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INTERACTIVE PAPER

PROFIT OR PERIL? INTERNATIONAL ENTREPRENEURSHIP, CONSTITUTIONAL UNCERTAINTY AND THE STRATEGIC USE OF PRIVATE ORDERING

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Principal Topic

Drawing upon the theories of resource dependence and private ordering, this study compares and contrasts diverse approaches taken by international entrepreneurs facing constitutional uncertainty, meaning that the legal authority governing contracts may be unclear or even non-existent. Through an analysis of more than 35,000 transactions by small, owner-operated lumber exporters, I examine the ways in which entrepreneurs pursuing high-risk international business ventures contend with scarce resources and jurisdictional uncertainties. My study hypothesizes that the use of informal, trust-based, favor-granting mechanisms operationalized through accommodative transaction–by-transaction trade terms is positively related to the generation of new market opportunities (NMO), which is, in turn, positively related to total forward internationalization (TFI). Conversely, the use of inflexible trade terms, such as full pre-payment or sizable escrows, is expected to be negatively associated with NMOs and TFI.

Data and Methods

Using data drawn from the Global Wood Trade Network and TimberWeb, 1,040 lumber industry entrepreneurs with annual revenue between $500,000 and $5 million were winnowed from an initial list of 3,570 exporters, domiciled in 52 different countries. Firms were contacted via mail survey, with an option to respond online. 174 firms were excluded due to serious, disqualifying completion errors or because the firm fell outside the target revenue range. Questionnaires suitable for use represented 29% of the surveyed firms. The proposed framework was tested using multiple regression, logistic regression and proportional hazard models.

Results and Implications

Analysis of the empirical data indicates support for all six hypotheses, with material effect sizes and a low probability of error. My findings suggest that entrepreneurs who transact business using accommodative, trust-based mechanisms built on flexible payment terms and a mutual commitment to informal dispute resolution will be compensated with new market opportunities, which in turn leads to more rapid internationalization. Meanwhile, entrepreneurs who eschew private ordering and instead opt for onerous payment terms, extensive contracting and legalistic dispute pathways seldom generate new market opportunities and display lower rates of forward internationalization. Contrary to extant literature, which propounds the protective benefits of exhaustive contracting, my results suggest that an informal, flexible, trust-based approach to jurisdictional voids may actually create a more sustainable foundation for future growth.

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