chinese government has carefully planned actions to move the country to a market economy while stabilizing the political base. In a recent Goldman Sachs global economics report, Wilson and Purushothaman (2003) predicted that China's economy could be larger than the US in 2041, and larger than all other countries as early as 2016. It should be noted that, with China's economic transition, entrepreneurial activities have been flourishing across the nation. In particular, stimulated by the government's preferential policies (for example, sales tax, land use and equipment importing) for high technology industries, there are 53 high technology science parks which have been established across the country since 1988. In each

science park, thousands of technology new ventures have been founded. For example, in the Zhongguancun Science Park in Beijing (founded in 1988), up to 2002, there were more than 9500 firms with 400 000 employees and industrial outputs of US\$22.8 billion. Therefore, given the growth of technology new ventures in China, there are many interesting issues which should be explored regarding how Chinese technology ventures deal with institutional voids (the situations in which institutional framework and strategic factor markets have not been underdeveloped) and survive and achieve their competitive advantages (Li & Atuahene-Gima, 2002).

While future research will probably continue in China and a few other countries, research findings based on a single country may have limited generalizability to other emerging markets. This is because emerging markets are not homogeneous and they have different starting points (Hoskisson *et al.*, 2000; Khanna & Palepu, 1997). In particular, China has its unique culture and had been controlled by centrally planned communism for many years. Findings based on the Chinese context may have difficulties in generalizing into other emerging markets such as Russia, India or Brazil. Thus comparative studies with samples from different emerging markets will help us better understand new ventures in this context, though few have been done.

INDUSTRY COVERAGE

The studies we surveyed covered a wide range of industrial sectors, ranging from technology, manufacturing, trading and retail, to services (see Table 2.5). Some 46 per cent of the empirical studies have focused on technology industries including electronics, semiconductors and technical consulting. This is consistent with the fact that many emerging markets have emphasized technology development. Technology is an important factor in aiding the growth of emerging economies. Governments from emerging markets actively search for extensive technologies transfers through joint ventures and foreign investments (Keppler & Lechner, 1997; Li & Atuahene-Gima, 2002). For example, in China, foreign investors have been offered preferential treatment (in terms of tax, land use and import/export quotas) as an incentive to establish high technology ventures within high technology science parks.

Only 19 per cent of empirical studies have focused on multiple industries, while most examined only one industrial sector. Cross-sectional studies, however, fail to consider industry-specific factors, such as different degrees of competition, marketization and cost structures, possibly resulting in bias in the overall findings. Also cross-sectional data do not reflect current

Table 2.5 Industries sampled*

Industry	Number of samples
<i>Manufacturing</i>	6
Printing	2
Food processing	1
Rubber/plastics	2
Chemicals	2
Equipment	1
Textiles	2
Publishing	1
Paint	1
Metalworking and fabrication	1
Autoparts	1
Other	4
<i>Agri-business</i>	1
<i>Venture capital</i>	3
<i>Trade</i>	2
<i>Services</i>	3
<i>Transportation</i>	1
<i>Construction</i>	2
<i>Technology</i>	12
Electronics information	2
Computer manufacturing	1
Computer software	2
Biotechnology	1
Information technology	1
Microelectronics	1
Optical mechanical and electronic products	7
New energy and new materials	1
New pharmaceutical and bioengineering	2
Semiconductor	1
Technical Consulting	1
Technology other	2
<i>Not specified</i>	4

Note: * Many studies sampled multiple industries, so the number above cannot be aggregated to equal the total number of articles.

transformations that might affect the relationships specified in previous studies. It seems that longitudinal studies better capture the dynamism of constructs. Longitudinal studies have the advantage of eliminating the possibility of reverse causality among a study's variables, an unavoidable problem associated with cross-sectional studies. Ideally, longitudinal data

Table 2.6 Statistical methods employed

Statistical method	Number of studies
Regression	11
ANOVA	2
Factor analysis	2
Cross-group analysis	1
Descriptive statistics	1
Structured equation modelling	1

collection methods should involve real-time observations (Van de Ven, 1992). In such studies, researchers record the timing of events and their characteristics as the decision processes evolve and unfold over time.

STATISTICAL ANALYSES

Of 43 publications, 18 are descriptive, 19 are empirical and six are purely theoretical. Statistical analysis carried out in the empirical papers was relatively simple. Eleven studies used regression analysis and two studies used ANOVA and factor analysis. More advanced techniques such as structured equation modelling have rarely been used (only in one study). There were no longitudinal studies on new ventures in emerging markets (see Table 2.6).

