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# Networking responses to different levels of institutional void: A comparison of internationalizing SMEs in Egypt and the UK

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### ABSTRACT

This paper reports a comparative qualitative study of how decision-makers in internationalizing SMEs respond to relevant institutions in their domestic environment through networking activity. Twenty SMEs are compared respectively from a developing economy (Egypt) and a developed economy (UK). The two countries contrast both in the effectiveness of their institutional support for SMEs and in their cultural norms towards network relationships. Substantial differences are found between the two national samples in SME decision makers' networking behaviour in response to specific institutional conditions. The links between institutional conditions, national cultural norms and SME networking responses are explicated in a new theoretical model.

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## 1. Introduction

Although it is recognized that there are interdependencies between institutions and networks, the links between them remain under theorized (Owen-Smith & Powell, 2008). One link is manifest in the non-market strategies of firms by which they endeavour to secure the support of institutions, and even shape their policies, through networking processes such as lobbying, co-optation and relationship management (Mellahi, Frynas, Sun, & Siegel, 2016). However, the examples studied have focused on large firms that have the resources and influence to engage the attention of institutional bodies and their officials (e.g. Child, Tse, & Rodrigues, 2013; Frynas, Pigman, & Mellahi, 2006; Hadjikhani, Elg, & Ghauri, 2012). Smaller firms are likely to experience much greater power asymmetry vis-à-vis institutions and may therefore need to depend more heavily on the help of intermediaries, particularly in contexts where their rights to institutional access and support are limited (Child & Rodrigues, 2011).

Smaller firms tend to rely on external parties in order to secure information, resources and other support for strategic initiatives such as entering new foreign markets (Harris, Rae, & Misner, 2012). The significance in this respect of institutions for

internationalizing small firms has come to be recognized in recent years (Cheng & Yu, 2008). Government institutions promoting SME business development and foreign trade can offer critical assistance in furthering such initiatives (Descotes, Walliser, Holzmüller, & Guo, 2011; Makhmadshoev, Ibeh & Crone, 2015; Oparaocha, 2015; Wilkinson & Brouthers, 2006). While there is a general need for more comparative investigation of how domestic institutional conditions affect the internationalization of firms (He & Cui, 2012), this applies particularly to the case of SMEs. Comparative research on the relation of institutions to SMEs, and on how SMEs respond to institutional conditions, promises to provide a fruitful basis for further theorizing.

Comparisons across countries suggest that their institutions can affect small firms in different ways and to varying degrees (Ciravegna, Lopez, & Kundu, 2014; Kiss & Danis, 2010). In some countries they offer them financial and informational resources, while in others they provide little such support and even erect barriers in the way of business initiatives (Global Entrepreneurship Monitor 2014; World Bank, 2015). This distinction is reflected in two perspectives: the institutional support perspective and the institutional void perspective (Stephan, Uhlander, & Stride, 2015). The institutional support perspective assumes that governments and their agencies can effectively promote small business entrepreneurship through providing necessary resources, especially when these are made accessible under the terms of clear universalistic rules. The institutional void perspective by contrast implies that not only can there be a lack of institutional support for

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entrepreneurship, but that inadequate institutional rules and their weak enforcement can generate uncertainty, inhibit participation in markets and limit growth (Khanna & Palepu, 2010; Mair & Martí, 2009). Institutional voids often manifest as 'gaps between formal rules and norms, and their enforcement in daily practice' (Rodrigues, 2013, p. 14).

SMEs seeking to internationalize may depend on domestic institutions to provide financial assistance and/or market information, or for securing relevant business licenses. The literature has to date generally focused on the institutional context as a given external factor and hardly examined the use by SMEs of initiatives to overcome deficiencies inherent in that external context (Tracey & Phillips, 2011). Also, there has been relatively little research on how SMEs try to cope with specific institutional voids, especially in developing countries (Bruton, Ahlstrom, & Obloj, 2008). Coping behaviour includes ways in which SMEs may seek to adapt to, or compensate for, institutional voids by seeking support through networking (Ellis, 2011; Musteen, Datta, & Butts, 2014; Su, Xie, & Wang, 2015).

