Demand and supply side perspective of entrepreneurial action in emerging economies

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Abstract

Entrepreneurial action in emerging economies is viewed in this paper as differing from that of developed economies from the demand as well as supply side. We use prior conceptualizations of environmental uncertainty faced by entrepreneurs, the entrepreneurial process theory of effectuation, and social capital to propose where these differences arise, how these differences affect entrepreneurial resources and actions, and which type of resources are more likely to be valuable in emerging economies. In addition, within emerging economies, we develop testable propositions of which type of entrepreneurial resources are more likely to lead to entrepreneurial success.
1. Introduction

Emerging economies (EE) are developing countries/regions with a large proportion of population belonging to the low-middle per capita income group that are beginning to “emerge” in the global marketplace with economic reforms and open markets similar to the markets in the developed economies (DE). The impetus for economic reforms comes from the notion that these reforms spur entrepreneurial activity in EE, which in turn leads to widespread economic development. Economic reforms in EE are resulting in a gradual transfer of ownership of the means of production from state owned enterprises (a typical characteristic of EE) through privatization and encouragement of entrepreneurial activity (Zahra et al., 2000). At the same time, the EE context is viewed as unfriendly to entrepreneurs with huge barriers to innovative activity. The main arguments with regard to the challenges faced by entrepreneurs are based on the relative instability in the economic, social, and political systems in EE (McMillan & Woodruff, 2002), resulting from the fundamental transformation of existing institutions and emergence of new institutions that foster entrepreneurial activity (Ahlstrom & Bruton, 2006).

First, at the firm level of analysis, research in the area of entrepreneurship is focused on the unique challenges that entrepreneurial firms face in the EE context (Peng, 2003). Researchers suggest that EE context is characterized by institutional rigidity, lack of complementary resources, lack of formal institutions etc. to explain the low levels of entrepreneurial activity (Dana, 1987; Reynolds, Storey, & Westhead, 1994). The challenges faced by entrepreneurs are viewed from a DE lens. In other words, evidence of entrepreneurial activity is usually measured in terms of new venture creation, ease of
entry into the EE markets, and ease of survival and success in the EE markets. It is not uncommon for literature to stylize the EE context and suggest that EE are transitioning to the DE, and over time, the nature of economic organization in EE will follow a certain path eventually evolving into the existing models of enterprises prevalent in DE. As a result, literature on this subject appears to paint the basic characteristics of EE themselves as limiting for entrepreneurial activity. For instance, EE are not wealthy in the first place and especially relative to DE. Yet, some researchers suggest that lack of credit and lack of venture capital as important factors limiting entrepreneurial activity (McMillan & Woodruff, 2002).

Second, the lack of entrepreneurial activity is attributed to the lack of entrepreneurial traits due to unique cultural and social norms in EE (e.g. Kim, 2006). This view was promoted by the Weberian thesis that while the “protestant ethic” encouraged economic development, in other cultures, the social and religious factors were antithetical to accumulation of capital and thus inhibited economic growth (Weber, 1935). Since then research in the psychological traits of individuals found significance differences in widely accepted traits such as “need for achievement” (McClelland, 1961), with individuals in developing countries (Latin America) measuring significantly lower in achievement orientation than individuals in developed economies.

In this paper, we elaborate on the theory of entrepreneurial action in emerging economies. In doing so, we attempt to show how entrepreneurial action in EE may be meaningfully distinct from that of DE. We view entrepreneurial action in EE as differing from that of DE from the demand as well as supply side. Demand side aspects include
social capital (i.e. what the entrepreneurs possess and develop to create opportunities). We use prior conceptualizations of environmental uncertainty faced by entrepreneurs (albeit refined to suit the EE context), the entrepreneurial process theory of effectuation, and social capital to propose where these differences arise, how these differences affect entrepreneurial resources and actions, and which type of resources are more likely to be valuable in emerging economies. In addition, within emerging economies, we develop testable propositions of which type of entrepreneurial resources are more likely to lead to entrepreneurial success.

