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Institutional Analysis of Strategic Choice of Micro, Small, and Medium Enterprises: Development of a Conceptual Framework

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Abstract
This paper presents a conceptual framework showing formal and informal institutions and their relationship with the strategic choice of micro, small, and medium enterprises (MSMEs) in a developing country setting. It emphasises how institutions at sub-national level (such as a region or city) influence the strategic orientations of MSMEs as many developing countries in Asia are undergoing decentralisation whereby sub-national government authorities are given more political, economic, fiscal, and administrative powers. Furthermore, it sheds more insights on the environmental (institutional) determinism-organisational (strategic) choice nexus. It offers propositions, questions as well as issues worth pursuing in empirical investigations in the future.

Introduction
If the micro, small, and medium enterprise (MSME) sector is an engine of economic growth, then the local institutional framework is the steering wheel. This is the underlying theme of this study. Its main thesis is that formal and informal institutions emanating from the economic, political, and socio-cultural environments at a sub-national level such as a region or city significantly influence the strategic directions of MSMEs operating in that locality. In many developing countries characterised by government deregulation and decentralisation, national institutions do matter but sub-national institutions matter even more.

However, the liability of smallness is known to be inherent among these MSMEs (Lall, 2000). This liability explains that despite their potential to contribute to economic growth, MSMEs are unable to compete well due to exogenous and endogenous constraints (Harvie and Lee, 2002;
Kirby and Watson, 2003; Brown, Earle and Lup, 2005; Fogel, Hawk, Morck and Yeung, 2006). Institutional analysis has been used in a variety of ways to diagnose and offer remedies to the functional, performance, and competitiveness issues associated with MSMEs (Basu 1998; Busenitz, Gomez and Spencer, 2000; Carlsson, 2002; Carney and Gedajlovic, 2002). One stream of institutional theory that is replete with controversy is the new institutional theory of Douglas North whose original work on the subject focuses on institutional explanations of economic development (North 1990, 2005).

The current debate on North’s work centres on how to operationalise formal and informal institutions (Glaeser, La Porta, Silanes and Shleifer, 2004; Helmke and Levitsky, 2004; Gambarotto and Solari, 2005; Vatn, 2005; Demirbas, 2006; Fergusson, 2006). Furthermore, as typical institutional analysis has been repeatedly applied in country-wide settings, a growing interest is on understanding the institutional framework at the sub-national levels such as a state, region or city (Busenitz et al, 2000; Brouthers, 2002; Meyer and Nguyen, 2005). The argument is that while national institutions do matter, it is important to recognise that there are may be institutional disparities between and amongst sub-national geo-economic and political areas within the same national boundary especially in countries with diverse multicultural identifications situated in dispersed geographic locations (Meyer and Nguyen, 2005).

Another issue concerns the use of institutional analysis to describe national entrepreneurial (that is, SME) development. Typical studies tend to examine the institutional factors to explain national or regional aggregate measures of economic and/or entrepreneurial productivity (North, 1990; Ahmadi, 2003; Glaeser et al, 2004; Tabellini, 2005; Welter and Smallbone, 2005). While this could be helpful in macroeconomic analysis, most helpful for the MSME sector is to understand how specific institutional forms directly influence firm-level variables such as the functional activities and performance of firms.

This study hopes to contribute more insights if not remedies to the issues and research gaps identified above. Specifically, it attempts to present the development of a conceptual framework illustrating the institutional environment that is argued to shape the strategic choice of MSMEs. It discusses the following issues: (a) formal and informal institutions under the new institutional theory; (b) decentralisation; (c) the role of MSME in economic development; (d) strategic choice; and (e) link between institutions and strategic posture of MSMEs.
Review of Literature

New Institutional Theory

The seminal work of Douglas North in the field of new institutional economics (North, 1992) has inspired numerous studies on the institutional theory. North (1992) broadly defines institutions as the "rules of the game" or humanly devised structures that provide incentives and constraints to economic players. It suggests that these economic players are embedded in an external environment characterised by high degree of uncertainty and transaction costs (Baum and Oliver 1992; Hollingsworth, 2002). The presence of economic uncertainty makes it costly for MSMEs to transact. Institutions are formed to reduce this uncertainty by setting the "rules of the game" in the form of formal rules, informal norms, and their enforcement characteristics (North, 1992, 2005).