The primary aim of this paper is to develop a theoretical model of networking by internationalizing SMEs in the light of domestic institutional conditions and cultures. The model is informed both by extant literature and by an exploratory empirical investigation that compares SMEs located in a developing country context (Egypt) and a developed one (UK). These two countries contrast in their general level of institutional development and specifically with regarding agencies officially promoting SME internationalization. Two forms of institutional void among such agencies will be apparent, especially in Egypt. These respectively concern the quality of formal support schemes and the ease of access to them. We adopt an agentic view of the relations between SMEs and domestic institutions. In institutional theory, this view maintains that while institutions establish certain conditions for organizations, decision-makers in those organizations have the ability to adapt purposively to such conditions (Boxenbaum & Jonsson, 2008). The accounts and interpretations of SME decision-makers themselves are therefore used as sources which offer insights into how their networking is both a response to institutional voids and is also culturally-influenced. It is important to stress that the empirical evidence offered by the paper is exploratory and qualitative, and intended to inform a process of theory development rather than to be used for theory-testing. Its concentration on SMEs promises to provide a well-defined ground for the study of how institutional characteristics relate to firm behaviour. As already noted, a common attribute of SMEs is that they are likely to be dependent on, or at least highly welcoming of, institutional support. Secondly, the focus on internationalization serves to identify a specific set of public institutions that have the formal mission of promoting exporting.

In addition to advancing a theoretical framework, the paper adds to knowledge in other more specific ways. It elaborates the concept of institutional void by taking account of deficiencies both in terms of technical inadequacies and of dysfunctional social behaviour. It shows that this distinction is significant for understanding the responses of SME entrepreneurs as institutional clients. Second, it reports one of the few studies to demonstrate that the networking of small business entrepreneurs is influenced by their experiences of the institutions established to assist their international business objectives. This extends our understanding of SME networking behaviour. Third, its empirical investigation includes Egypt which is a relatively under-researched economy in the international business and entrepreneurship literature. Fourth, the paper illustrates that differences in national development and cultures are associated with contrasts in institutional behaviour as well as in the responses of SME decision-makers. This illuminates the need to incorporate both cultural and economic perspectives in

international business research as well as multiple (country context and firm) levels of analysis.

The following section draws from the literature and documented sources to identify the relevance of domestic institutions for internationalizing SMEs and how they contrast between Egypt and the UK. The question of culturally-informed networking responses to institutional conditions is then considered. This is followed by an explanation of the methodology of the empirical investigation. While the national comparisons rely on secondary data, evidence on networking by SME decision-makers and how they account for it, draws upon primary data provided by the actors themselves. The discussion analyses the findings leading to the development of a theoretical model. We conclude with implications, limitations and lines of further research.

## 2. Institutions and SMEs

### 2.1. Significance of institutions for SMEs

SMEs seeking to engage in international business can benefit from domestic institutional resource-provision in terms of furnishing information on foreign markets and the conditions for doing business in them, as well as providing financial support for participating in trade missions, for making contacts in foreign markets, and for underwriting payment risks (Francis & Collins-Dodd, 2004; Wilkinson & Brouthers, 2006). Information on foreign markets and financial aid for new market entry are among the most significant of such resources to support foreign transactions (Brouthers, Nakos, Hadjimarcou, & Brouthers, 2009; Liesch & Knight, 1999). Unless SMEs can secure alternative sources of these resources, through for example forming partnerships with MNEs (Das, 2015), they are liable to be dependent on institutions for key resources assisting their internationalization. Additionally, in some countries institutional approval is required for firms to engage in certain categories of foreign business. This means that they have a critical resource dependency on particular institutions (Casciaro & Piskorski, 2005; Pfeffer & Salancik, 1978). Certification by international standards authorities can also assist exporting, especially by developing economy firms (Goedhuys & Sleuwaegen, 2016). If institutional support is deficient in quality, or is withheld, SMEs seeking to export may be disadvantaged. Furthermore, institutions may act dysfunctionally for internationalizing SMEs by, for instance, operating corruptly or imposing restrictions on access to their services. Voids in this institutional sector can therefore arise from two factors: institutions' technical inadequacies and the imposition of negative informal conditions on their support.

The extent of such voids is expected to vary as between developed and developing economies. A relationship between levels of institutional and economic development has been noted for some time (Acemoglu, 2010; Castellacci, 2015; Chang, 2011). SMEs located in developing economies tend to suffer from relatively weak institutional contexts, in which the enactment of laws and regulations is inefficient, corruption and bureaucracy tend to be prevalent, and supporting educational systems and infrastructures are limited (Mesquita & Lazzarini, 2008). The institutional environment of less-developed countries is likely to be problematic for firms, because its immaturity creates uncertainty and adds to transaction costs (Chrysostme & Molz, 2014; Farashahi & Hafsi, 2009; Silvestre, 2015). Even emerging economies, so-called because they combine high rates of growth with moves to reform their market and other institutions (Hoskisson, Eden, Lau, & Wright, 2000), offer lower levels of institutional support to firms than is typical of developed economies, and have business environments that are less stabilized by universalistic rules (Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, Wang, & Jiang, 2008).

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