2. Opportunities, perceived uncertainty, and entrepreneurial action

Entrepreneurial actions are primarily concerned with creation, exploration and exploitation of opportunities (Venkataraman, 1997; Shane & Venkataraman, 2000). Lack of information with respect to the supply and demand conditions is the underlying reasons for the existence and creation of entrepreneurial opportunities (Buchanan & Vanberg, 1991; Sarasvathy, 2002). Information that may be available is subjective, dispersed and constantly changing all of which create an information asymmetry between actors (Hayek, 1945; Dew, Velamuri, & Venkataraman, 2004). Because individuals do not have the same degree of information available to them, there exists perceived uncertainty about the environment (Milliken, 1987). Milliken (1987), proposes three types of perceived uncertainty that arise due to lack of information about the a) the state of the environment (state uncertainty), about the effects of the environment on the organization (effect uncertainty) and, c) about the possible response and the consequences of a response by the individual (response uncertainty).
Shane and Venkataraman (2000) suggest that opportunities are part of an objective reality and entrepreneurial action is concerned with discovery, evaluation and exploitation of such opportunities. McMullen & Shepherd (2006) refer to such opportunities as third person opportunities: “opportunities for someone in the marketplace”. The notion of opportunities that are out there to be exploited suggests that there is a degree of uncertainty attached in an individual’s ability to discover such objective phenomena. Therefore, discovery of opportunities entails making an accurate assessment of the objective reality, which will occur if the individual does not perceive high amount of state uncertainty or effect uncertainty. In other words, entrepreneurial alertness is a result of less perceived state uncertainty. Similarly, entrepreneurial knowledge and beliefs about what they can do about an opportunity that has been discovered is an outcome of less perceived effect uncertainty. This implies that in order to recognize third person opportunities, entrepreneurs need to resolve (reduce) state and effect uncertainties. As McMullen & Shepherd (2006) point out that depending on the level of uncertainty faced by a prospective entrepreneur, action is prevented by creating doubt in entrepreneurs’ beliefs regarding opportunities. Opportunities are recognized when entrepreneurs possess domain-specific knowledge that allows them to perceive response uncertainty. The question how entrepreneurs resolve uncertainty will in turn depend on their motivation and their willingness to bear uncertainty or risk to exploit opportunities (McMullen & Shepherd, 2006).

Effectuation theory suggests that entrepreneurs face true uncertainty in the Knightian sense and resolve uncertainty to discover opportunities using effectual logic (Sarasvathy, 2001). First, true uncertainty exists due to the unknown nature of
distribution of outcomes making the future unpredictable (Knight, 1921). In discussing true uncertainty, Shackle (1979) suggested the term “unknowledge”. Unknowledge behind individual choice implies that individuals (entrepreneurs) imagine the future possibilities to select from, instead of choosing from a known list of outcomes with known possibilities of occurrence (probability distribution). Therefore, in the face of true uncertainty, entrepreneurs are not concerned with predicting the future outcomes or the decisions that they will make in the future as dispersed knowledge among actors leads to uncertainty in the form of heterogeneous expectations that are constantly revised over time (Sarasvathy, 2001; Dew et al. 2004). Effectuation as a framework of entrepreneurial process suggests that actors start with limited means, make decisions that enable them to discover contingencies and exploit those contingencies to make choices regarding the effects that become apparent because of their actions (Sarasvathy, 2001). As entrepreneurs are not clear about the outcome of the idea they are pursuing, they do not start with a fixed effect, instead they develop their vision gradually. An application of effectuation theory helps separate out the real versus spurious constraints that exist in EE. While institutional and infrastructural bottlenecks are usually cited as constraints on entrepreneurial activity in EE, it can easily be argued that these in turn offer new opportunities (distinct from or similar to those that may exist in DE) to offer new services resolving these contingencies for other entrepreneurs. For instance, a lack of roads may be a constraint for starting a courier service for documents, it may provide an opportunity to offer services based on “runners” or bikers (akin to bike messenger services that exist in the most crowded cities of the world, including New York).
Overall, entrepreneurial action is concerned with creation of opportunities. Contextual differences such as the nature of uncertainty faced by entrepreneurs may lead to differences in entrepreneurial action including creation of entrepreneurial resources. Entrepreneurial uncertainty is about not knowing which contingency to exploit and which option to use. In the next section, we separate the demand and supply side of entrepreneurship in emerging economies to elaborate the distinctions in the nature of uncertainty in EE and the manner in which EE entrepreneurs creating opportunities by leveraging existing entrepreneurial resources and creating entrepreneurial resources.