Likewise, the same rules of the game provide the constraints and incentives that encourage the economic players, say MSMEs, to switch from unproductive to productive activity, and ultimately improve the general economic well-being of a society (North, 1990). The extant literature has shown that institutions take the form of rules (Ostrom, 2005), collective action (Paro, 2005), and structures (North, 1992).

North's new institutional theory explains that there are two types of institutions: formal and informal. Formal institutions refer to written laws, policies, regulations, political and economic rules, and contracts (North, 1990).

On the other hand, informal institutions are referred to by North (1990) as codes of conduct, norms of behaviour, and social conventions that generally emanate from a society's culture. Informal rules are considered unwritten rules that are created, communicated, and enforced outside officially sanctioned channels (Helmke and Levitsky, 2004). Their enforcement takes place by way of sanctions such as expulsion from the community, ostracism by friends and neighbours, or loss of reputation (Pejovich, 1999).

While there is a plethora of studies that have examined the role of formal institutions (Clingermayer and Feiock, 2001; Carlsson, 2002; Carney and Gedajlovic, 2002; Veciana, Aponte and Urbano, 2002; Co, 2004), studies that attempt to operationalise North's informal institutions are very scarce and divergent in their approaches. The very scarce empirical studies on informal institutions looked at socio-cultural factors such as kinship, community networks, religion, norms, and values as manifestations of informal institutions having varying degrees of influence on human or organisational behaviour (Hill, 1995; Pejovich, 1999; Veciana et al, 2002; Nkya, 2003; Tabellini, 2005; Fogel et al, 2006). In-
Indeed there is an abundance of conceptual discussions on informal institutions coupled with a drought of empirical studies to operationalise the same (Helmke and Levitsky, 2004). One explanation for this could be that North’s seminal work did not specifically come up with operational definitions of formal and informal institutions to guide empirical investigations.

Decentralisation of Governance

A focus on institutional environment at the city level is justified by the wave of decentralisation taking place in a number of developing countries, including Cambodia, Indonesia, the Philippines, Pakistan, India, Bhutan, and Thailand. Decentralisation in these countries is characterised by national governments assigning state powers, responsibilities and resources to sub-national authorities (Wescott and Porter, 2002). This is a process of restructuring or reorganisation of political, fiscal, and administrative authority whereby the authority and capabilities of government units at sub-national levels are substantially increased (Work, 2001). However, studies on the implementation of decentralisation reveal that results were lacklustre due to the underdeveloped institutional capacity at sub-national levels (Work, 2001; Wescott and Porter, 2002).

Micro, Small, and Medium Enterprises (MSMEs)

The role of MSMEs in economic development cannot be overemphasised. Comprising over 98 per cent of total enterprises in the Asia-Pacific region (APEC, 2002), MSMEs have assumed a leading role in economic development of many countries (Benney, 2000; Lee and Peterson, 2000; OECD, 2005). For instance, in the Philippines, 99.6 per cent of the total 810,362 business establishments as of 2003 are micro (91.75 per cent), small (7.5 per cent), and medium (0.35 per cent) firms generating 67.9 per cent of the country’s total employment (DTI, 2005).

However, the liability of smallness that is inherent amongst these MSMEs explains that despite their potential to contribute to economic growth, they are unable to compete well due to exogenous and endogenous constraints (Lall, 2000; Kirby and Watson, 2003). Previous studies have shown that the institutional (that is, political, social and economic) framework significantly affects the chances of success of MSMEs (Amin and Thrift, 1995; Nkya, 2003; Aidis, 2005).

Strategic Choice of MSMEs

No business organisation would survive in the long run in the absence of a strategy (Thomson, 2001). Hence, the exercise of strategic
choice is a fundamental managerial and organisational function in every MSME. Strategic choice refers to the determination of courses of strategic action an organisation should take (Child, 1997). Strategic choice, in this context is considered as an organisational variable although it is normally exercised by the top management of organisations. The choice is strategic as it involves matters of critical importance to an organisation as a whole. Child (1997) argues that strategic choice enables an organisation to relate to its external environment, set standards of operating performance, and determine the design of the organisation. In this context, environmental conditions shape the strategic choice (such as situational analysis and choice of goals and strategy) of organisations. Strategic choices consequently influence the organisation's scale of operation, technology, structure, human resources, and ultimately the organisation's operating effectiveness.

