

# Exploring the institutional pressures that affect international new ventures

Jurgita Butkeviciene, Jurgita Sekliuckiene

## ABSTRACT

**Objective:** This article aims to identify the link between institutional pressures and strategic responses of international new ventures (INVs).

**Research Design & Methods:** This article reviews and theoretically synthesises extensive literature from the institutional and international entrepreneurship theories. The discussion leads to the formulation of four research propositions.

**Findings:** The relationship between institutions and entrepreneurial firms' activities remains lacking in relevant research. Thus, given the constraints of INVs, the suggested propositions assist in identifying the nature of the institutional pressures exerted on entrepreneurial firms. Through the breakdown of the institutional pressure determinants, three groups of pressures are discussed. The text suggests that coercive, normative, and mimetic pressures evoke more active strategic responses of INVs, as internationally oriented, entrepreneurial, technology-driven firms. The institutions and INVs strategic responses may have a bidirectional relationship. At the same time, legitimacy constraints to INVs may involve more than one scenario of how the INVs behave, which converts to a set of various responses to institutions, which lead to embedded relationships with institutions.

**Implications & Recommendations:** The formulated research propositions illuminate numerous practical implications, leading to future research agendas. Researchers studying international entrepreneurship and entrepreneurs will benefit from reflecting on the proposed framework's dimensions and interactions. International new ventures need to legitimise themselves in various institutional environments. However, they can be active partners in forming their institutional context through progressive involvement. Another input is aimed at policymakers looking to shape the institutional environment.

**Contribution & Value Added:** The theoretical contribution of this article lies in its introduction of a set of research propositions that explain the relationship between the institutional pressures and strategic responses of INVs and set a future research directions. The value-added consists in exploring institutional pressures that lead to more active responses of INVs because of entrepreneurial firms' specifics and emphasising the role of INVS in the building of institutions.

**Article type:** conceptual article

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## INTRODUCTION

Both businesses and institutions are now undergoing a profound transformation due to the changes in the economic, technological, and socio-political environment (Ahlstrom, Arregle, Hitt, Qian, Ma, & Faems, 2020). Digital technologies and disruptive innovations, the increased velocity of markets, and the emergence of new business models have led to a shifting business environment (Ebert & Duarte, 2018; Latoszek, 2021). While some of these institutional factors are specific to the contexts

and others are universal (Sadeghi, Nkongolo-Bakenda, Anderson, & Dana, 2019), they affect international entrepreneurs from the stage of opportunity recognition till the internationalisation and embeddedness in multiple contexts.

The home country's institutional environment provides the premise for an international new ventures' (INVs) country-specific advantages, and together with internal managerial and organizational factors, they impact international entrepreneurship strategies and performance (Rask & Servais, 2015). Institutions are vital to providing stability and reducing uncertainties as they are the fundamental structures for economic activity (Lawrence, Phillips, & Tracey, 2012). Institutional environment affects entrepreneurial behaviour (Welter, 2005), impacts international entrepreneurship process and models (Rask & Servais, 2015), and sustains economic growth (Acemoglu, Johnson, and Robinson, 2005). This article focuses on entrepreneurial INVs, characterised by 'innovative, proactive, and risk-taking behaviour across borders' (McDougal & Oviatt, 2000, p. 903). On average, these firms internationalise within three years from their incorporation and export at least 25% of total sales (Knight & Liesch, 2016). Their entrepreneurial mindset technological readiness, international growth orientation, focus on unique resources (Cavusgil & Knight, 2015), networking (Torkkeli, Puumalainen, Saarenketo, & Kuivalainen, 2012), and experiential learning (Bunz, Casulli, Jones, & Bausch, 2017) make them vital in the fast-changing environment characterised by fast adaptability and tolerance to risks and uncertainties. International new ventures often originate from technology-driven industries and are defined by innovative products and services, which allow them to reach global audiences through low-cost delivery and information methods (Rask & Servais, 2015; Sekliuckiene, Pisoni, Onetti, Cannone, & Matusinaite, 2017). Moreover, scholars identify that international entrepreneurship is critical for emerging or transition economies (Meyer, 2019), and the topic is especially relevant for firms from Central and Eastern European (CEE) countries due to their historical institutional differences and resource constraints (Nowinski & Rialp, 2013; Solesvik, 2019).

Previous research (Oliver, 1991) analyses firms' strategic responses to institutional constraints and the effects of institutional pressures based on causal determinants. Greenwood, Raynard, Kodeih, Micelotta, and Lounsbury (2011) discuss firms' strategic responses in plural institutional logics and emphasised that the ability of an organization's voice to be heard is linked to its level of influence and resources. Doh *et al.* (2017) further focus on the international business responses to address institutional voids. However, numerous studies examine the multinational enterprises' (MNEs) response to the institutional environment (Oliver, 1991; Kostova & Roth, 2002) and do not focus much on the INVs. Elert and Henrekson's (2017) study already revealed the significance of the bidirectional relationship of institutions and entrepreneurship by emphasising that entrepreneurs may significantly influence institutions and drive institutional change. Moreover, Khalilov and Yi's (2020) empirical results from OECD countries have proved the importance of a bidirectional relationship between regulatory institutions and entrepreneurs to alter institutions and stimulate economic growth. This has further stressed the need for research to clarify the reciprocal relationship between institutions and entrepreneurship.