3. Demand and supply side of entrepreneurship in emerging economies

We refer to demand side factors as those aspects that are *exogenous* to potential entrepreneurs such as environmental uncertainty and institutional infrastructure. Supply side factors are those aspects that are *endogenous* to entrepreneurs, the elements that entrepreneurs bring to the table, such as who they are, who they know, what they know and the reasoning process they employ to create opportunities. Creation of opportunities and exploiting opportunities will require resolving perceived uncertainty (Milliken’s *state* and *effect* uncertainty) through entrepreneurial action. Entrepreneurial action is contingent on the extent to which potential entrepreneurs resolve their perception of *response* uncertainty (Milliken, 1987).

Entrepreneurs use resources at their command and create new resources required (supply side) to resolve uncertainty (supply side) to discover, create, and exploit opportunities. First, we elaborate on the nature of uncertainty that entrepreneurs face in EE. Second, we discuss the nature of givens available to entrepreneurs (individual
capital), and how they expand their given by leveraging the social capital built by the
entrepreneurs, with specific focus on the bonding, bridging and linking elements of social
capital. Finally, we present conceptual arguments with regard to the entrepreneurial
outcomes resulting from uncertainty resolution (meeting demand and supply side of the
entrepreneurial equation) by entrepreneurs in emerging economies.

3.1. Nature of uncertainty in emerging economies - Demand side

In emerging economies, there are numerous contributing factors to Milliken’s
state and effect uncertainty. The absence of knowledge regarding what is happening out
there in the environment (state uncertainty) and lack of knowledge of the effects of the
environment (effect uncertainty) may result in an inability to recognize the existence of
opportunities, let alone acting upon them. For instance, empirical studies found that
unstable economic conditions (e.g. higher inflation, currency stability etc.) inhibit
entrepreneurial activity measured in terms founding rates of new corporations (McMillan
& Woodruff, 2002).

We suggest that in EE the nature of uncertainty is far more complex as a potential
entrepreneur needs to have prior domain-specific knowledge or gather domain specific
knowledge. The domain in question in an EE has multiple layers that an entrepreneur has
to deal with. In addition to the multiple layers within a domain, entrepreneurs also need
to gather information about the numerous domains that are related or linked. In addition
to resolving the uncertainties emerging from multiple domains immediately affecting the
evolving entrepreneurial opportunity, an entrepreneur in an EE economy also has to
resolve the second order uncertainties that arise from domains linked to the immediate
domains. The direct effect of this multiple domains, and layering, is the masking of entrepreneurial opportunities. It takes a more creative, persistent, and resolute entrepreneur to be able to create and resolve these contingencies, which shrinks the population of entrepreneurs.

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An illustration is in order to understand the complexity of the levels of uncertainty faced by entrepreneurs in EE. Let us consider an entrepreneur in an EE who wants to pursue her initial vision of an enterprise that is based on her knowledge in leather technology and its application in fashion garments. Let us suppose that she wishes, as a first step, to use this knowledge to export leather apparel to international markets. In order to create this opportunity she has to be knowledgeable or have access to information such as a) What are the changes in governmental regulations with regard to exporting?, b. What influences these changes? (second order layer); a. What are the legal arrangements needed? Such as permit etc., b. How are these legal arrangements arrived at (second order layer)?; a. How can she get access to labor?, b. How to increase/scale up the labor supply? (second order layer)

Entrepreneurs in EE may therefore be compelled to address uncertainty that has a far more complex texture than the uncertainty in DE. The complexity of the nature of environment is a result of the number of different domains that a potential entrepreneur
needs to monitor. Familiarity in one domain may not be sufficient to resolve uncertainty in EE. Entrepreneurs need to be familiar with a number of sectors in multiple domains that are linked with each other. Whereas in a DE, entrepreneurs need to expend effort to resolve uncertainty in a specific domain because there are established institutions and markets that provide reliable information with regard to the linkages between multiple domains, thereby reducing the level of uncertainty related to the effects of the change in the environment.

In DE, the nature of changes in the environment can be understood and thus experience less perceived uncertainty, with a broad-based knowledge of all the domains relevant to the change in the environment. In EE, entrepreneurs may need to piece together information from a greater number of domains than the entrepreneurs in DE. In DE, for instance, many of the institutional arrangements (political, legal, business practices and standards) are already in place. The entrepreneurs in DE takes these for granted and do not incur any costs to obtain the benefits from the existing institutions. Whereas in EE these institutions are in either transition or non-existent, which in turn results in a higher level of uncertainty and consequently eclipse the possibility of opportunity discovery.