FUTURE DIRECTIONS AND CONCLUSION

The purpose of this chapter was to review comprehensively the development of research on new ventures in emerging markets during the period 1990–2004. This is an emerging area which has attracted increasing attention from both researchers and practitioners because of the crucial role that these new ventures can play in their domestic and global markets. This research makes several contributions to our knowledge of new ventures as well as emerging markets. First, we reviewed the major theoretical perspectives adopted by researchers during this period. Consistent with Hoskisson *et al.* (2000), our review shows the prominence of institutional theory and the resource-based view in research on new ventures in emerging markets. We also found that theories such as social capital and networking perspective and resource dependence theory play an important role in research on this area. Second, we explored in detail the methodological aspects of the

studies on new ventures in emerging markets. Overall, many of the studies are exploratory, with small sample size and the use of unsophisticated statistical analyses. Also data collection mainly relied on surveys with questions and a descriptive case study. Many studies focused on a few key emerging markets, including China and Korea. This is understandable, however, in view of the tremendous physical, cultural, financial, and other difficulties encountered by researchers who are interested in new ventures in emerging markets. Third, our review showed that research on new ventures in emerging markets is very limited and sporadic. We still cannot draw any conclusions about the behaviour of new ventures in emerging markets from these studies. The findings are tentative at best, since most of them are based on one study.

There are several fertile avenues for future research. First, while previous studies have adopted several theoretical perspectives in studying new ventures in emerging markets, there are other theories which have not been paid enough attention. For example, organizational learning describes an organization's ability to experiment, improve and increase its capability, which is a critical source of competitive advantage. Because of the lack of resources and technical capabilities in emerging markets, many new ventures use alliances, joint ventures and partnerships to learn (Hitt *et al.*, 2000; Li & Atuahene-Gima, 2002). Thus more research in the future should focus on how new ventures in emerging markets learn to develop their competitive advantages and what different mechanisms these ventures follow in learning compared to their counterparts in developed markets. Also the integration of different theories is needed in future research. While a transaction cost economics perspective (including agency theory) has not been widely adopted in studies of new ventures in emerging markets, we believe that it represents an important theoretical element in our understanding of this important phenomenon. As Hoskisson *et al.* (2000:254) have noted, 'Because transaction cost economics has been primarily applied to developed market economies characterized by strong legal regimes and binding social norms, less is known about governance structures in emerging economies.' With the process of marketization and privatization in emerging markets, many new ventures face the problems of governance. For example, ownership ambiguity has become a critical factor which prohibits the growth of new technology ventures in China. Thus it is important for future researchers to investigate how new ventures deal with transaction costs and principal-agent problems under uncertain and hostile environments in emerging markets.

Most work has concentrated on applying traditional theories to the domain of emerging market entrepreneurship, yet there has been no overarching theory. McDougall and Oviatt (2000) also acknowledge this as

a problem characteristic of the international entrepreneurship field. The remaining question is whether a truly unifying theory and framework can be created even though emerging markets are so distinct. Clearly, more work should be done on theory development for new ventures in emerging markets.

Our review has revealed that, if the dynamic character of new ventures in emerging markets is to be understood, more longitudinal studies are required. Since longitudinal data collection methods are more costly and time consuming, collaborative projects across national boundaries can be an important means of improving the studies on new ventures in emerging markets. Also, combining quantitative and qualitative data in emerging market research can be particularly useful in yielding novel, relevant and reliable insights (Hoskisson *et al.*, 2000:257) and the use of more advanced statistical tools will contribute toward more rigorous research efforts. In addition, future research should have a more cross-cultural orientation and hitherto neglected emerging markets should be studied.

Finally, as discussed earlier, the studies on new ventures in emerging markets have largely focused on a number of key countries, including China, Korea, Singapore and former Central and Eastern European countries. It should be noted that there are around 64 emerging economies identified in the literature and many other countries have not gained enough research attention. Thus there is a strong need for considerably broadening the research agenda to embrace developments in these countries. Also emerging markets cover a broad group of countries that continue to experience often substantial and different institutional changes. For example, emerging markets with institutional transitions in China, Russia and Eastern Europe are different from other emerging market such as India and Brazil. Even among transition economies, they are significantly different in terms of their economic transition approaches (for example, radical versus gradual transition). In future research, the role of institutions and cultural factors should be incorporated in the examination of new ventures in emerging markets. Researchers may wish to partner with others to gain access to other countries and industries, and to aid in comparative research studies.

Finally, many of the studies made conclusions from small sample sizes. Further research should enhance generalizability through using larger samples from more varied industries. Multiple data sources and teaming with other scholars may be a way to enhance generalizability of findings. The future for research in emerging markets is still quite unclear, but promises to be a fertile ground for study.

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