Specifically in the context of INVs, the external institutional environment's role in international entrepreneurship was analysed through the integration of institutional and international entrepreneurship theories in the conceptual article by Szyliowicz and Galvin (2010). Building on the neo-institutional theory and Scott's three institutional pillars, they reveal the need for the application of institutional theory in international entrepreneurship and suggest future research directions towards the clarification of processes and relations between institutions and firm-level international entrepreneurship by emphasising that 'this relationship is not unidirectional' (Szyliowicz & Galvin, 2010, p. 325).

The prior conceptualisation and empirical evidence indicate that despite the growing understanding of the relationship between firms and their home country institutions, the influence of technologically innovative and digitally determined international entrepreneurship progresses (Welter 2005; Hinings *et al.*, 2018). Moreover, the strategic responses of INVs to institutional pressures could significantly contribute to the analysis of institutional work because INVs could act as active co-creators of their institutional environments (Szyliowicz & Galvin, 2010; Elert & Henrekson, 2017). In an uncertain landscape with rapid technological development and government capacity constraints (Smolka & Heu-

gens, 2020), policymakers and regulators demand input from INVs in the process of developing sustainable and favourable legal and normative frames. Therefore, the changing business landscape and shifting institutional arrangements create the need to understand how INVs and policymakers can jointly co-create new regulatory, normative, or cognitive frameworks (Ozcan & Gurses, 2018; Smolka *et al.*, 2020). Thus, to fill this gap, we foreground the following research questions:

**RQ1:** How do institutional pressures affect strategic responses of INVs?

**RQ2:** How do INVs react to institutional pressures?

This article aims to identify the link between institutional pressures and active strategic responses of international new ventures. The article is organized as follows. First, we provide literature review regarding institutional pressures and INVs strategic responses. Second, we draw from the literature review the available institutional factors, pressures, and entrepreneurial firms' strategic responses to develop the conceptual framework. Then, the research propositions explaining the link between institutional pressures and strategic responses of INVs are defined. The final section discusses the theoretical and practical implications and suggestions for future research.

## RESEARCH METHODOLOGY

The paper is established on a synthetic literature review to explore the research questions “How do institutional pressures affect strategic responses of INVs? How do INVs react to institutional pressures?”. We conducted a theoretical study using the institutional and international entrepreneurship theories to contribute to the research conversation set by previous scholars (Szyliowicz & Galvin, 2010; Elert & Henrekson, 2017; Greenwood *et al.*, 2017).

A methodological synthetic literature review framework was followed by the recommendations of Schirmer (2018), and the use of this methodological choice was inspired by Naumann (2017) and Benazzouz (2019). This methodological choice allowed us to analyse copious material and create new theoretical perspectives by evaluation and rigorous integration of previous studies within the research fields. As the synthetic literature review was conducted, a multi-step process was followed as suggested by Tranfield, Denyer, and Smart (2003): planning the review, conducting the review, and finally reporting the findings. We undertook the following research steps.

We started the research process from planning the research and defining the research protocol. The search criteria involved terms (“strategic response\*”) OR (“institutional pressure”) AND (“international new venture\*” OR “international entrepreneur\*” OR “born global\*” OR “global start\*up\*” OR “\*tech”) in the titles and abstracts of articles.

Next, we selected the main online data bases – Web of Science and Science Direct – which are two of the most used databases for academic research. In addition, as suggested by research in the entrepreneurship domain by Cao and Shi (2020), we included peer-reviewed articles and sources from Google Scholar. This allowed us to avoid academic bias (Briner & Denyer, 2012) and was reasoned by the novelty of the bi-directional relationship of INV and home country institutions, which requires further contextualization to reveal their distinctive features and suggest ideas for future empirical research (Greenwood *et al.*, 2017; Smolka *et al.*, 2020). In addition, we found that the responses of INVs to institutional pressures mainly consist of case-base analysis useful for practitioners and government; therefore, such reports were included to fulfil the intention to heed all valuable contributions. In addition, we limited our research to articles published in 1994-2020, since it is generally accepted that the term ‘international new ventures’ emerged from a definition by Oviatt and McDougall (1994). This search allowed us to identify 412 articles in total. The eligibility criteria for inclusion were both theoretical and empirical articles.

We limited the institutional analysis to the neo-institutional theory approach and chose Scott's (2008) approach explaining institutions via the framework of three pillars: regulative, normative, and cognitive as relevant to the previous research conversation. Then, we continued the analysis through international entrepreneurship lenses. The preliminary review justified the need for a more

consolidated understanding of the institutional pressures affecting the INVs phenomenon in the institutional and international entrepreneurship literature.

