Editorial

Hamid Etemad

Published online: 27 November 2013
© Springer Science+Business Media New York 2013

Volume 11, Issue No. 4

The common theme underlying the four articles included in this issue is the influence of institutional environment on internationalization of smaller entrepreneurial firms and on international entrepreneurship in general.

In the first article, entitled: “The importance of industry context for new ventures internationalization: a case study from life sciences”, Helene Laurell, Svante Anderson, and Leona Achtenhagen argue that the regulatory pillar of the institutional environment in the life, biological, or biomedical sciences, which includes medical technologies, pharmaceuticals, and biotechnology sectors (called biological sciences, hereafter), play a very influential role in the internationalization processes of entrepreneurially oriented smaller firms in the industry. Biological sciences in general, and pharmaceuticals in particular, are members of a competitive global industry requiring them to be at the forefronts of industry trends and scientific developments worldwide; and at the same time, need to be active partner in the national health-care systems that are regulated to different degrees in different national regions. These regulatory requirements influence the internationalization of biological firm and set them somewhat apart from others.

Smaller firms in biological sciences represent typical examples of born globals, international new ventures and rapidly internationalizing enterprises. They are generally characterized by (1) the high initial R&D expenditures to create innovative products and services (P&S) that readily have potential demand in the global markets; (2) their products and services are knowledge- and high-technology-intensive and also time-sensitive; (3) their products and technological services are not culturally sensitive to need much time-consuming adaptation to the local cultures to be accepted and used locally. However, they need to be approved and adopted by the national health-care institutions for use in a timely fashion; (4) their high R&D costs need to be amortized relatively quickly due to the decaying nature of their knowledge-intensive P&S combined with the resource constraints of the smaller firms, especially for those in the earlier stages of their life cycle; (5) they face much larger liabilities of “newness”, “foreignness”, and “outsidership” than others at home and abroad, mainly due to the sensitive nature of health-care industry, which translates into substantive uncertainties

H. Etemad (✉)
McGill University, Montreal, Canada
e-mail: hamid.etemad@mcgill.ca

for internationalizing firms in the industry, that they need to resolve in order survive and grow nationally and internationally.

A combination of the above characteristics, complexities, and requirements dictate a particular path of internationalization, which may need active local presence to deal with the local regulations and institutional requirements of the local and national health-care systems. The paper's in-depth case study of a young firm identifies the diverse requirements of internationalization in the biological industry. The authors report theoretical support for their findings in the received literature, including a complex and diverse regulatory requirement that give rise to a regulatory distance between the home and the host country institutions. Dealing with such regulatory distances requires not only the knowledge of the local market behavior; but also the knowledge of regulatory requirements at the local and national health-care systems and institutions to which a small biological firm need to adapt.

In the second article, entitled "The institutional environment for international entrepreneurship in Russia: reflections on growth decisions and performance in SMEs", Daria Volchek, Ari Tantunen, and Sami Saarenketo examine the impact of the institutional distance between the domestic and international settings on the firm's innovative and internationalization strategies. They suggest that the interrelations among the external institutional distance in terms of the three institutional pillars—cognitive, normative, and regulatory—and the firm's internal innovative capabilities impact its consequent decision regarding the firm's choice of growth strategies. This article's research on a sample of 188 innovative Russian SMEs points to evolving strategies and evolutionary path of growth based on ongoing learning process that accumulates knowledge and experience to augment the firm's environmental assessment for potent strategy formulation over time (although not explicitly stated in the paper). The firm's evolving decisions also appear to be initially based on the firm's innovative capabilities and internal assessment of its internationalization propensities in relation to its perception of the cognitive and normative pillars of the institutional environments facing it; while the actual performance and growth outcomes (after some elapsed time from the decision point) appear to have been influenced by the society's favorable attitude towards international entrepreneurship and the normative and regulatory pillars of the institutional environment. The article's methodical review of the literature and formulation of eight hypotheses not only portray a clear picture of the interactive complexities amongst the domestic and international institutional settings as well as the firm's entrepreneurial and internal dynamics, but also it demonstrates the evolving impact of these forces on the firms' innovative and internationalization strategies. The findings of the paper and the discussion of the results further explore implication for innovation-based and international growth-based strategies in transitional economies such as that of Russia.

