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BUILDING INTERORGANIZATIONAL NETWORKS IN AN EMERGING ECONOMY: THE ROLE OF COGNITIVE LEGITIMACY (SUMMARY)

Wafa N. Almobaireek  
King Saud University

Ahmed A. Alshumaimeri  
King Saud University

Tatiana S. Manolova  
Bentley University, tmanolova@bentley.edu

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BUILDING INTERORGANIZATIONAL NETWORKS IN AN EMERGING ECONOMY: THE ROLE OF COGNITIVE LEGITIMACY

Wafa N. Almobaireek, King Saud University, Saudi Arabia  
Ahmed A. Alshumaimeri, King Saud University, Saudi Arabia  
Tatiana S. Manolova, Bentley University, USA

Principal Topic

We take an organizational legitimacy perspective (Scott, 1997; Zimmerman & Zeitz, 2002) to explore the antecedents to the formation of entrepreneurial ventures’ interorganizational networks in the context of emerging economies. More specifically, we argue that: (H1a) The education level of the entrepreneur; (H1b) Developing a formal business plan; and (H1c) Developing a formal organizational structure, will be positively associated with the diversity of the new venture’s interorganizational network. In addition, we argue that the legitimizing effects will be stronger early in the life of the entrepreneurial venture, such that: The association of (H2a) having a business plan; and (H2b) having a formal organizational structure, with the diversity of the new venture’s interorganizational network will decrease with the age of the new venture.

Method

To test our hypotheses, we use data from a nationally representative large scale survey of the state of small business in Saudi Arabia, commissioned in 2011 by the Saudi Ministry of Labor (n = 1223). We measure the diversity of the interorganizational network as the sum of five binary items indicating whether or not the new venture has a supplier, distributor, financing, alliance, or a partnership agreement with a large business. The hypotheses are tested using negative binomial regression specifications, controlling for industry sector, age, size, and ownership structure.

Results and Implications

Results indicate that having a written business plan and a formal organizational structure are positively associated with the diversity of the new venture’s interorganizational network, while the education level of the entrepreneur does not have a significant effect. In addition, the effect of having a formal organizational structure is stronger for younger ventures. These findings suggest that a level of cognitive legitimacy is necessary in order for new ventures in emerging markets to gain access to the interorganizational networks of large and established players, but its sources may differ from those in developed markets. Our study adds to the conversation on different paths to building legitimacy in emerging economies (Ahlstrom et al., 2008), using empirical evidence from Saudi Arabia, a context relatively unexplored by current research.

CONTACT: Tatiana S. Manolova; tmanolova@bentley.edu; (T): 781-891-2198; (F): 781-891-2896; Bentley University, 175 Forest St., Waltham, MA 02452, USA.