*Proposition 1:* Compared to entrepreneurs in DE, entrepreneurs in EE experience a higher level of perceived uncertainty (state and effect). Consequently, EE entrepreneurs recognize fewer opportunities than their DE counterparts.

**3.2. Process view of entrepreneurial action in emerging economies - Supply side**
In addition to the demand side, i.e. factors that are exogenous to the entrepreneurs, we suggest that the supply side factors that are endogenous to entrepreneurs are qualitatively different in emerging economies. Our arguments in this section are primarily based on what the entrepreneur brings to the process of acting on opportunities and creating new opportunities.

3.2.1. Levels of aspirations amongst entrepreneurs in EE (Supply side argument)

Opportunity recognition is predicated upon prior knowledge in the relevant domain (as opposed to ignorance) and on the motivation of the potential entrepreneur (McMullen & Shepherd, 2006). Motivation is defined as the individual’s personal strategy involving the “pattern of decisions in the acquisition, retention, and utilization of information that serves to meet certain objectives (Bruner, Goodnow, & Austin, 1956: p54, Cited in McMullen & Shepherd, 2006). In other words, the motivation simply refers to the desire or aspiration of the entrepreneur reflected in the manner in which the entrepreneur acquires and utilizes relevant information to recognize an opportunity. Thus, the aspiration levels in combination of prior knowledge will determine if a potential entrepreneur will be able to recognize opportunities. Opportunities become apparent to highly aspiring and knowledgeable entrepreneurs.

In addition to the requirement of resolving contingencies in multiple domains, cultural factors place constraints on entrepreneurial aspirations. For instance societal attitude towards aspiring entrepreneurs may not be favorable (Gnyawali & Fogel, 1994). Although, it has been argued that entrepreneurial drive is a result of certain degree of non-conformist attitude on part of individuals (Kirton, 1976; Rosenfeld et al., 1993), lack
of social support in the form of favorable social recognition towards entrepreneurs combined with lack of freedom due to suppressive political institutions (Clark & Lee, 2006), is likely to curb enthusiasm, motivation, or aspiration to be an entrepreneur.

**Proposition 2:** Levels of entrepreneurial aspirations are likely to be lower in EE compared to that of DE. Consequently, fewer opportunities are discovered by potential entrepreneurs in EE.

While our proposition above may fly in the face of anecdotal and empirical evidence of entrepreneurial activity in emerging economies such as India and China (Kao, Kao, & Kao, 2002), we emphasize its relative nature. Our argument is based on entrepreneurial aspirations in EE relative to those of DE, as well as, at a macro level, the proportion of population with entrepreneurial aspirations at any comparable level. We would not dispute the notion that these aspirations are rising rapidly in EE, which is what the empirical research in this area is capturing.

McMullen and Shepherd (2006) suggest that for entrepreneurial action to occur, entrepreneurs need to act upon recognized opportunities (third-person opportunities) through the process of evaluation and assessment. The argument that the authors make is that third-person opportunities do not necessarily translate into recognition of a first-person opportunity, necessary for entrepreneurial action to take place, because “whether one will engage in a particular action is a decision that depends on whether the individual is motivated enough to act, given the uncertainty he or she expects to encounter in pursuit of a third-person opportunity (p. 141).”
The nature of uncertainty associated with the decision to act upon a third-person opportunity is the third type of uncertainty suggested by Milliken (1987) - response uncertainty. Entrepreneurs are constrained from action when they are not sure of the options available to them and also when they are unable to “predict the likely consequences of their response choice” (Milliken, 1987, p137).

*Proposition 3:* EE entrepreneurs experience a higher level of perceived response uncertainty than their DE counterparts do; consequently, EE experience higher barriers to entrepreneurial action.

### 3.3. Process elements of entrepreneurial action in EE (Supply side)

In this section, we expand McMullen & Shepherd’s conceptual framework of entrepreneurial action, i.e. the realization of first-person opportunities to explain the barriers to first-person opportunities in emerging economies. We use the framework of effectual reasoning process proposed by Sarasvathy (2001) to develop arguments regarding the distinctive nature of entrepreneurial action in EE. Effectuation as a framework of entrepreneurial process suggests that actors start with limited means, make decisions that enable them to discover contingencies and exploit those contingencies to make choices regarding the effects that become apparent as a result of their actions. As entrepreneurs are not clear about the outcome of the idea they are pursuing, they do not start with a fixed effect, instead they develop their vision gradually. In this section, we conceptualize the *givens* available to the entrepreneur and the manner in which entrepreneurs access resources and leverage such resources embedded in social structures.
in terms of the various components of social capital. We then develop conceptual arguments with respect to the distinctions between entrepreneurs in DE and EE and suggest how entrepreneurs in EE build social capital to resolve uncertainty and exploit contingencies to serve their evolving vision.

