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Dealing with institutional voids in emerging markets

A small and medium sized enterprise perspective

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Abstract

The primary focus of this article is to investigate how developed market (Dutch) SMEs deal with so called institutional voids in emerging markets. Various institutions serve as intermediaries in trade with the task of facilitating the trade. These institutions, like employment agencies, allow trade to take place easier and with lower transaction costs. When the institutions are absent or poorly functioning, there is a so called institutional void. Previous literature has shown that emerging markets have significantly more of these voids than developed markets. In this article the type of institutional voids SMEs deal with, are uncovered. The type of tactics these companies use to deal with the voids are investigated as well. A lot of the existing literature on this matter is based on large companies. This research shows that SMEs are faced by the same voids as large companies but that the tactics used by SMEs are different. These conclusions are drawn after a qualitative study based on in-depth interviews with relevant SMEs.

Chapter 1: Introduction

For a long time, companies from developed countries have been operating in developing countries. These operations sometimes mean opening a new market for sales. Other times, it means moving part of the company's operations to the developing market. Moving operations to developing markets can have many benefits. A lot has been written about how Multinational Enterprises (MNEs) efficiently invest in emerging markets. A good example of this is the OLI paradigm (Dunning, 1979) which elaborates on internationalisation forms that a company may use in relation to the type of advantages they have. Another example that focusses more on internationalisation to emerging economies is the article by Khanna, Palepu and Sinha (2005) where they look into the difference between strategies that work in developed markets and how these should be changed for emerging markets.

Investing in emerging countries is significantly different from investing in developed countries. For example, markets that are not yet matured often miss certain institutions that allow for more efficient trading. The absence or malfunctioning of these institutions are called institutional voids. Compared to developed countries, developing/emerging countries have a lot of these voids (Khanna & Palepu, 2010). Institutional voids can be defined as *'the absence or underdevelopment of specialised intermediaries such as database vendors, and quality certification firms, regulatory corporations, and control-enforcing mechanisms (Khanna & Palepu, 2010)'*. In common language, institutional voids are the absence of institutional infrastructure in a country. Examples of institutional infrastructure are a legal system/arbitration mechanism, capital providers and employment agencies. All of these institutions function as an intermediary between two parties, buyer and seller. If a company wants to set up production in an emerging market, they will need employees to work in their plants. However if the country lacks proper employment agencies, it will be difficult for a company to get the right workers. If a company copies a patented design from another company, it can take legal action. However, in emerging markets, the legal system doesn't always function properly. In India they sometimes say that, due to the poor legal system, your children often inherit your arguments. This makes it really difficult to protect, for example, your intellectual property. These are practical consequences that institutional voids can have. Institutional voids are not always negatively interpreted. The absence of, for example, a proper employment agency can also be seen as a promising business opportunity. A company can introduce a modified business model of an employment agency in the emerging country that lacks it. This can become a great business opportunity. All in all, institutional voids can

be both problems as well as opportunities for companies. But no matter from what point of view you treat institutional voids, as a company, you will have to deal with them eventually. Because institutions have a definite impact on doing business, a decent amount of research has been dedicated to explain the concept. However, if we look at the research, almost all of it has been done from a large company point of view. Examples of this are the research by Peng (1997) who looked into three large enterprises in China. Another example is the article by Khanna and Palepu (2005) who look at institutions and institutional voids from an emerging giant as well as multinational perspective.

Very little is known about how small and medium sized companies are affected by or deal with institutional voids in emerging markets. The reason for this is not the absence of SMEs in emerging markets. Gustavsson and Lundgren (2006) but also the Organisation for Economic Cooperation and Development (OECD, 2009) elaborate on the drivers/motives for SME internationalisation. Gustavsson et al (2006) also looks at how SMEs select foreign market entry modes. Another example of SME internationalisation that we can find in the scientific literature is provided by Galdeano, Pérez & Aznar (2014). They perform an empirical study to investigate how SMEs use cooperation and competition simultaneously (co-opetition) in their internationalisation process. Yet, neither these papers, nor others provide us with information in the way that SMEs cope with institutional voids in those emerging markets. The primary reason that suggests that SMEs treat the voids issue in a different manner than large MNEs, are the differences caused by the significant difference in size. A company with a €600 million revenue and a staff of 2000 employees can use a lot of other options compared to the available options for a company with 30 employees and a revenue of €20 million. This research will investigate the various institutional voids and strategies. Besides looking at voids and tactics for SMEs, there will also be attention paid to potential differences between large MNEs and SMEs.