After the review screening of titles and abstracts by junior and senior scholars, we excluded the duplicated studies (16) and articles lacking theoretical focus on INVs' pressure-response mechanism (351). This resulted in detail analysis of only 45 papers, as we chose to focus on the minority of papers that actually presented relevance to the topic.

**Table 1. The synthetic literature review sources**

Data bases	Keywords
Web of Science (13)	((("strategic response*") OR ("institutional pressure")) AND ((("international new venture*" OR "international entrepreneur*" OR "born global*" OR "global start*up*" OR "*tech")))). Indexes: SCI-EXPANDED, SSCI, A&HCI, CPCI-S, CPCI-SSH, BKCI-S, BKCI-SSH, ESCI.
Science Direct (360)	((("strategic response") OR ("institutional pressure")) AND ((("international new venture" OR "international entrepreneur" OR "born global" OR "global startup" OR "tech"))).
Google Scholar (30)	((("strategic response") OR ("institutional pressure")) AND ((("international new venture" OR "international entrepreneur" OR "born global" OR "global startup" OR "tech"))).
Google Scholar snowball (9)	"strategic response", "institutional pressure", "international new venture", "international entrepreneur", "born global", "global startup", "tech"

Source: own study.

The link between institutions and strategic responses was identified by emphasising the typologies of entrepreneurial firms' strategic responses concept. We have chosen Elert and Henrekson's (2017; 2020) entrepreneurial firms' strategic responses typology, which is adapted from Oliver's (1991) framework but specifically emphasises the bidirectional relationship of entrepreneurship and institutions. To conclude, the literature review of was conducted to synthesise the literature and develop the conceptual framework of institutional pressures affecting strategic responses of INVs. As a result, we developed a set of propositions for empirical studies as a finding and future direction.

## LITERATURE REVIEW

### Institutions and institutional pressures

Institutional and international business theories affirm that the institutional environment influences the international firm's activities in home and host environments (Rask & Servais, 2015) and the quality of institutions is essential for the firms' internationalisation and growth (Cheng & Yu, 2012, Dorozynski, Dobrowolska, & Kuna-Marszalek, 2020). The institutional environment also affects entrepreneurship (Elert & Henrekson, 2017; Bag & Omrane, 2021), however, for the different extent in different countries considering their level of development (Khaki & Akin, 2020), governance quality and informal relations spread (Digdowiseiso & Sugiyanto, 2021; Mishchuk *et al.*, 2020), peculiarities of labor supply (Bilan *et al.*, 2020). Excessive institutional pressures may draw entrepreneurs' focus to short-term daily business problems instead of business planning in the long run (Welter, 2005) and even limit their participation in domestic economic activity (Mair & Marti 2009).

The institutional theory remains the dominant theory to explain organizations' relations to their environment (Suddaby *et al.*, 2010, Aksom & Tymchenko, 2020). Institutions define social reality by the rules, a taken-for-granted social and cultural meaning system (Scott 2014, Urbano, Aparicio, & Audretsch, 2019). However, the primary nature of institutions is to provide stable structures framed by 'regulative, normative and culture-cognitive elements' (Scott, 2008, p. 428) and control 'reducing uncertainty and effort' (Cuervo-Cazurra *et al.*, 2019, p. 154). Coercive pressures are applied to firms by all forms of regulations to conform to the laws (Scott, 2001). Legal codes establish laws and rules, but they also control and impose sanctions to influence firms' future behaviour. Legislative authorities create and interpret these legal mandates, and later administrative agencies establish rules of practice. Normative pressures

are based on collective sense-making, values, and beliefs expressed by compliance to norms, standards, or collective expectations. Recently, some scholars suggested that firms also meet the technological institutional pressures (Hoed & Vergragt, 2004), which are characterised as certain rules and routines when new technologies or solutions are designed and developed. However, they have a characteristic of normative pillar (Baruta, 2018) and therefore will not be analysed separately. Effects of mimetic pressures are significant for INVs in creating legitimacy in unfamiliar and uncertain environments and are represented by already established practices and appropriate behaviours (Welt, 2005).

However, firms' legitimacy constraints can be overcome by digital INVs (Sohns & Wojcik, 2020). As an illustration, international digital entrepreneurs who operate in an EU Single market enjoy free movement of services (Sohns & Wojcik, 2020), but new innovative business still meet institutional constraints, e.g. INVs in peer-to-peer lending. Peer-to-peer lending firms experience multiple institutional pressures with diverse institutional voids and imperfections, which may affect their responses and therefore stimulate lagging institutional change (Ahern, 2018). Moreover, institutional imperfections evoke different international entrepreneurs' behaviours that vary even in the same industry and country (Brenesa, Ciravegna, & Pichardo, 2019). Walter (2005) emphasises that growth-oriented and more experienced entrepreneurs use more circumspect and short-term responses to deal with institutional pressures in such environments.