Conceptual Framework Development

The foregoing discussion on the theoretical domains of institutional theory, MSME sector development, and strategic choice serves as a mental map guiding the development of the framework linking institutions and strategic choice of MSMEs. Figure 1 presents the conceptual framework. The formal and informal institutions constitute the institutional matrix (North, 1990) which shapes MSMEs’ strategic choice that is operationalised as strategic posture or the top management’s risk taking behaviour with regard to investment decisions and strategic actions in the face of uncertainty, the extensiveness and frequency of product innovations and the related tendency toward technological leadership, and the pioneering nature of the firm as evident in the firm’s propensity to compete with industry rivals aggressively and proactively (Covin and Slevin, 1990; Covin, Slevin and Schultz, 1994; Gibbons and O’Connor, 2005).

Formal institutions constitute the “concrete” (Boland, 1992) or “hard” institutional environment of the firm (Hodgson, 1993) while the informal institutions constitute the “consensus” or “soft” institutional environment. Together, they determine the level of institutional thickness which shape the productive and strategic directions of MSMEs (Amin and Thrift, 1995; Raco, 1999).
Figure 1: The Conceptual Framework

**Formal Institutions**
- Rule of Law
- Property Rights Protection
- Government Policies
- Regulatory Quality
- Government Assistance

**Informal Institutions**
- Performance Orientation
- Future Orientation
- Assertiveness
- Collectivism
- Power Distance
- Humane Orientation
- Uncertainty Avoidance

**Strategic Posture**
Link between Institutions and Strategic Posture

The relationships between institutions and strategic choice as manifested by strategic posture, remains a point which needs further clarification (Pfeffer and Salancik, 1978; Clark, Varadarajan and Pride, 1994; Child, 1997; Beckert, 1999). The strategic choice perspective of the growth of the firm builds on the assumption that the firm operates in a market economy in which it is relatively free to pursue its own strategic choices (Peng and Heath, 1996).

The work of Oliver (1991) provides the argument that firms are not passive entities floating in an ocean of institutions. Institutional theory can accommodate interest-seeking, active organisational behaviour when organisations’ responses to institutional pressures and expectations are not assumed to be invariably passive and conforming across all institutional conditions (Oliver, 1991). By combining institutional and resource dependency theories, Oliver (1991) was able to identify a typology of strategic responses to deal with institutional pressures under the convergent assumptions that: (a) organisational choice is constrained by external pressures coming from a collective and interconnected environment; (b) organisations seek legitimacy, stability and predictability to survive; and (c) organisations are able to protect their interests through responsiveness to external demands and expectations. The ability of an organisation to adapt to changing environmental circumstances is the key to organisational survival and the effectiveness of the adaptive response is dependent on aligning the response to the environmental circumstances faced by the organisation (Strandholm, Kumar and Subramanian, 2004).

Likewise, the theory of opportunity exploitation (Shane, 2003), theory of organisational adaptation (Hrebiniak and Joyce, 1985), and the concept of environmental management (Zeithaml and Zeithaml, 1984) all point to the same argument that environmental structures (that is, institutions) are not necessarily antagonistic to strategic choice, rather they both form its precondition and inform its content (Whittington, 1988). Moreover, the subjective perceptions (mental models) of organisational key players about their external environment—correct or incorrect—determine the choices they make which are the ultimate sources of action (North, 2005).

Formal Institutions

Formal institutions refer to the legal and political factors manifested by the rule of law, regulations, government policies and assistance programs designed to support the business activities of MSMEs (Busenitz et
These formal institutions are articulated in written forms, administered by a central authority, and violations of these “rules” entail legal sanctions (Redmond, 2005). Identification of these formal institutions is mainly based on the seminal work of Kaufmann et al (1999) on governance and institutional quality which inspired more studies on the role of formal institutions in economic development (Fogel et al, 2006).