In the third article, entitled: "Spending allocation and entrepreneurship", Mihai Nica analyzes a recently released World Bank panel database to examine the impact of national governments' public sector spending on entrepreneurial activities. From a cross-country perspective on institutional environments, this is both a relevant and interesting paper for it examines the potential influence of the government spending in changing the country's operational environment in the shorter term and the institutional environment in the longer term across a set of diverse country environments, however small and gradual, overtime. Based on the literature review of relevant studies, the

author uses several measures of spending and entrepreneurial activities in a few alternative econometric models with control variables to test the nature of public spending's impact on the environment, which in turn influences entrepreneurial activities. The main finding of this article is that entrepreneurial activities are negatively related to government spending. These results remain robust across alternative models, including the reduced models. The author reports that these results are in line with previous studies that revealed negative and significant relationship between government size and intervention and the level of entrepreneurial activities. The implication of this paper's findings is that large public sectors tend to have an overcrowding effect with adverse impact on entrepreneurial activities, including innovation that has been the traditional force enabling entrepreneurial activities. From an entrepreneurial perspective, any unfavorable incipient or emerging trend motivating government intervention is not conducive to increasing the level of activities that face inherently elevated risks without unfavorable operational or institutional conditions. Entrepreneurial activities cannot be an exception.

In the fourth paper, entitled: "Dynamic experimental internationalization: strategy of SMEs from a transition economy", Mai Thi Thanh Thai and Li Choy Chong examine the internationalization process of SMEs based in Vietnam, which is undergoing institutional and structural change. The paper's Straussian-grounded theory methodology provides for a comprehensive understanding of the 31 in-depth case studies of internationalizing SMEs in Vietnam and enables the authors to suggest a dynamic model of experimental internationalization applicable to rapidly changing institutional environments such as that of Vietnam. Mainly based on the knowledge-based theory of internationalization, the paper suggests that managerial decisions in rapidly changing environments, particularly internationalization decisions, are influenced mainly by decision makers' set of current experiences and knowledge as opposed to the accumulated knowledge of the past that may have already become outdated and irrelevant due to rapid environmental and institutional change. This suggests a wide and changing knowledge discrepancy, if not inconsistency, between the firms' prevailing current domestic experiential knowledge and the required knowledge for successful international operations for the SMEs in such transitional economies. This knowledge gap, if not the perception of inconsistency or uncertainty, is comparable to the managers' feeling of large "psychic distance" suggested by the older process or stage theories of internationalization and the more recent "institutional distance" proposed by the institutional theory. In both cases, the end result is a feeling of uncertainty and managerial unease that inhibits rapid and resolute internationalization. The rapid change in Vietnam's domestic environment seems to be dictating a continuous re-examination and revision of Vietnamese firms' growth, if not survival, objectives. In turn, these conditions are not conducive to the pursuit of a methodically formulated internationalization strategies and their steady implementation in international markets overtime. In light of the changing institutional distance and associated higher real or perceived uncertainties, the paper's finding that Vietnamese firms conduct multiple internationalization experiments in order to optimize the likelihood of achieving their changing objectives is understandable; although their internationalization strategies appear to be domestically centered.

In summary, the common underlying theme of the four papers included in this issue is the direct and indirect impact of institutional and structural environment on

entrepreneurial activities, including those related to entrepreneurial internationalization. Internationalization will necessarily involve multiple country environments with diverse similarities and differences. Logically, similarities, or even expected convergences, at the entrepreneurial, firm, industry, and operational levels across country environments may give rise to entrepreneurial opportunities and encourage increased international entrepreneurial activities; while widening difference, increasing distance (real or perceived) and expected divergence in the operational and institutional environments are bound to give rise to the feeling of higher uncertainties and adversely impact international entrepreneurial activities. However, empirical testing must verify the direction, magnitude, and nature of the potential or real impact. Therefore, we call on the scholarly community to further elaborate on and clarify the impact of institutional environment on the international entrepreneurial activities. Furthermore, we encourage scholarly activities that meet such theoretical challenges.