To summarise, the different types of institutional pressures challenge the behaviour of international entrepreneurs. Elert and Henrekson (2017) reveal that coercive pressures from inefficient regulatory institutions affect rule-breaking entrepreneurs, which tend to create alternative arrangements to the conditions, limiting their profitable business, which may affect the institutional change. The normative institutional pressures constrain the entrepreneurs' behaviour how business is done, but on the other hand, creates opportunities for entrepreneurs to intermediate and fill these voids. Deviations in cognitive institutions and perception about what is acceptable may motivate international entrepreneurs in their home market to change both regulative and normative institutions (McCloskey, 2016).

### Strategic responses to institutional pressures

Institutional pressures shape the behaviour of INVs. However, entrepreneurial firms develop various strategic responses to meet these institutional pressures, according to the institutional contexts, constituencies, expectations, and environment dynamic (Clemens & Douglas, 2005; Williams & Spielmann, 2019). Scholars analyse firms' different strategic responses to institutional pressures to understand their response mechanisms. For example, Oliver (1991) reveals that firm's decision to choose a specific strategic response: 'acquiescence, compromise, avoidance, defiance or manipulation' (p.151), which vary from passive to active, depends on multiple institutional antecedents: 'cause, constituents, content, control, and context' (p. 160); however, she suggests that the organizations must not blindly conform to institutional pressures but respond depending on the pressure strength and organizational will.

Doh, Rodrigues, Saka-Helmhout and Makhija (2017) have categorized strategic options implemented by organizations into three main sections: a) adaptation – adjusting the business model to local conditions by switching external intermediaries to the internalisation of functions; b) modification – shaping or altering these conditions; c) avoidance – ending operating in such environment altogether. However, most studies focus on analysing adaptation strategy, which show how firms' diversification or business groups' internal markets might help firms adapt to or abide by institutional voids (Fisman & Khanna, 2004; Elango & Pattniak, 2007).

The relationship between institutions and entrepreneurial firms' activities lack relevant research, with few studies exploring theoretical relationships (Hwang & Powell, 2005; Cheng & Yu, 2012). In addition, a few studies show how institutions support entrepreneurial activity and how entrepreneurial firms change and build new supportive institutions (Khalilov & Yi, 2021).

As a result, Elert and Henrekson (2017, 2020) try to apply entrepreneurship theory and focus specifically on the bidirectional relationship of entrepreneurship and institutions. The entrepreneurs' strategic responses are based on Oliver's (1991) framework; however, similarly to the Doh *et al.*, (2017) study, the entrepreneurial responses to institutions have been merged into three

groups: a) abide, b) alter, or c) evade; these can be either productive or destructive to cope with institutional pressures (see Table 2).

Abide strategic responses are used to pursue a business opportunity by conforming to the prevailing institutions. Alter responses are used to provide a new local public good or lobby for entry in previously closed markets. Evade responses are used to avoid regulations through a new contractual form. Interestingly, institutional compliance does not preclude institutional evolution, but those firms, who abide, tend to strengthen institutions, particularly informal ones, such as codes of conduct and traditions. All three responses can be either productive or destructive.

**Table 2. Typology of entrepreneurial responses to institutions**

Strategic responses/ Type of entrepreneurship	Abide	Alter	Evade
Productive	'Pursue a business opportunity within prevailing institutions.'	'Provide a new local public good, private security firms.'	'Sidestep stifling labor market regulations through a new contractual form.'
Unproductive	'Sue competitors for a share of their profit. Rogue states; the rivalry between warlords.'	'Lobby for a new regulation to protect on the industry. Repeal property rights to plunder a wealthy group.'	'Bribe a government official to obtain a contract. Illegal syndicates.'

Source: own elaboration based on Elert and Henrekson (2017, p. 207).