**Rule of Law**

Rule of law refers to the supremacy of law whereby decisions are made by the application of known principles or laws without the intervention of discretion in their application (Kahn, 2006). A society with a strong rule of law is defined as one having sound political institutions, a strong court system, and provisions for orderly succession of power as well as citizens who are willing to accept the established institutions and to make and implement laws and adjudicates disputes (Oxley and Yeung, 2001). Rule of law enhances transactional trust among contracting parties knowing that their rights and interests are well protected by law supported by an efficient legal and judicial system (Vandenberg, 1999; Fogel et al, 2006). It promotes transparency and stability regarding boundaries of acceptable behaviour (Scully, 1988; Oxley and Yeung, 2001). Increased transactional trust therefore allows MSMEs to be more aggressive in seeking for opportunities, building alliances, bearing risks, raising capital and entering markets (Fogel et al, 2006). Hence, proposition number one states that rule of law is positively associated with entrepreneurial strategic posture.

**Property Rights Protection**

Possession of significant assets cannot be efficiently used to increase output and promote economic growth if such assets lack the legal status of property. Protection of property rights include the protection and enforcement of right to use, exclude others from using, modify, obtain income from, and sell assets (Reed, 2001; Landau, 2003). Property rights identify and protect the set of tangible and intangible resources that can be transferred in the market place and provides necessary incentives to owners to risk improvement to resources by ensuring that they will benefit from the improvement and that others will not deprive them of the benefit (Reed, 2001).

Consequently, protection of property rights allows the creation of security for capital borrowing and investment as well as provides incentives to put private property into productive use (Reed, 2001; Heitger, 2004; Rodrik, Subramanian and Trebbi, 2004). These incentives increase
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the confidence of MSMEs to innovate and become economically active without the fear of being cheated out of the fruits of their efforts (Heitger, 2004). Other advantages include the promotion of investment in knowledge creation and business innovation by establishing exclusive rights to use and sell newly developed technologies, goods and services (Maskus, 2000). Consequently it promotes widespread dissemination of new knowledge by encouraging rights holders to put their inventions and ideas in the market (Maskus, 2000). As information is viewed as a resource, it will open up opportunities for further research and development by the rights holder and other firms. Based on the foregoing arguments, proposition number two states that protection of property rights is positively associated with entrepreneurial strategic posture.

**Government Policies**

The development and maintenance of a policy framework conducive for private enterprise in general and for MSME development in particular cannot be over emphasised. In this context, government policies refer to the enacted and implemented laws, ordinances, regulations any other forms of legislations and/or government decisions especially those that affect the business sector (Fogel, 2001). The relevance of government policies is well supported by the argument of Rodrik (2006) that strategic government intervention may often be required to get out of the low-level traps and elicit private investment brought about by coordination failures and capital market imperfections. Government policies may be viewed as conduits through which MSMES can engage in business activities consistent with external rules and regulations, hence, reducing the level of uncertainty (for example, fear from government intervention).

Likewise, government policies open up opportunities for MSMES such as resource acquisition, mobilisation, alliance/network formation (for example, subcontracting), establishment of industry clusters, and market development or expansion (for example, export) (Lester, 1992; Skuras, Dimara and Vakrou, 2000; Jackson, 2002; Audretsch, 2004; Tan, 2004; Tambunan, 2005). Therefore, proposition number three states that government policies perceived as conducive for MSME are positively associated with entrepreneurial strategic posture.

**Regulatory Quality**

Regulatory quality refers to the degree to which compliance of the existing laws, rules, and other government regulatory procedures does not impose unreasonable burden on MSMEs (Gnyawali and Fogel, 1994;
Burdensome government regulations may affect SMEs through: the increased prices to absorb the cost of regulatory compliance; pressure of cost inequities as small companies feel the brunt of regulatory burdens more than large firms; competitive restrictions that may significantly discourage small firms; managerial restrictions resulting from SMEs sacrificing managerial time to comply with government regulations; and mental burden arising from postponed projects, wasted time, managerial failure due to lack of time and energy (Gnyawali and Fogel, 1994; Kuratko, Hornsby and Naffziger, 1999; Hellman, Jones, Kaufmann and Schankerman, 2000; Kuratko and Hodgetts, 2004). Therefore, proposition number four states that better regulatory quality is positively associated with entrepreneurial strategic posture.