3.3.1 Social capital & entrepreneurs in EE

Entrepreneurs start with the basic set of means; “who they are,” “what they know,” and “whom they know” (Sarasvathy, 2001). These *givens* of entrepreneurs can be conceptualized as means that are contextually embedded in a social organization. The features of social organization such as norms, relationships (networks) and trust are referred as *social capital* (Coleman, 1988; Putnam, 2000). Social capital is viewed as a resource that can help in fostering economic activity by facilitating access to other types of resources including intellectual capital and financial capital (Coleman, 1988; Nahapet & Ghoshal, 1998) and is considered an important resource in entrepreneurial activity (Aldrich & Zimmer, 1986; Mayo, 2000; Manev, Gyoshev, & Manolova, 2005). An important element of social capital is the structure of social networks that are crucial in facilitating access to resources necessary for entrepreneurial activity (Johannisson, 1988; Hansen, 1995; Johannisson, Ramirez-Pasillas, & Karlsson, 2002). Portes (1998), proposed that social capital can be viewed as consummatory, i.e. as an endowment of resources that derive from the socialization processes in families, friends, kinship networks, classes and closely-knit groups and as instrumental, i.e. derived from exchanges based on reciprocity. Entrepreneurs, therefore not only start with an endowment of social capital that is based on their affiliation in a group, but also actively
engage in conceptualizing and constructing the social capital through social exchange relationships. From a social capital theory point of view, the *strong ties* with close family and friends constitute the *bonding capital* that provide support to individuals and *weak ties* built with acquaintances beyond the respective close networks is the *bridging capital* that is leveraged by individuals in their pursuit of success (Granovetter, 1973, 1995; Gittell & Vidal, 1998; Putnam, 2000).

In the following section, we conceptualize bonding capital as a form of givens that entrepreneurs may be endowed with, owing to their relationships within their community and following the norms of the society. We then discuss how entrepreneurs actively create resources by leveraging the relationships they forged with members and networks far removed from their own network or community, i.e. through bridging capital.

*Bonding capital*

Communities characterized by relationships based on family, friends, and kinships can provide a variety of resources that support entrepreneurial activity, such as financial resources, knowledge, and business contacts (Kao, 1993; Portes & Landolt, 2000). Bonding capital has a positive effect on the level of trust within communities. Individuals in groups with strong linkages with each other (family or friends) adhere to a common set of social norms, rely on each other to resolve uncertainty and reduce transaction costs (Levitte, 2004). In the case of high levels of perceived state uncertainty, entrepreneurs lack necessary information regarding the state of the environment such as changes in trade regulations and experience low levels of trust with respect to any
information that originates from outside the community. Perceived effect uncertainty is also high as entrepreneurs are not aware of the likely impact of changes in the environment. When there is a high ambiguity of performance evaluation (effect uncertainty) and goal congruence within the groups, clan-based organizations become more effective than market mechanisms or bureaucratic institutions of the state (Ouchi, 1980). Success of Chinese family businesses is based on a high level bonding capital that operates under a system of control by few key powerful individuals, bonds based on personal obligations and relational contracting (Redding, 1990). Similarly in India, mercantile groups (part of the traditional caste system) served important purpose of reducing uncertainty for individuals by providing credible mechanisms that reduced the transaction costs associated with coordination and enforcement to facilitate entrepreneurial activity (Bayly, 1983; Rutten, 2003). A parallel can be drawn between entrepreneurs in an EE and entrepreneurs among ethnic immigrant groups in DE. Evidence of reliance on bonding capital is found in immigrant ethnic entrepreneurs in DE due to the uncertainty faced by immigrant entrepreneurs in gaining entry to unfamiliar institutional structures (Bonacich & Modell, 1980). Thus we argue that because entrepreneurs in an EE context face higher levels of perceived uncertainty, they tend to rely on the resources that are available through the strong ties within their respective communities. In essence, they are likely to be more conservative to make the perceived uncertainty cognitively manageable. More formally:

**Proposition 4**: EE entrepreneurs are more likely to rely on bonding capital than their DE counterparts to resolve uncertainty.
In addition to examining the nuanced distinctions in the supply side of the entrepreneurial process between EE entrepreneurs and DE entrepreneurs (between group differences), we develop conceptual arguments to explore the distinctions between entrepreneurs in the EE context (within group differences) in the next section.