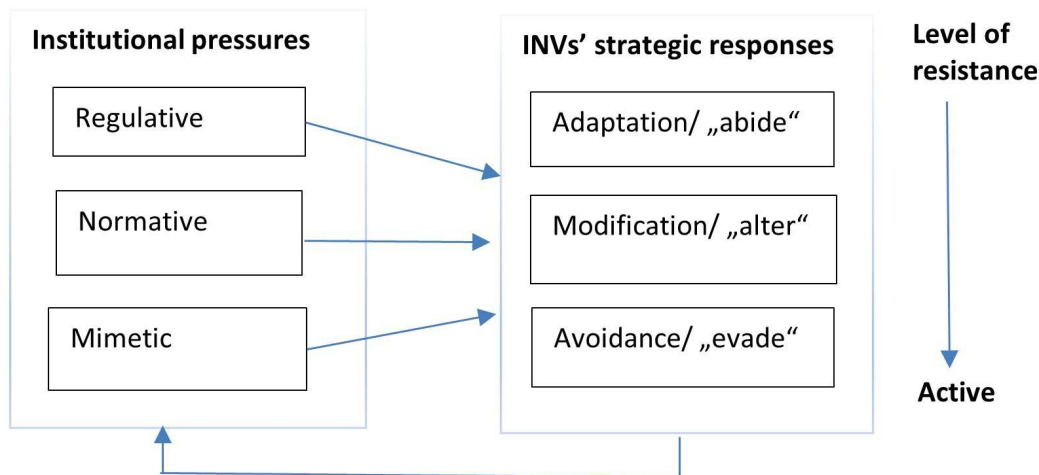
## THEORY DEVELOPMENT AND DISCUSSION

To explore the institutional pressures affecting strategic responses of INVs based on the literature review, we developed a conceptual framework (see Figure 1). We argue that there are relationships between institutions and entrepreneurial firms' activities and INVs, as entrepreneurial and internationally active firms, more actively respond to their home country institutional pressures – such as coercive, normative, and mimetic – than other types of firms (e.g. multinationals). We ground our arguments based on the below literature. Oliver's (1991) typology is mainly employed to analyse the strategic responses of multinationals, which hold specific power and resources to their response. Thus, scholars show mixed findings regarding the relationship between firm size and strategic response. Goodstein's (1994) findings reveal that large organizations tend to fear public attention and use more passive strategies due to inertia and more bureaucratic and rigid structures compared to SMEs. We support the idea that entrepreneurial INVs, which in today's context exhibit entrepreneurial behaviour and more important intangible resources and capabilities, tend to be more proactive and can employ more active strategic responses to respond to institutional constraints which they are facing and co-create institutions (Elert & Henrekson, 2020). Moreover, by their nature, institutions create stable systems and work to keep the stability. Therefore, the entrepreneurial behaviour confronts the stability-seeking institutional behaviour and may create tension between articulated support from the regulative or normative institutions to the negative perception by the perspective of cognitive institutions (Sadeghi *et al.*, 2019).

According to the conceptual framework, *coercive pressures* affect firms' strategic responses. Home country context and industry conditions and entrepreneurs' confidence appear in the literature as critical factors for the internationalisation of INVs (Oviatt & McDoughal, 1994, Nowinski & Rialp, 2013), which pushes them into a risky and uncertain international environment after their inception. The international entrepreneur is characterised by the ability to cope with uncertainty in response to environmental change (Bula, 2012).

Clemens, Bamford, and Douglas (2008) prove that irrespective of firm size, when future events are challenging to predict, firms tend to engage with regulators and change processes to avoid or dampen external restrictions and therefore use more active strategic responses. In turn, a study by Luo (2005) suggests that the home country's regulatory environment determines the internationalisation dynamics of newly established international firms and that macro-level factors, such as a country's well-es-

established institutional arrangements, highly support the development of new international firms. Gancarczyk (2019) suggests that context has a moderating effect on entrepreneurial firms' growth and profitability. In the context of international firms, the home institutions exert coercive pressures by regulating the legacy of new business models, licensing the activity, providing availability of human resources or public technological infrastructure.



**Figure 1. Framework of home-country institutional pressures affecting strategic responses of INVs**

Source: own elaboration.

Coercive pressure intensity influences entrepreneurial firms' nature, so that high-regulation environments see less productive entrepreneurship than low-regulation environments (Baumol, 1996). However, the lack of institutional arrangements and proper regulation may provide a temporary regulation-free environment for entrepreneurs. Still, it affects entrepreneurs so that they cannot quickly legitimise and protect their business (Bruton, Ahlstrom, & Li, 2010). Lobo, Fernandes, Ferreira, and Peris-Ortiz (2020) identify the role of the institutional pressure strength in the home institutional environment, which affects international market expansion and may even lead to radical internationalisation decisions.

Smolka's and Heugen's (2020) recent work reveals that if regulatory institutions are unable to evaluate novel technologies, the active response to the institutional constraints allows entrepreneurs to explain and adjust the regulations of radical technological changes. The legitimised novel business models in the home country and supported business growth capabilities allow even the smallest companies to develop new products and services to reach out to customers and suppliers worldwide. In turn, this positively impacts country competitiveness and economic growth (Elert & Henrekson, 2020). Therefore, increased public pressure for governments to regulate newly emerging fields also relates to the legitimacy of novel high-growth entrepreneurial ventures. Local governments' financial and capacity constraints require proactive interactions; therefore, it reveals the salience of coercive pressures and firms' strategic response to alter existing institutions.