**Government Assistance**

Government assistance has been noted as a key component in small business or MSME development (Hill, 1995; Jackson, 1999; Helmsing, 2000; Henriquez, Verheul, van der Knaap and Bischoff, 2001). In this study, government assistance is expressed as the extent to which the government extends various forms of assistance or incentives supportive of the MSME sector (Busenitz et al, 2000). Jackson (1999) argues that governments have a significant role to play in nurturing the small business sector by being involved in the provision of non-traditional functions such as coordinating and monitoring economic agents, market development, financing, supporting producers, enabling community self-provision, supporting customers through provision of information, and direct provision of services not undertaken by the market (Jackson, 1999). Skuras et al (2004) concluded that the range of business assistance programs significantly shape the tendency of SMEs to pursue either survival-oriented or more aggressive-type of strategies. Proposition number five states government assistance is positively associated with entrepreneurial strategic posture.

**Informal Institutions**

Informal institutions refer to the cultural factors shared by members of a society in a that serve as constraints and/or standards and the violation of which entails social rather than legal penalties (North, 1990; Olsson, 1999; Redmond, 2005). This operational definition stems from the characterisation of informal institutions by North (1990) as codes of conduct, norms of behaviour, unwritten rules, conventions, and generally accepted way of thinking that come from socially transmitted infor-
mation and are part of the heritage that we call culture (North, 1990; 1991; 2005). These norms, ethics, customs, taboos, and ideologies form the unofficial rules of a society, learned through socialisation and are largely the inherited view of the world from older generations (Olsson, 1999; Redmond, 2005).

Whilst there are a number of studies discussing the theoretical and conceptual bases of informal institutions (Pejovich, 1999; Aidis, 2005; Davis, 2006), only a handful of empirical studies attempted to measure specific constructs categorically classified as informal institutions (Peng and Heath, 1996; Nkya, 2003; Peng, 2004; Robson, 2004; Tabellini, 2005). The very scarce empirical studies on informal institutions look at socio-cultural factors such as kinship, community networks, religion, norms, and values and their varying degrees of influence on human or organisational behaviour (Hill, 1995; Pejovich, 1999; Nkya, 2003; Tabellini, 2005). Obviously, there is a plethora of studies examining culture using the popular framework of Hofstede (1980) whereby cultural dimensions such as collectivism and uncertainty avoidance were shown to be related to entrepreneurship in various respects (Robson, 2004). Even so, informal institutions are oftentimes treated ex post facto or as residuals after exhaustively discussing formal institutional mechanisms. This is anathema to North’s (1990) original concept of informal institutions for which he argues that informal constraints should not be treated as mere appendages of formal rules.

This study adopts the Global Leadership and Organisational Behaviour Effectiveness (GLOBE) cultural framework developed by House et al (2004) for a number of reasons. The study of Parboteeah et al (2005) claims that the GLOBE cultural study is the most up-to-date national culture study providing helpful updates to the cultural dimensions identified by Hofstede (1980) whose work has been criticised for many of its conceptual and methodological issues. As such, using the GLOBE framework tends to avoid Hofstede’s problematic issues and incorporates other cultural dimensions not included in Hofstede’s work and that of other cultural schemes (Parboteeah, Bronson and Cullen, 2005).

The GLOBE cultural framework measures culture using the Direct Values Inference method whereby cultural characteristics are inferred from the aggregated values of respondents in a survey (Lenartowicz and Roth, 1999). One of the strengths of the framework is its predictive validity whereby cultural dimensions are studied not just in the context of the general society but also in the context of leadership and organisational behaviour (House et al, 2004). The following are the major components of the GLOBE cultural framework which are considered in this study as
manifestation of a society’s informal institutions.

**Performance Orientation**

Performance orientation reflects the extent to which a community values results, assertiveness, competition, and materialism, and encourages and rewards innovation, high standards, and performance improvement (Javidan, 2004). Performance orientation shows strong resemblance to McClelland’s Need for Achievement as well as the Protestant ethics of individual responsibility, hard work, knowledge and challenge (Javidan, 2004). It is considered as an important dimension of a community’s culture as the underlying practices and values have an impact on the way the community defines success in adaptation to external challenges (Javidan, 2004). It promotes the values of seeking betterment, setting high standards of performance, ambitious expectations and a thirst for learning (Javidan, 2004).

