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## Article

# Transnational entrepreneurship, social networks, and institutional distance

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# Transnational entrepreneurship, social networks, and institutional distance

## Toward a theoretical framework

Transnational  
entrepreneurship:  
a theoretical  
framework

45

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### Abstract

**Purpose** – Transnational entrepreneurship can be considered a new stream of research where migrant entrepreneurship and international business research fields intersect. The purpose of this paper is to offer a theoretical framework to address the following research question: How do transnational entrepreneurs (TEs) develop their competitive advantage to succeed in a global market?

**Design/methodology/approach** – Based on the strategic entrepreneurship approach and dynamic capability perspective, this paper suggests a theoretical framework to extend the understanding on how TEs may develop their competitive advantage to succeed in a global market.

**Findings** – The suggested theoretical framework exhibits how the social ties of TEs affects their firm performance through the mediating effect of a bundle of two organizational processes (opportunity sensing and opportunity seizing) and the moderating effect of institutional distance between countries of origin and residence.

**Practical implications** – TEs should not solely focus on their ethnic social ties. That is why this paper suggests that ethnic ties in the country of origin and the country of residence (COR) may lead to higher firm performance only if systematically used alongside nonethnic ties in the COR. Furthermore, it is crucial for TEs to understand the importance of dynamic capabilities in developing and sustaining their competitive advantage.

**Originality/value** – Based on the strategic entrepreneurship approach, this paper suggests a social tie-based model of the dynamic capability to address the theoretical void in the transnational entrepreneurship literature. The linkage between social tie and performance which has been in a black box is examined in terms of how strong and weak social ties may affect different underlying processes of TEs' dynamic capabilities differently. In contrast to the common conceptualization of institutional distance as a negative moderator in international business literature, institutional distance is theorized as a positive moderator in the suggested theoretical model of transnational entrepreneurship.

**Keywords** Dynamic capability, Institutional distance, Social networks, Transnational entrepreneurship, Immigrant entrepreneur

**Paper type** Research paper



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## Introduction

In the USA, immigrants make up 13 percent of the population; however, immigrant-owned businesses account for 28 percent of main street businesses (Kallick, 2015), generate over \$775 billion in revenue, and employ one out of every ten workers (Kallick, 2012). In the 50 largest metropolitan areas of the USA, immigrants accounted for 48 percent of overall growth in business ownership between 2000 and 2013 (Kallick, 2015). A recent empirical article reports that close to 10 percent of immigrant entrepreneurs in the USA are involved in transnational economic activities; however, this figure is approximately 5 percent for nonimmigrant entrepreneurs (Wang and Liu, 2015).

Immigrants' economic effects on the development of their country of residence (COR) and country of origin (COO) have been recognized in the literature through remittances, homeland direct investment, and return migration; however, transnational entrepreneurship, which simultaneously contributes to both the COO and the COR, is less studied (Terjesen *et al.*, 2016). Transnational entrepreneurs (TEs) are "individuals that migrate from one country to another, concurrently maintaining business related linkages with their former country of origin, and currently adopted countries and communities" (Drori *et al.*, 2009, p. 1001). For example, some Chinese Canadians have established production in China and imported manufactured goods to Canada and, at the same time, exported North American merchandise to Asia (Wong and Ng, 2002). Such TEs benefit from their dual embeddedness (in Asian and North American cultures) and their familiarity with laws and the economic environment in both their COO and their COR.

This paper strives to offer a theoretical framework to address the following research question:

*RQ1.* How do TEs develop their competitive advantage to succeed in a global market?

Although both immigrant entrepreneurship literature (e.g. Portes *et al.*, 2002) and international business literature (e.g. Buckley *et al.*, 2002) emphasize the importance of TEs, the literature lacks a theoretical framework explaining how TEs develop competitive advantages in their new ventures to succeed in a globally competitive environment. The majority of scholarly studies of transnational entrepreneurship "has examined the phenomenon post hoc, exploring the social characteristics and business activities" of TEs (Riddle and Brinkerhoff, 2011, p. 400). Lu *et al.* (2010, p. 420) pointed out that "despite the documented relationship between resources and international performance, little is known about how entrepreneurial firms can capitalize on those resources that relate to distinctive capabilities to achieve superior international performance."

In order to address this gap in the literature, this paper adopts the strategic entrepreneurship approach (Ireland *et al.*, 2003) to better understand how TEs develop their competitive advantage to succeed in a global market. The strategic entrepreneurship approach is defined as "the integration of entrepreneurial (i.e. opportunity seeking) and strategic (i.e. advantage seeking) perspectives in developing and taking actions designed to create wealth" (Hitt *et al.*, 2001, p. 481). Based on the strategic entrepreneurship approach (Ireland *et al.*, 2003), this paper employs the dynamic capability perspective (Teece *et al.*, 1997; Teece, 2007) and relational theory of social networks (Granovetter, 1973) to suggest a theoretical framework which integrates the currently fragmented transnational entrepreneurship literature.

This paper is a response to several recent calls to develop a theoretical framework to examine transnational entrepreneurship as a new phenomenon (e.g. Brzozowski *et al.*, 2017; Drori *et al.*, 2009; Sequeira *et al.*, 2009). In a recent literature review, Terjesen *et al.* (2016) reported that despite "the high prevalence rate of transnational entrepreneurship [...] the phenomenon is understudied" (p. 307). This paper offers a theoretical framework that explains how TEs may recognize opportunities and take advantage of their exceptional social networks in both their COO and COR (which may be institutionally very different). The theoretical framework suggests how the ethnic and nonethnic ties of TEs affect firm

performance through the mediating effects of TEs' dynamic capabilities (Teece, 2007; Winter, 2003) and the moderating effect of institutional distance between the COO and the COR.

