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LEGITIMACY AND RESOURCES FLOWS IN BASE-OF-THE PYRAMID MARKET (SUMMARY)

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SUMMARY

LEGITIMACY AND RESOURCES FLOWS IN BASE-OF-THE PYRAMID MARKET

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Principal Topic

Empirical studies have consistently found legitimacy to positively impact the provision of external resources to entrepreneurial firms. However, much of the prior work examining this theoretical linkage has been undertaken within a developed-country context which is typically characterized by a well-defined and coordinated set of legal, educational, and other formal institutions. Comparatively, less-developed countries present a much more fragmented and heterogeneous institutional environment which may alter the strength or direction of existing theoretical predictions. Thus, the purpose of our study is to explore how entrepreneurial actions taken to attain legitimacy within base-of-the-pyramid (BOP) markets impact the level of resources that institutional stakeholders within such environments are willing and able to provide.

Method

To inform our research question of how legitimacy influences resource assembly, we undertook a multi-method study involving 244 entrepreneurs operating within Guatemala City. Given what is still a fairly early stage of research regarding how entrepreneurs interact with institutions within the BOP, we began with an exploratory approach by conducting interviews with 52 entrepreneurs to broadly understand the positive and/or negative outcomes of being a registered ‘legitimate’ enterprise within Guatemala as it relates to the provision of resources (i.e. working capital loans, skilled labor, etc.) by external stakeholders. Subsequently, based on the insights provided by our interviews, we then undertook a more confirmatory, quantitative analysis by constructing and testing a set of hypotheses using a survey of 192 entrepreneurs also within Guatemala.

Results and Implications

Our results suggest that while legitimacy does indeed provide an increase in the provision of resources from formal institutional stakeholders as predicted currently by institutional theory, it can also result in increased resource extraction by criminal actors, such as drug dealers, gangs, and other delinquents. Specifically, by adopting the procedures and symbols necessary to display adherence to the rules and norms associated with operating a registered business (i.e. displaying licenses, issuing receipts), entrepreneurs inadvertently signal to criminal stakeholders that they possess sufficient resources to warrant extortion, theft, and vandalism. Furthermore, adherence to such rules and norms limits the extent to which entrepreneurs can actively manage multiple impressions to diverse stakeholder groups (i.e. portray signals of affluence to attract high quality employees, but portray signals of financial distress to ward off gangs seeking payment). Thus, within environments where the set of institutions are more heterogeneous in terms of their development, adherence to the norms and rules prescribed by one stakeholder group can unwillingly produce ancillary negative spillover effects that inhibit the overall growth and even survival of entrepreneurial firms.

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