Even though we have determined that SMEs do operate in emerging markets, we seriously lack good literature on how they deal with the present institutional voids. This is contradiction to literature that explains the problem from a large company point of view. A few authors that have written about the subject from an SME point of view are Chakrabarty and Erin Bass (2013). They, however, write from the perspective of SMEs with their origin in emerging and Bottom-of-Pyramid markets. This research will look at western (developed) SMEs that operate in emerging markets. Since large MNEs differ significantly from SMEs, it is difficult to apply the present (large MNE) institutional voids literature to SMEs. This is why this research will investigate how SMEs specifically are affected by institutional voids in

emerging markets and consequently, how they deal with them. This has led to the following research question:

'How do developed-market SMEs deal with institutional voids in emerging markets?'

This question will be answered through two sub-questions:

- 1) *Which institutional voids do SMEs face in emerging markets?*
- 2) *Which tactics/measures do SMEs use to deal with institutional voids?*

Formal SMEs employ no less than one third of the world labour force (Kushnir, Mirmulstein & Ramalho, 2010). In the Netherlands this percentage is even higher, as 70% of all Dutch employees work for a SME (MKB servicedesk, 2017). This large and important group is not represented in scientific studies on institutional voids. Despite their smaller size, SMEs are increasingly operating in emerging markets (Hessels & Kemna, 2008) which makes it very important for them to have relevant literature to help them deal with the institutional voids in emerging markets. The large amount of SMEs and their increasing presence in emerging markets shows why this research is needed for the managerial side of the issue of institutional voids. The gap in the literature that was mentioned before also shows that, from a theoretical point of view, a lot can be learned on the topic of institutional voids. And theoretical relevance and practical managerial relevance is easily combined. Good literature on institutional voids from a SME perspective will lead to concrete recommendations that helps managers do business in these emerging markets more efficiently which creates advantages for both the developed as well as the emerging country. This is why the lack of research from an SME perspective on this topic is a real gap in scientific literature. More research being done from an SME perspective allows researchers to compare the different approaches that SMEs and large companies use when dealing with institutional voids.

The next chapter in this research will offer a thorough look inside the key concepts of emerging markets, institutional voids and SMEs. This will help the reader understand the full context of the topic of this research. After this, methodological rules/issues will be determined. These rules will set the basis for the qualitative study which consists of in-depth interviews with employees from SMEs operating in emerging markets. The methodology is followed by the analysis of the transcribed interviews. In this analysis, the relevant and valuable quotes will be highlighted to develop a well-founded answer to the sub-questions as well as the main research question. All of this will be summarised in the conclusion. The

research will contain a reflection at the end in order to uncover limitations, improvement points and advice for future research.

Chapter 2: Theory

In this theoretical chapter, the concept of institutional voids are further explained. With a proper understanding of the concept, the different tactics for dealing with institutional voids can be examined. Besides institutional voids, it is also important to create clear guidelines on the meaning of the terms SMEs and emerging markets. In this section, a large variety of different sources is used to come to an objective, thorough and usable description of the relevant terms of this research. The theoretical base developed here, serves as the foundation of the interview questions in the methodological chapter.

2.1 Emerging markets

In the introduction, the increasing amount of SME investment in emerging markets was pointed out. These emerging markets themselves have also become increasingly important for the world economy. In 1995, they accounted for 18% of global GDP while in 2012, that figure had risen to 36% (Hale, 2012). An emerging market has been defined as a market that has (1) a rapid pace of economic development and (2) government policies favouring economic liberalization and the adoption of a free-market system. (Arnold & Quelch, 1998). Within the concept of emerging markets, some authors use multiple categories. Hoskisson, Eden, Ming Lau & Right (2000) distinguish rapid-growth developing countries and transitioning economies. These transitioning economies are historically planned economies that were ruled by bureaucracy and power relations. They can be primarily found in former Soviet countries in eastern Europe.

Institutional voids in emerging markets have been investigated several times. In these researches, a relationship between market classification and institutional voids was found. This relationship is explained in figure 1 below.

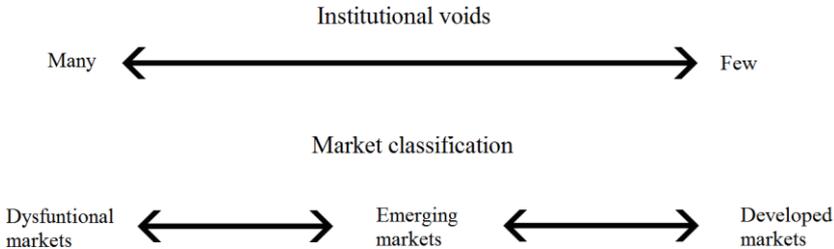


Figure 1: relation voids and market (Khanna et al, 2010)

As depicted in the figure, emerging markets have significantly more institutional voids than developed markets. These voids may pose serious problems for SMEs that want to invest in these emerging markets.