The contribution of this paper is threefold. First, based on the strategic entrepreneurship approach, this paper suggests a social tie-based model of the dynamic capability to address the theoretical void in the transnational entrepreneurship literature. Second, the linkage between social tie and performance which has been in a black box (Lahiri *et al.*, 2012; Wu, 2007) is examined in terms of how strong and weak social ties (Granovetter, 1973) may affect different underlying processes of TEs' dynamic capabilities differently. Third, this paper is a response to recent calls for including contextual factors (e.g. institutional distance) in understanding entrepreneurial activities (Yeung, 2002; Zahra and Wright, 2011). In contrast to the common conceptualization of institutional distance as a negative moderator in international business literature (Kostova and Zaheer, 1999; Xu and Shenkar, 2002), institutional distance is theorized as a positive moderator in the suggested theoretical model of transnational entrepreneurship.

The remainder of this paper is structured as follows. The following section provides a brief literature review on transnational entrepreneurship. In the third section, strategic entrepreneurship is discussed as an appropriate approach to address how TEs develop their competitive advantage to succeed in a global market. The paper concludes with managerial and policy implications as well as suggestions for future research directions.

### Transnational entrepreneurship

The prevalence of inexpensive communication methods (e.g. e-mail, fax, the internet, and telephone services) and affordable transportation opportunities (e.g. air travel) are all significant driving forces of transnational entrepreneurship (Drori *et al.*, 2009). One survey study shows that approximately one out of every five foreign-born professionals working in Silicon Valley is involved in start-ups or venture funds in their COO (Saxenian, 2002). Immigrants' transnational economic activities such as sending remittances to the COO and direct investment in the COO (Vaaler, 2011) have been examined in recent years; however, little is known about how the process of transnational entrepreneurship works (Dimitratos *et al.*, 2016) and what, if any, the competitive advantages of TEs are (Sequeira *et al.*, 2009; Yeung, 2009). Therefore, this paper focuses on transnational entrepreneurship.

The research on transnational entrepreneurship was originated by immigration scholars who defined TEs as a subset of migrant entrepreneurs "who travel abroad at least twice a year for business," and their business success "depends on regular contact with their country of origin" (Portes *et al.*, 2002, p. 284). Itzigsohn *et al.* (1999), Kyle (1999), and Landolt *et al.* (1999) are among the early scholars who discussed transnational entrepreneurship as a new research stream in the migrant entrepreneurship literature; however, most of the research on TEs in the late 1990s was limited to case studies (Portes *et al.*, 2002). In the last decade, entrepreneurship scholars also developed an interest in studying TEs (Ilhan-Nas *et al.*, 2011). Drori *et al.* (2009) discussed similarities and differences between transnational entrepreneurship and other research areas such as international entrepreneurship (McDougall *et al.*, 1994), returnee entrepreneurship (e.g. Wright *et al.*, 2008), and ethnic entrepreneurship (e.g. Morris *et al.*, 2002; Poorsoltan, 2007).

#### *TEs' ethnic advantage-performance linkage black box*

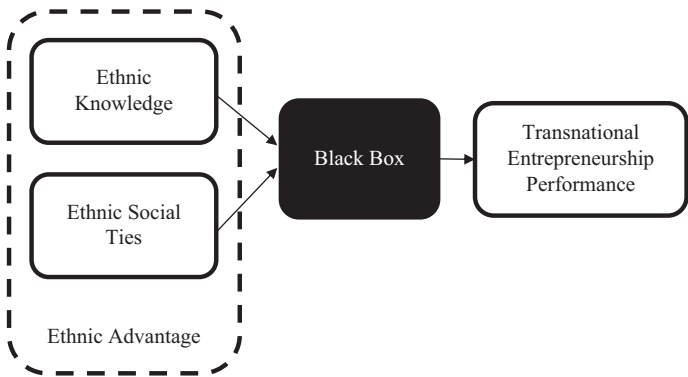
The transnational entrepreneurship literature is still in its infancy. Most of the studies in the transnational entrepreneurship literature have focused on ethnic ties[1] (e.g. Chand and Ghorbani, 2011) and ethnic market knowledge (e.g. Shinnar *et al.*, 2011) as important success factors for TEs but the extant literature fails to provide theoretical insight on how these resources may affect firm performance. In particular, the process of TEs' competitive advantage creation is still a mystery (Lin and Tao, 2012). In other words, the literature

currently lacks a theoretical model describing how TEs develop competitive advantages in their new ventures and succeed.

The extant fragmented literature implies a direct link between TEs' ethnic advantage (in terms of market knowledge and ethnic ties) and TEs' firm performance. "Ethnic advantage" refers to the assumption that that TEs "possess relative knowledge and social capital advantages" compared to other competitors (Nielsen and Riddle, 2007, p. 5). In other words, the concept of ethnic advantage is associated with the belief that TEs face less risk because they better understand market preferences and the business environment in their COO as compared to other foreign competitors (Gillespie *et al.*, 1999). Sequeira *et al.* (2009, p. 1023) argue that TEs "are unique in that they are socially embedded in both their home and host environment [...] [a condition that] aid[s] these entrepreneurs in opportunity recognition, start-up, and maintenance of new ventures." However, the empirical results of such a direct linkage between ethnic advantage and firm performance remain mixed. While some studies report the importance of ethnic ties in TEs' success (Chand and Ghorbani, 2011), other studies found no significant relationship between ethnic ties and firm performance (Chan and Cheung, 1985; Heilbrunn and Kushnirovich, 2007; Keefe, 1984; Zimmer and Aldrich, 1987), and other studies reported a negative effect (Fregetto, 2004) and called ethnic ties sticky (difficult to move beyond) which hinder a firm's potential to expand its social network capital beyond the ethnic community (Prashantham and Dhanaraj, 2010). Portes and Sensenbrenner (1993) discussed potential negative effects of ethnic ties which may pressure individuals to remain within their ethnic groups. Consequently, the immigrant entrepreneur may not develop social ties with members of the dominant market in the COR. In other words, the immigrant entrepreneurs under such pressure are unlikely to expand beyond their ethnic community and will miss new ideas that are prevalent outside of their closed ethnic network (Gomez *et al.*, 2015; Perera *et al.*, 2013). It is also important to note that not all immigrants with the same level of market knowledge and the same level of density and strength of social ties are involved in transnational entrepreneurship and if they are, not all of them exhibit a sustainable, successful outcome (Zafarullah *et al.*, 1997).

