



Transnational diaspora entrepreneurship in emerging markets: Bridging institutional divides

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ABSTRACT

Transnational diasporan entrepreneurs are migrants and their descendants who establish entrepreneurial activities that span the national business environments of their countries of origin and countries of residence. We explore how business incubators contribute to the economic development of emerging markets by organizing their programs to bridge the institutional divides that transnational diaspora entrepreneurs face when establishing their multi-territorial ventures in these markets. Drawing on qualitative fieldwork conducted in the Netherlands during 2007, we present the case study of IntEnt, an incubator providing services exclusively to transnational diasporan entrepreneurs. We apply Bergek and Norman's (2008) assessment framework to this case, examining IntEnt's goals, model (selection, business support, and mediation activities), and outcomes. Employing Eisenhardt's case-based theory development approach (1989), we then leverage case findings to generate theory about the institutional challenges faced by transnational diaspora entrepreneurs and the role that incubators can play in helping these entrepreneurs overcome these challenges.

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1. Introduction

Institutions provide the foundation for long-run national economic performance by structuring incentives in human exchange and interaction (North, 1990). Many emerging market economies suffer from institutional voids, due to a lack of specialized intermediaries whose actions typically serve to reduce transaction costs and encourage interaction between potential buyers and sellers. Institutional voids underpin many of the structural challenges in emerging markets and often make it challenging for firms to succeed in these environments (Khanna and Palepu, 2010). How institutions affect business strategy, operations, and firm performance is an increasing concern of international management research (Ricart et al., 2004).

Institutional voids in emerging markets often serve as “push factors,” encouraging and, in some cases, forcing individuals to leave their country of origin (COO) to seek refuge and opportunity in distant lands (Massey, 1998). Migrants in today's globalized world often leverage developments in transportation and communication technologies to connect with their COOs in ways that were unimaginable in the past. These advancements have fostered the development of diasporas, or “social–political formations... whose members regard themselves as of the same ethno-national origin... who maintain regular or occasional contacts with what they regard as their homelands and with individuals and groups of the same background” (Sheffer, 2006:10).

As Ramamurti (2004) and others (e.g., Buckley et al., 2002; Huang and Khanna, 2003) have noted, diaspora entrepreneurs are an important subset of foreign investors in many emerging markets. Diaspora entrepreneurs are often motivated to invest in their

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COO for more than just pecuniary reasons; they may view their investments as a way to contribute to the economic development and stability of their COO, to provide friends and family back home with economic opportunity, and/or to enhance their social standing in the COO and/or their diaspora community (Nielsen and Riddle, 2009). Targeting diasporan investment and entrepreneurship has been identified as a “creative foreign investment strategy” for many nations (Gillespie et al., 1999). Many emerging markets have established policies and marketing programs to attract investment capital from their diasporans abroad (Riddle and Marano, 2008; Riddle et al., 2008).

While some diaspora entrepreneurs permanently repatriate to their COO, many more “migrate circularly,” or return regularly to the COO physically and virtually through social networking sites, electronic bulletin boards, and other online venues (Teferra, 2004). These circular migrants often establish a business with operations that exist simultaneously in both the diasporan’s COO and country of residence (COR) and travel between operational locations. Transnational entrepreneurs are believed to be a distinct type of international entrepreneur in that their entrepreneurial activities span national business environments—often concurrently (Drori et al., 2006). Transnational diaspora entrepreneurship has been described as a “social realm of immigrants operating in complex, cross-national domains, with dual cultural, institutional, and economic features that facilitate various entrepreneurial strategies” (Drori et al., p. 1).

Transnational diaspora entrepreneurship can generate opportunities for diasporans and the societies in which they operate, serving as an example of “making globalization good” (Dunning, 2005). Transnational diasporan entrepreneurs—and the ideas, resources, and employment opportunities they bring—also can exact a profound impact on the economic and social development of their home countries (Kuznetsov, 2006; Sørensen, 2007).

Yet, transnational diaspora entrepreneurship often is fraught with many difficulties. Transnational diasporan entrepreneurs often must navigate between starkly different institutional and business environments, particularly when the COO is an emerging market and the COR is a developed country. While starting any new venture is challenging, simultaneously establishing and running operations in two locations is even more time consuming, exhausting, and risky for the entrepreneur. If the diasporan has lived outside the COO for a long time and only visits the COO occasionally, she may face steep learning curves in terms of understanding how to successfully do business in the COO. Some transnational diasporan entrepreneurs charge a family member or friend with the day-to-day operations of their organization in the country of origin, maintaining some degree of organizational control from afar. Thus, the transnational command, control, and communication challenges that transnational diasporan entrepreneurs encounter are similar to those faced by multinational enterprises. Yet, the burden of transnational operations for an individual transnational diasporan entrepreneur may be quite heavy and lead to firm performance problems or eventual divestiture.

Business incubators are institutions that help entrepreneurs overcome the financial, human, and social capital impediments that they face during the “hatching” phase of business creation, thereby overcoming market failures that create a “liability of newness” for nascent firms (Bøllingtoft and Ulhøi, 2005: 284). In this paper, we explore how transnational business incubators contribute to the economic development of migration-sending countries by organizing their programs to bridge the institutional divides that transnational diaspora entrepreneurs face when establishing their multi-territorial ventures in these markets. Drawing on qualitative fieldwork conducted in the Netherlands during 2007, we present the case study of IntEnt, an incubator providing services exclusively to transnational diasporan entrepreneurs. We apply Bergek and Norrman’s (2008) assessment framework to this case, examining IntEnt’s goals, model (selection, business support, and mediation activities), and outcomes. Employing Eisenhardt’s case-based theory development approach (1989), we then leverage case findings to generate theory about the institutional challenges faced by transnational diaspora entrepreneurs and the role that incubators can play in helping these entrepreneurs overcome these challenges in emerging markets.

This paper is organized as follows. First, we briefly review the extant literature regarding diaspora entrepreneurship and business incubation. Then, after describing the methods employed in our study, we detail IntEnt’s specific goals, model, and outcomes. We then explore how IntEnt’s activities help its transnational diaspora entrepreneur clients overcome the specific institutional challenges that they face as they seek to establish new ventures in their countries of origin.

2. Literature review

2.1. Diaspora entrepreneurship

Cross-border economic interactions between diaspora communities and their homelands have attracted scholarly attention in the social sciences. For example, research in anthropology, economics, and sociology has investigated the magnitude and impact of remittances sent from diaspora members to their families in the homeland (Cohen, 2005). The relationship between diaspora networks and international trade has been explored extensively in economics (e.g., Gould, 1994; Mundra, 2005). Diasporas have been credited with facilitating international commerce (Cohen, 1997). A World Bank study of US foreign direct investment (FDI) abroad finds empirical evidence to support the proposition that diasporas’ ethnic networks affect foreign direct investment by promoting information flows across international borders and serve as contract-enforcement mechanisms (Javorcik et al., 2006). Diaspora involvement in homeland philanthropy has also been examined (e.g., Brinkerhoff, 2009).

Diaspora entrepreneurship has played an important role in many emerging markets. Huang and Khanna (2003: 81) have observed, “with the help of the diaspora, China has won the race to be the world’s factory. With the help of the diaspora, India could be the world’s technology lab.” Between 1979 and 1995, investment by the Chinese diaspora accounted for 80% of total

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