2.2 Institutional voids

Emerging markets are characterised by institutional voids and because of their impact, a suitable strategy is needed when a company wishes to operate in such a market. An important aspect for strategy is the context of the company and the market. A theoretical perspective that places a large emphasis on context is the institutional theory. The lack of attention for context that the institutional theory hopes to fill forms a basis of institutional voids. An often used definition of institutions is “*the humanly devised constraints that structure human interaction*” (North, 1990). This was split into three categories: (1) regulative (2) normative (3) cognitive (Scott, 1995). The regulative category provides a clear connection to institutional voids. Regulative structures, according to Scott (1990), include laws which are connected to good regulatory corporations. These are intermediaries that allow companies to properly do business. The absence or poorly functioning of such an intermediary would be an institutional void.

The term institutional voids was christened by Khanna and Palepu in 1997. They describe these voids as the absence or underdevelopment of formal institutions that support business activities (Khanna & Palepu, 1997). In order for a country’s economy to function properly, they need proper institutions (soft infrastructure) (Khanna et al, 2010). Institutions basically function as the intermediaries between buyer and seller in a market and they come in a large variety. If institutions are missing or not functioning properly, this can cause great problems for companies. It may be difficult to hire skilled staff or raising capital for various investments may come at extreme costs (Khanna et al, 1997). These are concrete examples of problems caused by institutional voids. The first problem, difficulty of hiring skilled staff, is caused by the poorly functioning of the educational system and/or the absence of employment agencies. The second problem is caused by an underdeveloped capital market. In developed markets, there are a large amount of capital providers like venture capitalists and banks. In emerging markets, this is often more difficult. In Nigeria, official banks sometimes charge up to 27% a year on a loan (Adeyeye, 2014). In a developed market like the Netherlands, the interest rate on a business loan is often less than 10% (Rabobank, 2017). Institutional voids cause an increase in transaction costs and also make it difficult to extract value from resources because of the information asymmetry that is present due to institutional

voids (Meyer, Estrin, Bhaumik & Peng, 2009). These two problems make doing business in emerging markets expensive and unattractive for companies.

In order to incorporate a structure in the concept of institutional voids, the use of the five contexts framework (Khanna et al, 2005) can provide real value. This framework helps companies to map the institutional contexts of a country. The framework allows them to spot institutional voids for each of the five contexts. The five contexts used by Khanna et al (2015) are:

- ❖ Political and social system, the type of political system of a country has great influence on the three markets further in the framework. The Chinese communistic one-party system, for example, will affect all aspects of business and must therefore be taken into consideration if a company wishes to be active in that country. The same principles apply for the social system. Social rules and traditions are still taken very seriously in many countries. Entering a joint venture with people from a certain demographic group can have great consequences for a company. Because of the influence that both the political and social system have, they must be included in the framework.
- ❖ Openness, a country that isn't very welcome towards foreign entrants will pose problems for any company (MNE or SME) that wants to start activities in that country. It was mentioned earlier that institutions are like intermediaries. Countries that prove to be more open are also more open towards global intermediaries. Therefore, the degree of openness will have a major influence on which institutional voids a company might encounter.
- ❖ Product market, when analysing this context, the company should look at a number of topics. In a proper functioning product market, consumers can find desired products and services, there are proper information sources that provide honest information, companies have access to good consumer information, contracts between parties are being enforced by a proper legal system, goods are transported in a proper manner by transport companies etc. All of these aspects require proper functioning intermediaries. Missing or poorly functioning intermediaries mean institutional voids which seriously hinder proper economic transactions between company and consumer.
- ❖ Labour market, for a country to have an efficient labour market, employees have to be properly schooled and labour must also be mobile. This means that it is easy for companies to find quality staff and for employees to be able to switch between jobs easily. Employees must also be protected in case of sickness or losing their job. All of

these aspects ask for proper intermediaries like schools/universities, head-hunters, employment agencies, benefits agencies etc. If a company cannot find local (skilled) labour, it hinders them in their activities.

- ❖ Capital market, it is important for a country to have a diverse group of capital providers like banks, institutional investors and venture capitalists. They provide the lending opportunities that are important to both company as well as consumer. It is also important to have a transparent and extensive financial reporting system. Through intermediaries like accounting agencies and other financial auditors, investors, companies and individuals in general are assured of truthful and complete sets of information on partners when it comes to, for example, investment or lending.