Even in those migrant entrepreneurship studies which emphasize the important effect of social networks and ethnic ties on firm performance (e.g. Kalnins and Chung, 2006; Siqueira, 2007), we still know little about the process through which social ties affect performance. In fact there are "very few papers on the genesis of ties and even fewer that consider the role of networks in the founding of new ventures" (Aldrich and Kim, 2007, p. 2). In other words, the resource-performance relationship remains in a black box (As shown in Figure 1), and the literature lacks a rigorous theoretical explanation of this process (Yang *et al.*, 2011).

Several researchers questioned the assumption of such a direct linkage between ethnic resources and firm performance (e.g. Lahiri *et al.*, 2012; Wu, 2007) and called for better



**Figure 1.**  
Transnational  
entrepreneurship  
literature black box

explanations of the transnational entrepreneurship process and how TEs develop their competitive advantage essential for firm performance (Drori *et al.*, 2009). This paper argues that ethnic resources are necessary but not sufficient factors in explaining the TEs' true competitive advantage and firm performance.

### *A strategic entrepreneurship approach*

In order to address the aforementioned black box, this paper employs the strategic entrepreneurship approach (Ireland *et al.*, 2003) which calls for the integration of opportunity seeking behavior theorized in the entrepreneurship field and competitive advantage seeking behavior which is at the core of strategic management. The strategic entrepreneurship approach argues that both opportunity seeking and advantage seeking are simultaneously required to develop competitive advantage resulting in firm performance. The strategic entrepreneurship approach also suggests that particular types of resources, such as market information, social networks, and entrepreneurs' characteristics (e.g. ethnicity and experience), are necessary but insufficient factors for wealth creation and success.

Based on the strategic entrepreneurship approach, this paper suggests that the dynamic capability perspective is a fruitful theoretical framework to examine transnational entrepreneurship and addresses the question of why some TEs succeed and others (with the same level of access to market knowledge or social network privileges) fail (Zafarullah *et al.*, 1997). The strategic entrepreneurship approach suggests that TEs' dynamic capabilities (encompassing opportunity sensing and opportunity seizing as explained below) not the resources, *per se* (Adner and Helfat, 2003) drive TEs' competitive advantage and firm performance. Based on earlier studies (e.g. Hamel and Prahalad, 1990; Nelson and Winter, 1982), Teece *et al.* (1997, p. 516) define a dynamic capability as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments." In addition, they argue that dynamic capabilities are difficult to imitate due to their path dependency (reliance on previous decisions, firm history, and organizational and managerial processes) as well as firm technological, financial, and social asset positions.

The dynamic capability perspective is suitable to examine TEs for three reasons. First, the dynamic capability perspective (Teece *et al.*, 1997) was developed as an extension of the resource-based view (RBV) of the firm (Barney, 1991; Rumelt, 1984; Wernerfelt, 1984) which is used by both strategic management and entrepreneurship scholars to explain firm performance and entrepreneurial success (Ireland *et al.*, 2003). The RBV posits that firm resources which are valuable, rare, nonsubstitutable, and costly to imitate serve as the true source of competitive advantage (Barney, 1991). Social networks are considered valuable, rare, nonsubstitutable, and costly to imitate and are potential resources for competitive advantage creation. However, the RBV has been criticized as a static perspective that is largely tautological in nature (Priem and Butler, 2001) and particularly unsuitable for a fast-changing environment (Teece *et al.*, 1997) such as in international business (Teece, 2007). In dynamic environments, "simply examining relationships between start-up resources and performance can produce misleading conclusions when using the RBV" (Wu, 2007, p. 549). Therefore, the dynamic capability perspective may explain why TEs from the same COO that operate in the same COR experience different entrepreneurial outcomes (Yeung, 2002).

Second, several scholars in the field of entrepreneurship (e.g. Arthurs and Busenitz, 2006; Newey and Zahra, 2009) support the notion that the dynamic capability perspective is an appropriate theoretical lens in describing entrepreneurial firms and call for capability-based theoretical lenses to examine drivers of successful internationalization in entrepreneurial firms (Autio *et al.*, 2011). Finally, several scholars in international business (e.g. Griffith and Harvey, 2001; Lu *et al.*, 2010; Malik and Kotabe, 2009) also suggest that dynamic capabilities is a fruitful perspective to better understand how firms create

competitive advantages in an international environment. The literature suggests that dynamic capabilities may encourage and facilitate internationalization and learning in international markets (Griffith and Harvey, 2001; Sapienza *et al.*, 2006).