According to Javidan (2004), societies with high level of performance orientation tend to display strong level of competitiveness, self-confidence, and ambition. Likewise, he further argues that in these societies, time is considered non-renewable and subject to high depletion thereby promoting a strong sense of urgency in meeting challenges and making decisions. Hence, proposition number six explains that higher level of performance orientation is positively associated with entrepreneurial strategic posture.

**Future Orientation**

Future orientation is used in this study to mean the tendency to conscientiously think and plan for the future and consider the long-term consequences of one’s actions in the present (Ashkanasy et al, 2004; Corral-Verdugo and Pinheiro, 2006). Cultures with high future orientation display strong capability and willingness to imagine future contingencies, formulate future goals states, and seek to achieve goals and develop strategies for meeting their future aspirations (Ashkanasy et al, 2004). People in a future oriented culture are likely to be good in establishing and achieving goals and in planning strategies for meeting long-term obligations (Corral-Verdugo and Pinheiro, 2006). Proposition number seven is expressed as higher levels of future orientation are positively associated with entrepreneurial strategic posture.

**Assertiveness**

Assertiveness reflects the beliefs as to whether people are encouraged to be assertive, aggressive, and tough or non-assertive, non-aggres-
sive, and tender in social relationships (Den Hartog, 2004; Parboteeah et al, 2005). Assertiveness behaviour includes making it clear to others what one wants, refusing what one doesn’t want and generally expressing one’s intentions in clear and unambiguous terms (Parboteeah et al, 2005). Assertiveness also entails willingness to confront opposing views and to express one’s ideas and feelings in social encounters (Niikura, 1999). It is reported that assertive societies tend to be competitive, value success and to think of others as necessarily opportunistic (Den Hartog, 2004). Assertive societies tend to look at nature as something to be controlled and manipulated, take a pragmatic stance towards reality, and have a belief in human perfectibility (Den Hartog, 2004).

A highly aggressive culture places high value on achievement, independence, heroism, monetary rewards, and decisiveness (McGrath et al, 1992; Gleason et al, 2000; Su, 2006). The relationship between assertiveness and MSME strategic posture may be explained in terms of the dimensions of strategy-making. It is argued that assertiveness is an inherent dimension of strategy-making which concerns the levels of risk-taking and reactivity or proactiveness of decisions (Miller, 1987; Koberg et al, 1993). Since entrepreneurial firms are viewed as risk-takers and act on rather than react to their environment, then an assertive culture is likely to support entrepreneurial strategic posture as strategy-making and implementation are considered as an exercise of assertiveness (Miller, 1987; Koberg et al, 1993). Hence, proposition number eight states that high level of assertiveness is positively associated with entrepreneurial strategic posture.

**Collectivism**

Collectivism involves the subordination of personal interests to the goals of the larger work, an emphasis on sharing, cooperation, interpersonal connectedness, group harmony and solidarity, and joint responsibility, concern for group welfare, and hostility toward out-group members (Hosfstede, 1980; 1983; Morris et al, 1993; Gelfand et al, 2004; Parboteeah et al, 2005; Yilmaz et al, 2005; Su, 2006). The opposite construct is individualism which refers to self-orientation, an emphasis on self-sufficiency and control, the pursuit of individual goals that may or may not be consistent with in-group goals, a willingness to confront members of the in-group to which they belong, and a culture where people derive pride from their own accomplishments (Morris et al, 1993; Yan and Hunt, 2005). Personal freedom is valued and individual decision-making is encouraged in societies with high individualism culture (Gong, Li and Stump, 2007).
Studies have shown that cultures that are low in collectivism (that is, high in individualism) tend to support entrepreneurial strategic posture. McGrath et al (1992) argue that entrepreneurs must have high individualism score since under individualist culture, individual initiative, achievement, right to privacy as well as formation of one's own opinion are highly valued. This is consistent with the findings of Parboteeah et al (2005) and Yan and Hunt (2005). Therefore, proposition number nine states that high level of collectivism is negatively associated with entrepreneurial strategic posture.

