ECONOMIC DEVELOPMENT LEVEL AND THE INSTITUTIONAL IMPACT ON NEW VENTURE EXPORTING (SUMMARY)

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SUMMARY

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Principal Topic

Common wisdom argues that the institutional environment matters more for performance in emerging market economies than in developed markets. The former have high-paced economic development and government policies favoring economic liberalization; the latter are considered safer and more stable for investment. Institutions mitigate uncertainty and establish stable structures that facilitate interaction between organizations. Environments with well-specified legal systems, clearly defined and impartial judiciaries, and attitudes towards business that encourage low-cost transactions (North, 1986; 1993) are critical for the functioning of economic systems. Such institutions are generally more robust in developed countries but underdeveloped in emerging ones, resulting in institutional voids and thin capital markets, inconsistent infrastructure, and political and economic instability with public suspicion of foreign firms (Hoskisson et al., 2000).

Young firms generally lack the tangible or intangible resources necessary to effectively construct or access informal networks and the means to engage in resource exchange or to insure themselves against default in exchanges. They often depend on the goodwill of institutional actors such as banks and governments to ease institutional constraints. Reliance on the publicly available markets results in higher than average transaction costs, placing them at a distinct disadvantage to mature firms. If young firms are unable to build internal markets for capital, their export costs will likely be insurmountable. Even if young firms are able to access financing, a low-quality regulatory structure may limit their ability to dedicate capital directly to export-related investments.

Methods

Institutional quality may affect young ventures’ export intensity more profoundly in emerging economies than in developed economies. We study the export intensity of 7,989 firms in 56 countries from the World Bank’s World Business Environment Survey (WBES) from 1998-2000. A two-stage Heckman (1979) procedure models exporting self-selection and evaluates how four dimensions of institutional quality along eight measures relate to export intensity, controlling for firm-, industry-, and country-level factors that might affect firm exports.

Results and Implications

Young emerging economy firms are less likely to export, but export more intensively if they do export. Government intervention, tax regulations, and financial access differentially affect companies in developed and emerging economies. Poor institutions for accessing finance severely decrease export intensity for young emerging market firms but increase export intensity for young firms in developed economies. Young firms from both emerging and developed countries need to be especially aware of developing and adapting strategies to local contexts.

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