### **Transnational entrepreneurship: a theoretical framework**

Based on the strategic entrepreneurship approach, this paper suggests a social network-based model of dynamic capability development which explains how TEs may develop some organizational processes in both COO and COR to create their unique competitive advantage. TEs' success depends on developing unique organizational dynamic capabilities which allow them to compete against established firms (Arthurs and Busenitz, 2006; Sapienza *et al.*, 2006). Teece (2007) explains that dynamic capabilities can be disaggregated into the capacity to sense opportunities and to seize opportunities through reconfiguring the business enterprise's intangible and tangible assets. Consistent with Winter (2003, p. 992), this paper posits dynamic capabilities are "higher level" organizational processes that extend, modify, or create "zero-level" processes. Winter (2003, p. 991) defines a zero-level process as "behavior that is learned, highly patterned, repetitious, or quasi-repetitious, founded in part in tacit knowledge." Therefore, this paper suggests that TEs need to develop two key zero-level processes: first, the opportunity sensing organizational process to sense and shape opportunities; and second, the opportunity seizing organizational process to exploit opportunities.

#### *Opportunity sensing*

Entrepreneurial opportunities are potential situations for introducing new products or services to a target market or providing extant products and services in new ways (Eckhardt and Shane, 2003). Opportunity sensing can be considered the core of entrepreneurship (Hitt *et al.*, 2001) because it characterizes entrepreneurs as individuals who are capable of identifying opportunities not recognized by others (Shane and Venkataraman, 2000). In particular, the international business literature emphasizes the importance of the opportunity sensing process for foreign market opportunities exploration (Lu *et al.*, 2010; Yeoh, 2000). Market information asymmetries often provide entrepreneurial opportunities which are not evenly recognizable to everyone (Ireland *et al.*, 2003; Moghaddam, Aidov, DuVal and Azarpanah, 2017; Shane and Venkataraman, 2000). In the context of transnational entrepreneurship, TEs have a unique advantage of recognizing special opportunities associated with their unique information and knowledge of their COO and COR which is not readily available to other competitors and thus may serve as a source of competitive advantage.

Examining the entrepreneurial activities of former USSR immigrants in the Netherlands and Israel, Van Gelderen (2007) found the ways that COO knowledge may aid TEs to recognize unique opportunities. For example, TEs may start travel agencies providing tour services to people in their COO to visit the COR or take people from the COR to explore the COO. Importing and exporting businesses of hand-made products (e.g. Persian hand-woven carpets) that may be idiosyncratic to the TEs' COO are also another example of opportunities for TEs.

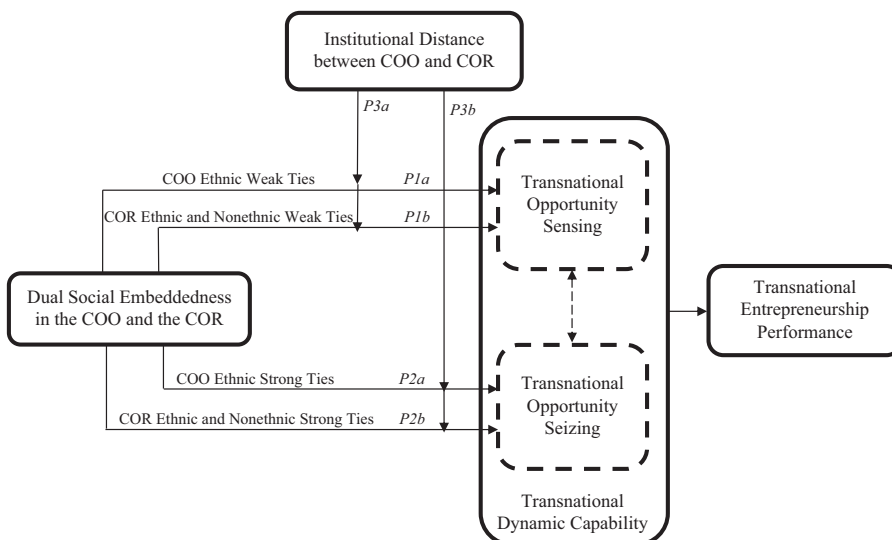
Teece (2007, p. 1323) points out that while one individual in a firm may have the "necessary cognitive and creative skills" to sense some opportunities, the more desirable approach is to "embed scanning, interpretative, and creative processes inside the enterprise itself." In other words, he suggests that the firm will be "vulnerable" if opportunity sensing is "left to the cognitive traits of a few individuals." Therefore, using a strategic entrepreneurship approach, this paper argues that TEs need to develop opportunity sensing processes such as internal research and development activities and customer feedback (Teece, 2007) to sense opportunities systematically and relate those to the opportunity-seizing process which in turn may lead to firm performance.

### Opportunity seizing

The strategic entrepreneurship approach posits that transnational opportunity sensing is necessary but not sufficient for competitive advantage creation (Hitt *et al.*, 2001). In addition to the opportunity sensing process development, TEs need to enhance their opportunity-seizing processes. In fact, engaging in cross border activities “could be considered an act of opportunity seizing” which requires the development of related dynamic capabilities (Jantunen *et al.*, 2008, p. 158). For example, the marketing process, the “capacity to formulate effective marketing mix strategies,” can be considered as an opportunity seizing ability (Weerawardena *et al.*, 2007, p. 301) which may significantly contribute to sustainable competitive advantage development (Kor and Mahoney, 2005) and thus positively affect entrepreneurial performance (Knight *et al.*, 2004). Using Panel Study of Entrepreneurial Dynamics data, Newbert (2005, p. 67) points out that a set of gestation activities (opportunity seizing mechanisms) such as “developing a [business] model”, “hiring committed employees”, and “engaging in promotional efforts” significantly affect firm performance.