**Power Distance**

Power distance reflects the extent to which a community accepts and endorses authority, power differences, and status privileges (Carl et al, 2004). High degree of power distance leads to a less participative stance in decision-making, greater reliance on rules and procedures, and higher levels of subordinate submissiveness (Yilmaz et al, 2005). Likewise, preservation of current status tend to be highly noticeable in societies with high power distance (Hosfsted, 1980).

Shane (1992) explains that high power distance is anathema to innovation because it promotes hierarchical social structure and inequality, inhibits informal communication between people in different hierarchical levels, encourages centralisation of power, endorses elaborate control systems especially in organisations, and upholds unwillingness to accept change in the distribution of power. All these, according to Shane (1992), inhibit innovation such that: dispersed power structures create coalitions that support innovation; frequent informal communication as well as decentralisation permit free flowing of ideas which facilitates knowledge acquisition and diffusion; control systems based on trust rather than rigid rules and procedures encourage active participation and creative thinking amongst employees; and social mobility increases occupational mobility, technical change and innovation.

Innovation tend to be significantly lower in countries with high power distance (Yaveroglu and Donthu, 2002). Cultures that exhibit large power distance will be less innovative because people in such cultures are encouraged to respect authority, follow directions and avoid standing out through original thinking (Gong et al, 2007). People may take less initiative to consider and discuss the introduction of new products and technologies and will generally wait for signals from authority figures or opinion leaders (Gong et al, 2007). Therefore, proposition number 10 advances that high level of power distance is negatively associated with entrepreneurial strategic posture.
Humane Orientation

Humane orientation characterises those societies where people’s behaviours are guided by values of altruism, benevolence, kindness, love, and generosity (Kabasakal and Bodur, 2004). The need for belongingness and affiliation rather than self-fulfilment, pleasure, material possession and power are likely to be the dominant bases (Kabasakal and Bodur, 2004). Societies that have high humane orientation tend to place greater importance of others (that is, family, friends, or community), have high need for belonging and affiliation, values obedience and promotes close monitoring of children by children rather than promoting independence (Kabasakal and Bodur, 2004).

The GLOBE study reveals that a humane oriented culture tends to contradict the elements of an entrepreneurial strategic posture: risk-taking, proactiveness, and innovation. Greater emphasis on affiliation rather than achievement, less emphasis on self-fulfilment, material possession and power, less emphasis on independence, strong tendency towards collectivism, and lesser value placed on assertiveness: all these do not fit nor support the conceptual scope of entrepreneurial strategic posture. To achieve something is an underlying purpose of entrepreneurial risk-taking. Likewise, independence is an essential element of innovation and proactiveness based on the assumption that one can only be innovative and proactive if they are willing to take a firm stand on what they think and feel (independent) and pursue ideas contrary to popular beliefs. Hence proposition number 11 states that high level of humane orientation is negatively associated with entrepreneurial strategic posture.

Uncertainty Avoidance

Uncertainty avoidance refers to the extent to which ambiguous situations are threatening to individuals, to which rules and order are preferred and to which uncertainty is tolerated in society (Gleason et al, 2000; De Luque and Javidan, 2004). In short, uncertainty avoidance reflects the level of tolerance for ambiguity within a given culture (Parboteeah et al, 2005).

Low uncertainty avoidance implies greater willingness to take risks (Hofstede, 1980). Likewise low uncertainty avoidance comes with it values for risk-taking, strong motivations for individual achievement and more optimism—a very good climate for entrepreneurs to thrive (McGrath et al, 1992; Gong et al, 2007).

The intention to become an entrepreneur and start up a business is characterised as a risky behaviour compared to establishing an employment career with predictable and steady flow of income.
The fear of failure (usually operationalised by one’s risk aversion) is a critical issue for entrepreneurs due to the little separation between business and personal risk in an entrepreneurial venture (Watson and Robinson, 2003). In this case, entrepreneurship can be characterised as requiring fair tolerance of ambiguity, locus of control that is more internal than external as well as willingness to take risks that are relatively well calculated (Pitt and Kannemeyer, 2000). Uncertainty avoidance turns out to be anathema to innovation as the latter tends to introduce unanticipated changes and cause uncertainty which in turn leads to resistance to innovation (De Luque and Javidan, 2004; Erumban and de Jong, 2006).