Coercive institutional pressures from home country institutions affects the legitimisation of INVs activities, especially their operations, used technologies, and business model innovations. There are several issues related to the specificity of INVs shareholders. Scholars (Rao, Chandy, & Prabhu, 2008) confirm that new ventures legitimacy could be established by creating associations with appointed entities and internal or external associations to the existing firm. Habitual international entrepreneurs could gain legitimacy by forming alliances with already established firms or clients (Rao, Chandy, & Prabhu, 2008). By their experience, associations, and networks in the home institutional environment, habitual entrepreneurs might respond differently than novice entrepreneurs to coercive pressure. Moreover, if institutional pressures are more substantial, firms use less active strategies to respond to these pressures (Etherington & Richardson, 1994). Thus, we suggest that as a result of the contextual

environment and related to uncertainty, coercive pressure determines the active INV strategic response; therefore, this discussion leads to the following proposition.

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**Proposition 1:** Coercive pressures resulting from the contextual environment evoke more active strategic responses of INVs.

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Interconnectedness during the digital transformation is reflected in the need for novel institutional arrangements, characterised by related technologies or modules to form alliances and run digital enterprises at a lower cost (Hinings *et al.*, 2018), represented by *normative pressures* for a business to facilitate transactions. As an essential part of the entrepreneurial system, institutions influence entrepreneurial activity, but both entrepreneurship and institutions interact and co-evolve.

Durand, Hawn, and Ioannou (2019) reveal that a firm internal mechanism to respond to normative pressures are dependent on two factors: issue salience, which is characterised by ‘the degree to which a stakeholder issue resonates with and is prioritised by management’ (Bundy, Shropshire, & Buchholtz, 2013, p. 353), and the perceived cost and benefit of the resource mobilisation to respond to the normative pressure. International new ventures are affected by normative pressures, and changes in normative institutions, related to collective beliefs and norms, are related to customer pressures and firms’ liability of foreignness and newness (Zahra, 2005). Customers’ communities that are virtual and offline may demonstrate different purchase and experience preferences. However, virtual communities are more geographically dispersed and specialised based on a more dynamic network of relationships and the absence of physical contact (Dambrin & Valck, 2007). These communities are more highly engaged, and they stimulate the trial and adoption of new products and services and change the normative institutions with new norms in society. Therefore, due to digital transformation, INVs compete globally for customer experience and thus participate in changing the behaviour of both virtual and offline communities (Dambrin & Valck, 2007). Moreover, the normative pressure for sustainability forces INVs to generate new product and services and achieve profitability and growth, along with a reduced environmental impact, communities support, and improved quality of life (Wijethilake, Munir, & Appuhami, 2017).

International new ventures experience normative pressures especially in critical events or crises based on government and community norms and beliefs to secure business. It was noted that during the Covid-19 pandemic, technology-intensive INVs in some cases received unequal support compared to well-established firms in traditional sectors due to the focus on maintaining employment and avoiding bankruptcies (Kuckertz *et al.*, 2020), even despite the fact that entrepreneurial new ventures from novel knowledge-intensive industries will shape the future of the economy. In times of crises, nationwide programs were often not reachable for newly established INVs due to the set of multiple and challenging to reach criteria.

Moreover, depending on the growth path and timing, INVs receive support from governmental institutions, but on a particular stage an INV might be sold to a foreign company and lose its existence as an independent firm (Kuivalainen *et al.*, 2015). Therefore, normative pressures arise from the home country constituents, especially in small market economies, and relate to firm support’s questionable objective (Sekliuckiene *et al.*, 2017; Torkkeli *et al.*, 2017). Therefore, we propose the following:

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**Proposition 2:** Normative pressures related to customer experience and the liability of newness and foreignness evoke more active strategic responses of INVs.

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The institutional theory acknowledges the importance of culture-cognitive elements and the role of entrepreneurs’ behaviour to which they respond by mimetic pressures (Welter, 2005). Ingram and Teigland (2013) discussed cultural barriers to establish cognitive legitimacy for ICT entrepreneurs in the crowdfunding area. Lewis *et al.* (2020) specified culture-cognitive legitimacy constraints for crowdfunding platforms and the influences of political factors. These examples show that when innovative international entrepreneurs bring new activities into an existing business environment, they develop cognitive legitimacy and an image as trustworthy partners (Aldrich & Baker, 2001) and, therefore, actively respond to mimetic pressures. For instance, the acceptance or perceived threat



of blockchain technology strongly depends on various stakeholders' cognitive constraints. (Wardrop, Zhang, Rau, & Gray, 2015).

Moreover, Fox, Clohessy, van der Werff, Rosati, and Lynn (2021) analyse how diverse entrepreneurs proactively respond to cognitive constraints and use different techniques to build cognitive legitimacy. They reveal that when regulatory decisions are lagging, the proactive participation of entrepreneurs contributes to understanding and interpreting this complex innovative technology and mobilizing the market for institutional changes and adoption. However, Tracey, Dalpiaz, and Phillips (2018) emphasise different active entrepreneurs' strategic responses in addressing cognitive legitimacy pressures in new business activity authentication work; however, they reveal that the response may vary depending on the firm's maturity or what is known as the 'legitimacy threshold.' Moreover, firms' proactiveness and willingness to participate in this institutional change also depend on their innovativeness and cognitive dimension (Durand, Hawn, & Ioannou, 2019). Therefore, we present the following proposition:

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**Proposition 3:** Mimetic pressures for innovative entrepreneurial activities evoke more active strategic responses of INVs.