Consistent with the strategic entrepreneurship approach (Ireland *et al.*, 2003), this paper considers opportunity seizing as a process of strategically managing tangible and intangible resources and leveraging organizational resources. The opportunity-seizing process includes business model development, establishing decision-making protocols, establishing control and monitoring mechanisms, and building loyalty and commitment (Teece, 2007).

In sum, the ability to access and make sense of the external knowledge and information is crucial to exploit entrepreneurial opportunities (Zahra and George, 2002). In other words, opportunity sensing when combined with advantage seeking behavior leads to growth and wealth creation (Ireland *et al.*, 2003). Ineffective bundles of resources “lead to poorly coordinated and often chaotic attempts to create maximum value by using the firm’s capabilities” (Ireland *et al.*, 2003, p. 979). Therefore, with the strategic entrepreneurship approach, this paper posits that in order to assure firm performance, both zero-level organizational processes of opportunity sensing and opportunity seizing are required (Teece, 2007) for the development of TEs’ dynamic capabilities and attaining subsequent firm performance. Furthermore, TEs’ transnational dynamic capability plays a key role to unravel the ethnic advantage-performance linkage black box as shown in Figure 2.



**Figure 2.**  
The theoretical model  
of transnational  
entrepreneurship



*TEs' dynamic capabilities as a mediator of social ties-performance linkage*

Social networks have been recognized as an important resource for entrepreneurial firms in general (Aldrich and Kim, 2007; Jiang *et al.*, 2012) and immigrant start-ups in particular (Chung and Whalen, 2006; Chung and Tung, 2013; Dai *et al.*, 2011). Entrepreneurial firms have limited resources and social networks provide complementary resources essential to establish and run a new venture (Greve and Salaff, 2003).

Social networks can broadly be defined as “a web of personal connections and relationships for the purpose of securing favors in personal and/or organizational action” (Zhou *et al.*, 2007, p. 674). Social networks are important in the internationalization process of both large and small firms (Chetty and Blankenburg Holm, 2000). The advantages embedded in social ties are often referred to as social capital which can be considered TEs' most effective resource (Acquaah, 2007; Prashantham, 2011). Social embeddedness is defined as “the density and strength” of an immigrant's social ties within their local ethnic community and their homeland (Nielsen and Riddle, 2007, p. 5). Social embeddedness “not only helps in the founding of organizations, but also provides access to support during the entrepreneurial process” (Zaheer *et al.*, 2008, p. 953). In their study of immigrants from three Latin American countries with firms in the USA, Portes *et al.* (2002) point out that the majority of TEs rely heavily on their ethnic ties in both their COO and COR. TEs are in a unique position to develop a dual social embeddedness due to the fact that they have lived in both their COO and COR which results in social embeddedness in both countries. It would be very difficult, if not impossible, for a nonimmigrant entrepreneur to gain a high level of dual social embeddedness in two countries without spending a considerable amount of time in both countries learning their culture, language, and social norms.

In order to examine the social tie-performance linkage in the context of transnational entrepreneurship, this paper posits that TEs' dynamic capabilities mediate the relationship between TEs' dual social embeddedness and firm performance. To examine the effect of social ties on TEs' dynamic capabilities, this paper draws on the relational theory of social networks (Granovetter, 1973) to discuss the effect of TE's social ties (ethnic and nonethnic ties in COO and COR) on the opportunity sensing and opportunity seizing organizational processes.

The relational theory of social networks emphasizes the social network relationship characteristics in terms of strong or weak ties (Granovetter, 1973). The strength of a tie can be defined in terms of a combination of “the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie” (Granovetter, 1973, p. 1361). Strong ties are more trustworthy but limited in scope due to being costly to establish and to maintain. On the other hand, weak ties are less expensive to maintain but associated with a greater scope suitable for transferring more, better, and novel information (Sharma and Blomstermo, 2003; Uzzi, 1997).

*The effect of TEs' social ties on opportunity sensing process*

Social networks “facilitate the acquisition of knowledge and the discovery of opportunities” and contribute “to lowering risk and uncertainty inherent in international operations” (Weerawardena *et al.*, 2007, p. 301). Multiple studies have established the significant effect of social networks on access to information and knowledge (Sharma and Blomstermo, 2003; Zhou *et al.*, 2007). In regard to the opportunity seeking process, the relational theory of social networks suggests that weak ties are “more likely to link members of different small groups than are strong ties, which tend to be concentrated within particular groups” (Granovetter, 1973, p. 1376). On the other hand, strong ties “lead to overall fragmentation” (Granovetter, 1973, p. 1378) and may isolate individuals from the novel information flow. In other words, weak ties are more important than strong ties in providing access to a variety of information (Chung and Whalen, 2006) and, therefore, positively reinforce the opportunity sensing process in entrepreneurial firms.

In particular, TEs' ethnic ties in their COO are important to acquire "fresh and timely information directly from reliable sources" (Lu *et al.*, 2010). Most TEs are from developing countries associated with "the high level of uncertainty due to the ineffective nature of market-supporting institutions in facilitating economic exchange and access to information, resources, and knowledge" (Acquaah, 2007, p. 1239). Because of such uncertainty in the business environment especially in developing countries, TEs' weak ethnic ties are very important to secure access to on-time information and knowledge:

*P1a.* In transnational entrepreneurial firms, expanding TEs' ethnic weak ties in the COO is positively associated with the higher opportunity sensing process effectiveness.

TEs may utilize their weak ethnic and nonethnic ties to obtain information about "permits, laws, management practices, reliable suppliers, and promising business lines" (Aldrich and Waldinger, 1990, p. 127) in the COR. Several studies suggest that TEs who did not extend their social network beyond their ethnic communities experienced a lower growth rate or even failure (Prashantham and Dhanaraj, 2010). TEs' nonethnic weak ties in the COR are also important to overcome the TEs' unfamiliarity with the COR culture and formal institutions:

*P1b.* In transnational entrepreneurial firms, the simultaneous development of TEs' ethnic and nonethnic weak ties in the COR is positively associated with the opportunity sensing process effectiveness.