**Bridging capital**

McMullen & Shepherd (2006) suggest that third person opportunities are recognized when entrepreneurs possess domain-specific knowledge that allows them to resolve perceived response uncertainty. In the process of resolving such perceived response uncertainty, entrepreneurs muster action by casting away any doubts that may prevent action. We argued that from a demand side perspective, i.e. the nature and amount of perceived uncertainty is distinct in the EE context. Not only does uncertainty emerge from multiple domains, EE entrepreneurs are compelled to resolve second order uncertainty that arises from domains linked to multiple domains. Addressing multiple-domain uncertainty requires entrepreneurs to reach beyond their tightly knit networks to leverage the resources that become available because of the “strength of weak ties” (Granovetter, 1973). Bridging capital is built through an active initiation of exchange relationships that allow entrepreneurs to access resources that are diverse and help reveal the value of the resource in relation to other resources available with the entrepreneur. In contrast to relationships based on economic exchange, bridging capital is based on social exchange relationships that do not rely on legal obligations to ensure a return of benefits received, but evolve over time, typically starting with small exchanges that entail low risk.
(Blau, 1994). Bridging capital\(^1\) is therefore an important element of social capital that is actively constructed through social exchange relationships by entrepreneurs to create new resources and amplify their existing resources to serve their evolving vision. Since EE entrepreneurs traditionally rely on bonding capital, developing bridging capital will allow them to both discover opportunities and create opportunities (Kavanaugh et al., 2005). The importance of bridging becomes salient by the fact that the knowledge available from high bonding is from a limited number of domains that each group or community has access to. As a result, entrepreneurial activity is bounded by the group norms and knowledge available in the group. Therefore, opportunities beyond the realm of immediate familial networks may not be discovered in the absence of bridging capital.

**Proposition 5:** Entrepreneurs in EE that build bridging capital are more likely to be successful in creating opportunities.

On one hand, EE context is characterized by communities that rely heavily on bonding capital. While bonding capital may have its positive side, high level of bonding capital may restrict opportunities to individuals because of stringent social norms (e.g., some communities discourage women from pursuing entrepreneurial opportunities). High bonding also leads to rigidity, nepotism, social hierarchy, closed mentality, and thus inefficient markets (Storper, 2005). Group solidarity (high level of bonding in a community) can exert pressures on individual entrepreneurs by placing several non-

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\(^1\) Bridging capital is the instrumental aspect of social capital, based on reciprocity-based exchange relationships, while bonding capital is the consummatory aspect of social capital that refers to the endowment (or stock) of an individual based on group affiliation (Portes, 1998). This does not imply that bonding does not require exchange relationships.
economic demands (Granovetter, 1995; Portes & Landolt, 1996). EE entrepreneurs attempting to develop bridging capital may face barriers due to stringent social and group norms that may discourage ties with external groups. The barriers to building bridging capital in the EE context have two different sources. First, due to the lack of formal social institutions, such as democratic and political institutions in EE that can guarantee basic rights such as protection of private property and adherence to rule of law, social groups assume the role of such institutions. In such a scenario, powerful groups with hierarchical structures (such as the mafia, clans, and communal groups) may dominate at the exclusion of others reducing the level of trust between groups. In an environment of low levels of social trust (Bourdieu, 1983; Boslego, 2005), rampant with clannish behavior, attempts to develop ties between groups may be viewed with suspicion and may be met with deliberate punitive sanctions imposed upon individuals.

On the other hand, emerging economies are experiencing changes in social structures resulting from shifts in social classes because of education and changes in demographic variables such as family size. Increased awareness with easier access to information combined with the growth of effective institutions, individual entrepreneurs are in a better position to build bridging relationships. Combining bridging capital with bonding capital enables EE entrepreneurs to overcome the constraints of bonding capital to create opportunities. Combination of bridging and bonding capital is likely to benefit foreign entrepreneurs in EE, once they get over their lack of knowledge hurdles, since their network is more likely to be more democratic and therefore consist of bridging capital than the network of EE entrepreneur, which may consist primarily of bonding capital. The entrepreneurial class in EE (e.g. China) successfully leverage bonding
capital within their groups and utilize bridging capital developed through interconnected networks.