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Recent digital international research revealed that INVs are challenged to cope with institutional pressures from multiple sources. For example, a study of the financial services industry (Knight & Wojcik, 2020; Sohns & Wojcik, 2020) shows that innovative INVs in the financial services industry – fintech firms – need to gain legitimacy due to the liability of newness and the liability of foreignness, while at the same time, they fit into a novel institutional environment (Ahern, 2018). Moreover, the unified regulatory regime exerted by the countries within the European Union offers a unified regulatory regime, which under the current single market directives and the availability of passporting allow for unrestricted financial services for payments and alternative financing to access the markets. Even then, they still face different institutional pressures related to the diverse implementation and acceptance of the directives under the national law and regulatory arbitrage (Ahern, 2018; Chen, Kavuri, & Milne, 2019).

Moreover, the entrepreneurial orientation of INVs provides continuous engagement in risk-taking, innovative, and proactive behaviours, which influences their performance (Hoskisson, Covin, Volberda, & Johnson, 2011). International new ventures' dynamic capabilities and flexibility foster the recombination of legitimising, leveraging, and launching capabilities (Grøgaard, Colman, & Stensaker, 2019). International new ventures can manage environmental complexity and – by being engaged in multiple markets – gain experience and knowledge that can help develop institutions' effective development (Li, Cui, & Lu, 2018). Therefore, we explain that legitimacy constraints to innovative INVs may involve more than one scenario for how the INVs behave, which converts to complex and multiple responses to institutions.

Moreover, when entrepreneurial firms seek access to information about the market and resources, both of which constitute uncertainty, it is necessary to construct potent relational capital that would trigger embedded relationships (Hitt *et al.*, 2020). Firms must display information exchange and trust between partners, including institutional partners. Small entrepreneurial firms usually maintain embedded relationships (Naroz & Child, 2017). For example, a relationship with financial firms creates more access to financial funds, while such a relationship with suppliers creates access to other resources that diminish uncertainties for the firm. What is more, the mentioned relationships' advocacy with governmental entities (institutions) extends information about the formal institutions responsible for regulations, changes, or other ways to impact the legitimacy of the firms. All the mentioned relationships with different stakeholders increase the legitimacy of the firms and reduce uncertainty.

Moreover, in institutional voids in the shape of transparency and accessibility, entrepreneurial firms tend to join networking channels. Thus, there is an adverse relationship between the dependence of entrepreneurial firms on institutions and the asymmetry of power (Naroz & Child, 2017). Moreover, scholars found that the INVs' international success often depends on their successful collaboration with existing MNEs for global expansion. However, the primary source of market resistance to entrepreneurs comes from market incumbents, who form normative and cognitive dimensions and

may attack INVs indirectly by maintaining strong connections to critical institutions that restrict new products or new technologies offered by entrepreneurs (Aldrich *et al.*, 2001). This resistance could be extreme in regulated markets, in which various institutional actors have the power to protect incumbents by expressing coercive pressures (Gurses *et al.*, 2015). Moreover, the nature of strategic responses of entrepreneurial firms varies depending on the firms' characteristics, such as size, age, product specialisation and the nature and structure of their networks (Sohns & Wójcik, 2020).

Thus, the active response to institutional pressures from innovative international entrepreneurs can lead to institutional change but might combine multiple reactions if they are unwilling to join forces with other actors (Elert & Henrekson, 2020). Thus, we formulate the following:

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**Proposition 4:** Evoked by embedded relationships with institutions, INVs' strategic responses to institutional pressures might involve multiple responses, combining adaptation, modification, and avoidance.

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## CONCLUSIONS

The progress in the institutional environment is salient for any government, especially ones that undergo a profound environmental and technological transformation (Ahlstrom *et al.*, 2020; Głodowska *et al.*, 2016). Moreover, INVs operate in various institutional environments. Therefore, by their active involvement in domestic institutional change, they could be an effective and welcomed partner to alter the institutional environment (Smolka *et al.*, 2020; Khalilov & Yi, 2021). However, we trust that firms' proactiveness and willingness to participate depend on institutional pressures, firm response mechanisms, and related constraints. We now see that the most analysed studies are exploratory and focus on one country studies. Thus, there is a lack of theory building and analysis between institutions pressures and INV responses and the level of resistance.