#### *The effect of social ties on the opportunity-seizing process*

The relational theory of social networks (Granovetter, 1973) suggests the entrepreneur's social ties are the key for strategy implementation (Andersson and Wictor, 2003) and seizing opportunities. The key differentiator between weak and strong ties is trust (Granovetter, 1973). When it comes to seizing opportunities, entrepreneurs who employ trustworthy strong ties instead of costly formal contracts are more likely to succeed (Uzzi, 1997). Formal interorganizational alliances are usually associated with the threat of opportunism (Williamson, 1975); therefore, TEs may prefer to develop a close personal network based on trust so that they can avoid opportunistic behaviors (Aulakh *et al.*, 1996; McDougall *et al.*, 1994). Strong ties are essential to build the trust between partner organizations (Lu *et al.*, 2010). In addition, the entrepreneur's networks are crucial for acquiring the essential complementary resources and capabilities to seize opportunities (Blyler and Coff, 2003; Wu, 2007). TEs may benefit from relying on their strong social ties with top managers in buyer or supplier organizations, government officials and even community leaders (Acquaah, 2007) to access the resources that are required to successfully seize opportunities (Mesquita and Lazzarini, 2008).

TEs heavily depend on strong ties with their ethnic community and network relationships especially their ties to their COOs (Portes *et al.*, 2002). Sequeira *et al.* (2009, p. 1035) argue that social activities such as participation in "hometown associations," "political activity," "sports clubs," and "charity organizations" within the COO tightly connect TEs to their COO and provide them with strategic ties for managing their transnational business. Ethnic ties significantly affect location choice in new ventures and "serve as an important mechanism that ensures access to resources and key stakeholders, such as venture capitalists, the local government or local union leaders and employees" (Zaheer *et al.*, 2008, p. 953). Strong social ties also facilitate the recruitment of the human capital necessary to seize opportunities and manage the business in the COO (Acquaah, 2007). Drori *et al.* (2009, p. 1011) emphasize the importance of social networks as being "instrumental for resource acquisition and eventual success." Therefore, firms with high levels of social embeddedness are expected to outperform their competitors (Acquaah, 2007; Nahapiet and Ghoshal, 1998):

*P2a.* In transnational entrepreneurial firms, the employment of TEs' ethnic strong ties in the COO is positively associated with the opportunity-seizing process effectiveness.

On the other hand, strong ties may provide TEs in the COR with the endorsement, financial capital, and committed human resources. TEs need endorsement to overcome the lack of legitimacy in the COR (Lin, 1999; Lin *et al.*, 1981; Moghaddam *et al.*, 2016). Receiving such endorsements from nonethnic social networks is more instrumental than the ones from ethnic ties. TEs may employ ethnic rotating credit associations (Aldrich and Waldinger, 1990) or ethnic venture capitals (Zhang *et al.*, 2016) to raise financial resources necessary to seize opportunities (Moghaddam, Tabesh, Weber and Azarpanah, 2017). Strong social ties facilitate the creation of the human capital (Acquaah, 2007; Coleman, 1988; Leana and Van Buren, 1999) necessary to seize opportunities and manage the business in the COR. Newbert (2005, p. 67) describes the hiring process as an important opportunity-seizing process, and Yang *et al.* (2011) emphasize the importance of strong ethnic ties in hiring committed and trustworthy employees. In a study of Chinese TEs in Canada, Wong and Ng (2002) found family networks, including not only immediate but also extended family members, a critical contributor to TEs' success. In another qualitative study of Indian TEs in the USA (Moghaddam, 2015), successful entrepreneurs reported a high commitment in simultaneously establishing their strong ties with both ethnic and nonethnic communities in the COR:

*P2b.* In transnational entrepreneurial firms, the simultaneous employment of TEs' ethnic and nonethnic strong ties in the COR is positively associated with the opportunity-seizing process effectiveness.

#### *Institutional distance as a moderator of social ties-dynamic capabilities linkage*

Context is essential in understanding institutional forces affecting entrepreneurial activities especially when transnational activities across developed and developing countries are concerned (Gupta *et al.*, 2014; Welter, 2011). International management research is increasingly interested in understanding how "institutions affect business strategy, operations, and firm performance" (Riddle and Brinkerhoff, 2011, p. 398). Institutional differences can "accentuate variations in the types and rates of the firms being created, why and how they are created, and how they evolve over time" (Zahra and Wright, 2011, p. 73).

Institutions consist of three pillars: the regulative pillar, which refers to the setting, monitoring, and enforcement of rules; the normative pillar which describes a favorable code of conduct and the appropriate means to comply with it to gain legitimacy; and the cognitive pillar which refers to the mindset and understanding schema of individuals (Scott, 1995). Institutional distance is defined as the extent of dissimilarity "between the regulatory, cognitive, and normative institutions of two countries" (Kostova and Zaheer, 1999, p. 71). The international business literature suggests that in the case of high institutional distance, transnational enterprises encounter serious challenges to establish legitimacy in the target country and to transfer strategic routines to their foreign subsidiaries.

In contrast to the international business mainstream literature which considers institutional distance as a barrier negatively affecting internationalization (Ghemawat, 2001; Xu and Shenkar, 2002), this paper argues that higher institutional distance between the COO and the COR will make TEs' dual embeddedness in their COO and COR even more valuable to explore opportunities unrealizable to other competitors (Drori *et al.*, 2009) because institutional distance can be "an opportunity for arbitrage, complementarity or creative diversity" (Zaheer *et al.*, 2012, p. 26).