Hofstede (1980) noted that in high uncertainty avoidance societies, there is greater fear of failure, lower willingness to take risks, lower levels of ambition, and lower tolerance for ambiguity. These values tend to contradict the entrepreneurial values of proactiveness, innovation, and risk-taking. Hence proposition number 12 states that high level of uncertainty avoidance is negatively associated with entrepreneurial strategic posture.

**Strategic Posture**

As previously discussed, the exercise of strategic choice by MSMEs is operationalised by the concept called strategic posture. Strategic posture implies that a firm can be categorised along a continuum ranging from less entrepreneurial to more entrepreneurial (Covin, 1991). Strategic posture, whilst exercised by the owner of an MSME, or top management of a firm, is considered an organisational variable as organisations are reflections of the values and cognitive bases of powerful actors (Carpenter and Fredrickson, 2001).

Strategic posture, hinges on three fundamental constructs: innovativeness, proactiveness, and risk-taking. Innovativeness reflects a tendency to support new ideas, novelty, experimentation, and creative processes, thereby departing from established practices and technologies (Lumpkin and Dess, 1996). Proactiveness refers to a posture of anticipating and acting on future wants and needs in the marketplace, thereby creating a first-mover advantage vis-à-vis competitors (Lumpkin and Dess, 1996). Risk-taking is associated with a willingness to commit large amounts of resources to projects where the cost of failure may be high (Miller and Friesen, 1982). It also implies committing resources to projects where the outcomes are unknown. It largely reflects the organisation’s willingness to break away from the tried-and-tested and venture into the unknown (Wiklund and Shepherd, 2003).

Covin et al (1994) argue that firms with conservative or less entrepreneurial strategic posture are risk averse, non-innovative and reactive.
firms whilst those with more entrepreneurial strategic posture are risk taking, innovative, and proactive. These three components comprise a basic, uni-dimensional strategic orientation (Covin et al, 1994; Gibbons and O’Connor, 2005; Naldi et al, 2007). Essentially, strategic posture reflects the firm’s strategic orientation, that is, the firm’s overall competitive orientation (Covin and Slevin, 1989).

The importance of studying strategic posture rests on previous research that generated the following results among others: (a) strategic posture is the organisation’s response or adaptation to the vagaries of the external environment (that is, hostility, turbulence, complexity, etc) (Lukas 1999; Strandholm et al, 2004); (b) strategic posture is the exploitation of the firms’ resources to generate competitive advantage (Ördaz et al, 2003); (c) strategic posture shapes the level of innovation within the firm (Salavou et al, 2004; O’Regan and Ghobadian, 2005); and (d) strategic posture shapes the performance outcome of firms (Ramaswamy et al, 1994; Rajagopalan, 1996; Pelham, 1999; Durand and Coeurderoy, 2001; Noble et al, 2002; Morgan and Strong, 2003; Aragon-Sanchez et al, 2005).

**Conclusion and Implications for Further Research**

Institutions matter to MSMEs because they provide the structure, set constraints and offer incentives that could support or inhibit the proactive, risk-taking and innovative activities of these firms. The minimisation of transaction costs as well as level of uncertainty through formal institutions play a major role in supporting the entrepreneurial growth of MSMEs. The socio-cultural support provided by the equally important informal institutions complete the institutional landscape through which productive entrepreneurial activities could take place. The conceptual framework developed in this study offers a new way of looking at the relationship between the institutional environment and the strategic choices of MSMEs. However, this study offers numerous questions and issues worth pursuing in future studies.

Of major concern is the measurement of formal and informal institutions. It must be noted that there are many ways to measure a firm’s external environment (Lenz and Engledow, 1986). If informal institutions are intangible, will the cognitive model of environment (Weick, 1988) provide an adequate framework for measurement? Should objective measures be used to determine the quality of formal institutions? Furthermore, many developing countries are undergoing deregulation and decentralisation of governance systems making sub-national (for example, regional or city) governments politically and economically more responsible and accountable. It would be interesting to know how the proposti-
tions would work in such institutionally-heterogeneous localities.

Finally, the ultimate objective of business operation is to realise a pre-determined goal or set of goals which may range from intrinsic to financial values. The challenge therefore is to establish if an institutional environment conducive for entrepreneurial strategic posture would result to better and sustainable MSME performance.

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