Our first proposition emphasises the role of the contextual environment in INVs' active responses, specifically uncertainty and legitimacy constraints. This supports the findings by Clemens and Douglas (2005); however, it focuses more on the salience of coercive pressure for legitimacy constraints for high-growth INV in novel industries. Our second proposition is related to normative pressures, which suggests that collective expectations, norms, and beliefs for sustainability evoke more active strategic responses of INVs to alter the normative institutions. The previously mentioned scholars (Khalilov & Yi, 2021) identified a unidirectional relationship; however, the INVs inherit different resources and capabilities, which we assert may allow their different behaviour (Cavusgil, & Knight, 2015). The third proposition is related to the effect of mimetic pressure; therefore, we argue that INV involved in innovative entrepreneurial activities evoke a more active strategic response to change the culture-cognitive institution. Finally, the fourth proposition suggests that embedded relationships with institutions evoke multiple responses to cope with diverse pressures.

Future research should address the deeper empirical analysis of bidirectional relations between institutional pressures and INVs' strategic responses in different contexts of Khalilov and Yi (2021), who tested the bidirectional relations of regulative, normative, and cognitive institutions and entrepreneurship and found the only regulative relationship is bidirectional. However, other authors (Lobo *et al.*, 2020) state that it depends on the country context. Moreover, the results of Sohn and Wójcik's (2020) study show that political uncertainty and institutional change can trigger firms' responses, which have the potential for modification. Thus, we call for research in terms of assessment of various contexts and bidirectional relations to contribute to theory development.

Moreover, future research should examine the role of preconditions for institutional pressure intensity in institutions – such as cause, constituency, content, control, and context determinants (Oliver, 1991) – meaning INVs' strategic response relationship. Moreover, scholars should consider how these determinants influence institutional change. After all, our literature review showed that the decision of small or medium-sized enterprises to internationalise involves institutional change, especially in response to external pressures in the home country (Lobo *et al.*, 2020).

The third suggested future research stream is related to our fourth proposition, that INVs' strategic responses to institutional pressures might involve multiple responses related to the level of resistance.

The contextualisation of existing institutions and INVs' nature can become valuable dimensions that help us to understand the level of resistance (abide, alter, evade). According to Boutinot and Mange-matin (2013), some actors do not conform completely to existing institutions but rather 'surf' on them: they adopt institutional rules and conventions to their own benefit.

From the theoretical perspective, our research contributes to the theory development of the interdisciplinary approach to institutions and INVs and their mutual relationship. We discussed that the nature of institutional pressures provokes active strategic responses among INVs, which differ from multinational corporations and traditional SMEs by their specifics and different set of resources, capabilities, and entrepreneurial orientation. However, our literature review supports findings that firms' strategic responses depend on the institutional context and nature of pressure exerted on them (Durand, Hawn, & Ioannou, 2019). Therefore, our article contributes to the body of knowledge by presenting theoretical propositions and by suggesting future research directions.

Practical implications indicate that investigation into the relationship between institutional pressures and strategic responses of INVs may help policymakers to shape the institutional environment. This would help to produce more proactive institutional entrepreneurs and support institutional co-evolution in a manner corresponding to rapid environmental and technological change.

This research exhibits some limitations. We suggest a proposition for future empirical testing focused on the analysis of entrepreneurial and innovative INVs, which operate in an institutional environment with institutional voids. After all, they acknowledge that the industry may impact the type of responses, as Clemens and Douglas (2005) note in their study. We expect that the outcome of this article will lead to further development of the international entrepreneurship field.

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### Authors

The contribution share of authors is equal and amounted to 50% for each of them:

#### Jurgita Butkeviciene

PhD Student at the School of Economics and Business of the Kaunas University of Technology; director of an international software development and a digital marketing company. She earned two Masters of Science in Industrial Engineering and Management (in 2000 and 2015, respectively) from the Kaunas University of Technology. Her research focuses on institutional change and institutional entrepreneurship, digitalization, and INVs export strategies.


**Correspondence to:** Jurgita Butkeviciene, Kaunas University of Technology, School of Economics and Business, Gedimino str. 50-415, Kaunas, LT-44239, Lithuania, e-mail: [jurgita.butkeviciene@ktu.lt](mailto:jurgita.butkeviciene@ktu.lt)

**ORCID**  <http://orcid.org/0000-0003-3643-8541>

#### Jurgita Sekliuckiene

Full Professor of International Business at the School of Economics and Business of the Kaunas University of Technology. She is leading the International Entrepreneurship research cluster. She is a member of Academy of International Business (AIB) and an executive board member of the AIB-CEE chapter, European International Business Academy (EIBA). Her main research interests focus on international entrepreneurship and innovation, export strategies, and networks, with a special interest in transition economies INV's and multinationals.

**Correspondence to:** Prof. dr. Jurgita Sekliuckiene, Kaunas University of Technology, School of Economics and Business, Gedimino str. 50-415, Kaunas, LT-44239, Lithuania, e-mail: [jurgita.sekliuckiene@ktu.lt](mailto:jurgita.sekliuckiene@ktu.lt)

**ORCID**  <http://orcid.org/0000-0001-8899-3112>

### Conflict of Interest

The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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