*The effect of institutional distance on social ties-opportunity sensing linkage.* Considering contextual factors in entrepreneurship research contributes to better understanding "how entrepreneurs construct (or deconstruct) opportunities" (Zahra and Wright, 2011, p. 73).

Exposure to and understanding of the various institutions in both the COR and the COO facilitate the TEs' environmental analyses to recognize opportunities that may not be easily identifiable for other competitors. In particular, TEs generally come from developing countries migrating to developed countries (Riddle, 2008); therefore, the institutional distance between their COO and the COR tends to be significant.

In developing countries with weak institutions, "the role of social ties in facilitating access to resources is likely to be even stronger" (Zaheer *et al.*, 2008, p. 953). Griffith and Harvey (2001, p. 600) suggested the "market knowledge gap" (i.e. the knowledge difference between international partners related to the local market) sometimes facilitates the development of dynamic capabilities. Therefore, in the case of high institutional distance between the COO and the COR, TEs have a better chance to sense opportunities because of their dual embeddedness:

*P3a.* In transnational entrepreneurial firms, the larger the institutional distance between the COO and the COR the stronger the positive effect of TEs' dual social embeddedness on opportunity sensing process effectiveness.

*The effect of institutional distance on social ties-opportunity seizing linkage.* Context is not only fruitful for examining opportunity sensing but also may enrich our understanding of entrepreneurial actions (Clarysse *et al.*, 2011; Zahra and Wright, 2011). In order to successfully exploit an opportunity, a firm needs resources such as access to low-cost distribution networks, financial resources, and competent personnel; however, in many developing countries these resources are not "readily available because of the underdeveloped nature of the institutional structures" (Acquaah, 2007, p. 2141).

Most developing countries suffer from poor business infrastructure and a nontransparent legal and governance climate (Li *et al.*, 2004); however, TEs may have an advantage to utilize their ethnic social networks in their COO as a substitute for the institutional infrastructure (Mesquita and Lazzarini, 2008) and sometimes enjoy the benefits of first mover advantages (Hoskisson *et al.*, 2000) which is associated with superior performance:

*P3b.* In transnational entrepreneurial firms, the larger the institutional distance between the COO and the COR the stronger the positive effect of TEs' dual social embeddedness on opportunity-seizing process effectiveness.

## Conclusion

While entrepreneurship as a field of study is growing rapidly, it is criticized for the lack of commonly accepted and well-developed research paradigms (Aldrich, 2000; Hitt *et al.*, 2001). As a field, "we know little about how to incorporate the different dimensions of entrepreneurial activities into theory building and testing" (Zahra and Wright, 2011, p. 72). Furthermore, entrepreneurship scholars have tended to examine complex constructs such as internationalization and capability development "without carefully recognizing their microfoundations" (Zahra and Wright, 2011, p. 77). Transnational entrepreneurship literature is not an exception and is characterized as fragmented (Lin and Tao, 2012). This paper briefly reviews the transnational entrepreneurship literature over the last decade and suggests a theoretical framework of TEs' competitive advantage development for future empirical investigation. Figure 2 summarizes how the ethnic and nonethnic social ties of TEs affect their firm performance through the mediating effect of opportunity sensing and opportunity seizing and the moderating effect of institutional distance between the COO and the COR. While the ethnic ties play the key role in the COO, the simultaneous use of ethnic and nonethnic ties in the COR is essential for the success of the transnational entrepreneurship. In other words, the theoretical framework suggests that ethnic and

nonethnic ties of TEs should be considered complementary (not as a substitute for each other) in the pursuit of successful transnational entrepreneurship.

While the unit of analysis in most entrepreneurship literature is the entrepreneur, the strategic entrepreneurship approach calls for examining the entrepreneurial firm as the unit of analysis in order to employ firm-level strategic management theories (e.g. dynamic capabilities). However, the strategic entrepreneurship approach does not ignore the importance of entrepreneurs and their characteristics such as their experience, social networks, or cognition (Autio *et al.*, 2011; Yang *et al.*, 2011) and considers them as valuable resources of the entrepreneurial firm. With an emphasis on the entrepreneur, Zahra *et al.* (2006, p. 918) refer to dynamic capabilities as “the abilities to reconfigure a firm’s resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s).” In the same vein, Autio *et al.* (2011) develop a cognition-based model of capability emergence in entrepreneurial firms. They describe how the cognitive model of entrepreneurs, at an individual level, may affect the organizational dynamic capability at the firm level. In the suggested model in Figure 2, the TEs’ personal social ties are considered valuable resources of the firm.

#### *Theoretical contribution*

The contribution of this paper is threefold. First, this paper is a response to the recent calls (Aldrich, 2000; Hitt *et al.*, 2001) to develop theoretical models in the entrepreneurship field and incorporate “the different dimensions of entrepreneurial activities into theory building and testing” (Zahra and Wright, 2011, p. 72). Therefore, this paper employs the strategic entrepreneurship approach to offer a social tie-based model of dynamic capabilities in order to address the theoretical void in transnational entrepreneurship literature.

Second, the social networks-performance linkage which has been in a black box (Lahiri *et al.*, 2012; Wu, 2007) is examined in terms of how strong and weak social ties may affect different zero-level organizational processes of dynamic capabilities differently. Based on the dynamic capability perspective, this paper explains how TEs may create their unique competitive advantage. The framework presented in Figure 2 is consistent with the notion that “without dynamic capabilities to transform entrepreneurial resources into future advantages, entrepreneurial resources do not translate into start-up performance” (Wu, 2007, p. 551).