*Proposition 6:* Entrepreneurs in EE that combine bridging and bonding capital are likely to be more successful in creating opportunities.

*Linking Capital*

In addition to bonding and bridging elements of social capital first suggested by Gittell & Vidal (1998), Szreter and Woolcock (2004), proposed a third element of social capital, which they termed as *linking capital.* Linking capital refers to the networks that connect actors/groups of different degree of institutional power. Because definitions of social capital in the literature categorically do not include “the state”, linking capital as a concept provide an avenue to discuss the “ways and means by which broader structural features of society, including the state and major institutions of governance, shape and are shaped by the actions of both individuals and groups” (Szreter & Woolcock, 2004b, p. 701). Institutions in EE are in transition with some economies characterized by state institutions, such as the government (including law and order) in a supportive role and complementing entrepreneurial activity, and some economies facing high levels of institutional rigidity in the form of slow pace of change in making the necessary institutional arrangements for entrepreneurial activity (Wank, 1996). Concurrently, economic growth and entrepreneurial activity may have an effect on existing institutions. In other words, entrepreneurs may create new institutions that are in concert with the pursuit of entrepreneurial evolving vision, in addition to establish links with institutions
of power that may eventually lower the transaction costs associated with entrepreneurial activity (North, 1990). For instance, linking capital is leveraged by entrepreneurs in EE to address the obstacles faced from institutions, such as government licenses, permits etc. While in a DE context, the presence of institutions are taken for granted, entrepreneurs in an EE context do not necessarily view the lack of institutions as a constraint, instead, they view this as an opportunity to create new institutions that would serve as ancillaries of the relatively underdeveloped institutional infrastructure in EE.

EE entrepreneurs are rich in bonding capital, whereas bridging capital is in scarce supply due to lack of formal institutions and traditional hierarchies. Resolving uncertainty in EE, therefore requires an ability to build networks of actors of different power status, and bridge structural holes (Burt, 1992). Scarcity of bridging capital in context where it would be in high demand would lead to bidding up of the value of linking capital. Formally,

Proposition 7: Linking capital in EE would be offered at a premium in EE relative to that in DE.

3.4. Application of effectual logic: resolving uncertainty in EE
In the preceding sections, we elaborated on the barriers to entrepreneurial action in EE as well as the opportunities that entrepreneurs in EE create, by focusing on the demand and supply dimensions of side of entrepreneurship. Applying effectual logic (Sarasvathy, 2001), helps develop an explanation of how entrepreneurs in EE overcome the constraints and resolve uncertainty to create opportunities. Following effectual process of entrepreneurial reasoning, we suggested that entrepreneurs in EE

a. Start with limited givens conceptualized as bonds within respective communities and social groups
b. Expand their givens by developing bridging capital through alliances between multiple networks.
c. Address second order uncertainties by creating linking mechanisms with institutions by building linking capital
d. Discover and exploit contingencies that are presented by uncertainty in the environment through a combination of bonding, bridging and linking capital.

To reiterate, the general rhetoric about the lack of entrepreneurialism in EE appears to be driven by causal logic. Causal approaches pursue pre-determined effects such as entry into the EE market or creating a market and search for resources that are needed based on pre-existing knowledge and experience (usually from DE). Such an approach may amplify the existing constraints and prevent entrepreneurial action in EE.

4. Conclusion
In this paper, we elaborate on the theory of entrepreneurial action in emerging economies. We view entrepreneurial action in emerging economies as differing from that of developed economies from the demand as well as supply side. We use prior conceptualizations of environmental uncertainty faced by entrepreneurs, the entrepreneurial process theory of effectuation, and social capital to propose where these differences arise, how these differences affect entrepreneurial resources and actions, and which type of resources are more likely to be valuable in emerging economies.

Several areas of future research can be suggested based on the ideas in this paper. In this paper, we have expanded on the main effects of demand and supply side of entrepreneurial action. This effort can be developed further by deducing the joint and interactive effect arguments. For instance, it is conceivable that complex (and overwhelming) demand side uncertainties, in addition to directly regressing entrepreneurial action, also suppress entrepreneurial aspirations. Other such links, where demand side affects the supply or vice versa, either concurrently or sequentially, to affect entrepreneurial activity in emerging EE needs to be explored.