Finally, this paper is a response to Zahra and Wright’s (2011) recent call for the importance of engaging context in theoretical models in the entrepreneurship field. Despite the recognition of the importance of the context in entrepreneurial activities (Shane and Venkataraman, 2001), scholars are commonly in search of general rules of entrepreneurship which might ignore context (Zahra and Wright, 2011). However, context is essential to theory building and meaningful theory testing (Whetten, 1989). In the proposed theoretical model of transnational entrepreneurship in Figure 2, the contextual factor of institutional distance is theorized as a positive moderator of the social tie-based dynamic capability development process. This conceptualization of institutional distance is in contrast to common application of institutional distance as a negative moderator in international business literature (Kostova and Zaheer, 1999; Xu and Shenkar, 2002).

#### *Implications for practitioners and policy makers*

From a managerial point of view, TEs are important because they are new players in today’s competitive global market. Transnational entrepreneurship literature emphasizes the importance of networks, and TEs can benefit from a better understanding of the impact of social networks on international market development (Chen and Tan, 2009). TEs should not solely focus on their ethnic social ties. That is why this paper suggests that ethnic ties in the COO and the COR may lead to higher firm performance only if systematically used alongside nonethnic ties in the COR. Furthermore, it is crucial for TEs to understand the

importance of dynamic capabilities in developing and sustaining their competitive advantage. In addition, TEs may be able to utilize institutional resources such as governmental programs promoting international business in both their COO and COR (Lu *et al.*, 2010; Riddle *et al.*, 2008; Soh, 2003).

From a policy making standpoint, governments may recognize the importance of the TE phenomenon in their economic development and provide their immigrants with the necessary aids and incentives to engage in transnational entrepreneurship. In particular, TEs significantly contribute to the economy of their COO by taking the role of the “first movers” who succeed and attract the attention of other immigrants or even foreign investors to the economic potentials of their COO (Lowell and Geroval, 2004, p. 20). Riddle *et al.* (2008) argue that COO governments should target, encourage, and support TEs through “investment promotion agencies.”

#### *Limitations and future research directions*

Some scholars criticize the dynamic capability perspective for being vague; however, Eisenhardt and Martin (2000) argue that dynamic capabilities are not vague but specific and identifiable processes (such as product development) which have some commonalities (best practices) across firms and can be learned. Based on the extant literature, Table I lists some potential operationalizations of the variables in the suggested theoretical model for future empirical investigation.

Although this paper advocates the employment of the dynamic capability perspective in order to understand how TEs create their unique competitive advantage, it does not downplay the importance of other theoretical frameworks such as psychological or cultural perspectives. While a large body of entrepreneurship literature proposes that psychological variables and personality traits may predict entrepreneurial behavior, the empirical findings are mixed (DeCarolis and Saporito, 2006; Shaver and Scott, 1991) and more research is needed.

Considering the fact that immigrants from different countries may have varied cultural heritage and backgrounds, a cultural approach in particular may look into the effect of immigrant nationality on how they engage in transnational entrepreneurship (Portes *et al.*, 2002). Clark (1990) mentioned that national character not only affects the behavior of customers in different countries but also influences the decision making of business

Concept	Operationalization	Reference
COR ethnic weak tie	Ethnic community events	Rusinovic (2008)
COR nonethnic weak tie	COR professional associations	Rusinovic (2008)
COO ethnic weak tie	COO professional associations	Sequeira <i>et al.</i> (2009)
COR ethnic strong tie	Ethnic rotating credit associations	Aldrich and Waldinger (1990)
	Ethnic venture capital	Zhang <i>et al.</i> (2016)
COR nonethnic strong tie	Nonethnic partners/suppliers	Aldrich and Waldinger (1990)
COO ethnic strong tie	Community leaders	Acquaah (2007)
Opportunity sensing process	Research and development	Teece (2007)
	Customer feedback	Teece (2007)
Opportunity-seizing process	Executing promotions	Weerawardena <i>et al.</i> (2007)
	Developing business models	Newbert (2005)
	Building employee loyalty	Teece (2007)
Transnational performance	International sales	Wang and Liu (2015)
Institutional distance	Regulative dissimilarity	Kostova and Zaheer (1999)
Transnational dynamic capability	New product development	Eisenhardt and Martin (2000)
Transnational entrepreneurship	Travel agency	Van Gelderen (2007)
	Import/export firms	Wong and Ng (2002)

**Table I.**  
Operationalization  
of concepts

managers with different nationalities. Therefore, future research may address questions such as: Do TEs from different countries behave differently? And if they do, how?

While ethnic ties (e.g. Chand and Ghorbani, 2011) and ethnic market knowledge (e.g. Shinnar *et al.*, 2011) are both important success factors for TEs; this paper has primarily focused on social ties because they “facilitate the acquisition of knowledge and the discovery of opportunities” (Weerawardena *et al.*, 2007, p. 301). In other words, social ties are the main dynamic mechanism of ethnic advantage. However, future studies may further explore the ethnic knowledge of TEs and how it is developed and employed in the pursuit of successful transnational entrepreneurship.

Overall, the rapid globalization process, international business, and soaring immigration trends promise an increasing population of immigrants especially from developing countries in developed countries. This trend in turn indicates an upward trend in transnational entrepreneurship. Therefore, both theoretical and empirical research is required to clearly and thoroughly unveil different aspects of transnational entrepreneurship.

#### Note

1. “Ethnic is an adjective that refers to differences between categories of people” and implies “a common origin and culture” (Aldrich and Waldinger, 1990, p. 112). Ethnic ties refer to those social ties between individuals or firms with a common COO and culture.

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