There is also significant scope for better conceptualization of entrepreneurial uncertainty. It is likely that conceptualizations of uncertainty have causation (Sarasvathy, 2001) as a focus, where uncertainty is uniformly problematic because it hinders analysis and prediction. Uncertainty in an entrepreneurial sense, where the focus is more on resolving contingencies and creating opportunities, is likely to be conceptually distinct, and, as we point out in this paper, more complex, which prevents entrepreneurial action.

Future research in entrepreneurship in EE also needs clearer contextual boundaries. For instance, most researchers in this area will readily admit that EE are
hardly a homogenous lot—size, location, culture, natural endowments and historical legacies, to name just a few variables, make EE vastly different from each other, and therefore any theory of entrepreneurship covering EE will of necessity need to be more complex. To provide another example, research in international entrepreneurship has highlighted the role of foreign versus home country entrepreneurs. In the special context of EE, we need to distinguish between home country entrepreneurs and foreign entrepreneurs to explore issues such as “Is there a liability of foreignness? Is being foreign an opportunity in EE?” In this paper, we suggest that being foreign may not be a liability in EE—rather it could provide access to resources not available to home country entrepreneurs.

There are also a few practical implications of the propositions presented in this paper. The key practical implication is that since entrepreneurial reasoning is universal, EE do not really lack an inventory of “entrepreneurs.” Therefore, from a public policy perspective, the effort should be on raising entrepreneurial aspirations, the key given that activates entrepreneurial process. Entrepreneurial aspirations can be raised not just by aping institutions from DE, but rather designing institutions that balance the unique givens of a particular EE. For instance, EE may need institutions that assist in developing bridging capital rather than bonding capital. It is likely that transactions and contracts based institutions are more critical in DE where entrepreneurs may lack bonding capital. EE may also need to strengthen institutions that reduce the cognitive costs of entrepreneurs and make the environmental certainty a little less complex. This is likely to lead entrepreneurs to sharpen their vision faster, and via resolving lesser number
of contingencies, which will increase the conversion efficiency of entrepreneurial resources.
Figure 1: An Illustration of the multiple domain uncertainty faced by entrepreneurs in emerging economies
### Table 1: Elements of Social Capital

<table>
<thead>
<tr>
<th>Relationship Type</th>
<th>Bonding (Putnam, 2000)</th>
<th>Bridging (Putnam, 2000)</th>
<th>Linking (Woolcock, 2001; Szerer &amp; Woolcock, 2004a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Among similar types of persons; families, clans, classes (castes), Mafia</td>
<td>Between different groups</td>
<td>Networks that connect actors of different degree of power</td>
</tr>
<tr>
<td><strong>Operational version of</strong></td>
<td>Community. Grouping according shared cultural values, same profession</td>
<td>Society in general, horizontal network relationships</td>
<td>Multiple Networks</td>
</tr>
<tr>
<td><strong>Organizations</strong></td>
<td>Voluntary associations, Civic engagement Clans Families, Kins</td>
<td>Interconnected networks, entrepreneurial firms.</td>
<td>Entrepreneurs enabling institutional mechanisms</td>
</tr>
<tr>
<td><strong>Network type</strong></td>
<td>Personal, communitarian</td>
<td>Impersonal, rule based</td>
<td>Links with powerful groups/institutions</td>
</tr>
<tr>
<td><strong>Ties</strong></td>
<td>Dense, strong</td>
<td>Holes, weak or dense ties between groups</td>
<td>Weak ties, exchange relationships with high degree of imbalance</td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td>Interpersonal, social, loyalty in the group</td>
<td>Impersonal, institutionalized, contractual</td>
<td>Generalized trust</td>
</tr>
<tr>
<td><strong>Markets</strong></td>
<td>High bonding leads to rigidity, nepotism, social hierarchy, closed mentality and thus inefficient markets</td>
<td>High bridging allows, new coalitions, access to resources.</td>
<td>Linking improves access to institutions (government etc.)</td>
</tr>
<tr>
<td><strong>Positive contributions of</strong></td>
<td>Certain types of bonds can: Increase individual autonomy. Reduce transaction costs, moral hazards</td>
<td>Can limit opportunism. Access to ideas resources, information</td>
<td>Can provide access to range of external resources, information with market failure</td>
</tr>
<tr>
<td><strong>Negative contributions of</strong></td>
<td>Rigid bonds can result in rent-seeking, opportunism, monopolizing activities</td>
<td></td>
<td>Can be exploitative and reduce social trust</td>
</tr>
</tbody>
</table>
References