When looking at an existing research that focusses on institutional voids, it becomes clear that besides the often used five contexts model, North's institutional theory also plays an important role. Puffer, McCarthy and Jaeger (2016) compare Brazil and Russia to Poland with regards to institutional voids. In their comparison, they summarise the most important issues per country for the regulatory, normative and cultural-cognitive pillar in a large table. This system has overlap with the five contexts model, within the regulatory pillar, the authors explain the capital market situation for each of the three countries. The tables, they present in their article are accompanied by more extensive background information. Despite the fact that this research provides interesting insights in the manner in which research on institutional voids is executed, the system used is not more effective than the five contexts model. Puffer's research has a macro orientation on the entire country. This research will look specifically at the position of SMEs because there is no reason to assume that SMEs are not affected by institutional voids like large firms. Their size will most likely make them even more susceptible to the effects of institutional voids. The differences between large firms and SMEs will be elaborated in the next section.

2.2.1 Strategies

Whether one perceives institutional voids as a threat or a possible opportunity, a company still needs a proper strategy to deal with the voids. The following strategies can be chosen (this list is developed from a large company point of view):

- ❖ Adapt to the market, alter the business model to match the local environment. This is done by including functions in the company's business model that would otherwise be done by an external intermediary. An example would be a company with its own

training programs because there are no proper schooling facilities in the market. This strategy is often used by large business groups. These diverse business groups form because of the market imperfections (Leff, 1978). He describes one of the functions of the business group as providing capital because it is difficult to acquire capital in the market. This serves as a good example of companies adapting to the market by forming a business group in order to combine forces and overcome market imperfections (institutional voids)

- ❖ Change the market, instead of changing the business model, a company can also try to change/influence the market in which they operate. An example of this would be a company that lobbies for better schooling with the government. This example also shows the importance of having a nonmarket strategy as a company. Nonmarket is described as “*The social, political, and legal arrangements that structure interactions outside of, although in conjunction with, markets and private agreements*” (Baron, 2003). Lobbying as a company is considered part of the nonmarket strategy (Boddewyn, 2003). For this reason, when determining the ways in which SMEs deal with institutional voids, nonmarket should be taken into consideration.
- ❖ Staying out, a company can ultimately decide not to enter the market at all. This can be because they do not wish to change their business model and they don’t believe they will be able to change the market.

(Khanna et al., 2005)

These three strategies are still very broad. In recent research, more specific strategies have been developed. Doh, Rodrigues, Saka-Helmhout & Makhija (2017) have combined five articles which all look at different types of institutional voids and appropriate strategic responses. Four different strategies are recognised:

- ❖ Substitution strategy, revolves around filling the institutional voids with “local private information”. This information is a substitute for local public information which is often provided by institutional voids. This strategy is focussed primarily on filling information voids. A good example is using your own information to compensate for the lack of up-to-date and accurate stock market information (Kingsley & Graham, 2017). When compared to Khanna’s strategies, this strategy could be classified as adapting to the market. Because of the state of the market, the company has to alter its own processes.
- ❖ Institutional borrowing strategy, revolves around compensating for institutional voids

in one country by using relevant proper institutions in another country. This is often seen in situations in which two companies from different countries create a joint venture. For issues with court systems and contract enforcement, the institutions from the more developed country can be used. It is argued that this strategy can also be used for other cross-border issues (Pinkham & Peng, 2016). This strategy would fall under adapting to the market because companies change their own system in order to overcome institutional voids.

- ❖ Signalling strategy, revolves around the use of Corporate Social Responsibility (CSR) activities in order to achieve two goals. First, increase the legitimacy of a multinational from an emerging country whose home country has a large amount of institutional voids (Marano, Tashman & Kostova, 2016). Second, lower transaction costs by using CSR to create trust with stakeholders. This strategy has proven to be useful for dealing with capital institutional voids, legal institutional voids and business freedom voids (El-Ghoul, Guedhami & Kim, 2016). The signalling strategy shows how companies can in fact change the market. With the use of CSR, they try to create more trust in a market that lacks it due to institutional voids.
- ❖ Internalisation strategy, revolves around developing internal activities with key information and resources that can take the role of an institution within a company. This practice is often seen in the larger business groups in emerging markets (Kim & Song, 2016). Internalisation requires a company to alter itself in order to operate in the market properly. It can therefore be considered a form of adapting to the market.

The majority of the strategies would classify as “adapting to the market” instead of “changing the market”. A possible explanation for this is the complexity that comes with changing an entire market. Altering some company structures and processes is often much simpler.

The five articles and four strategies have been combined by Doh et al. (2017) in the figure below.

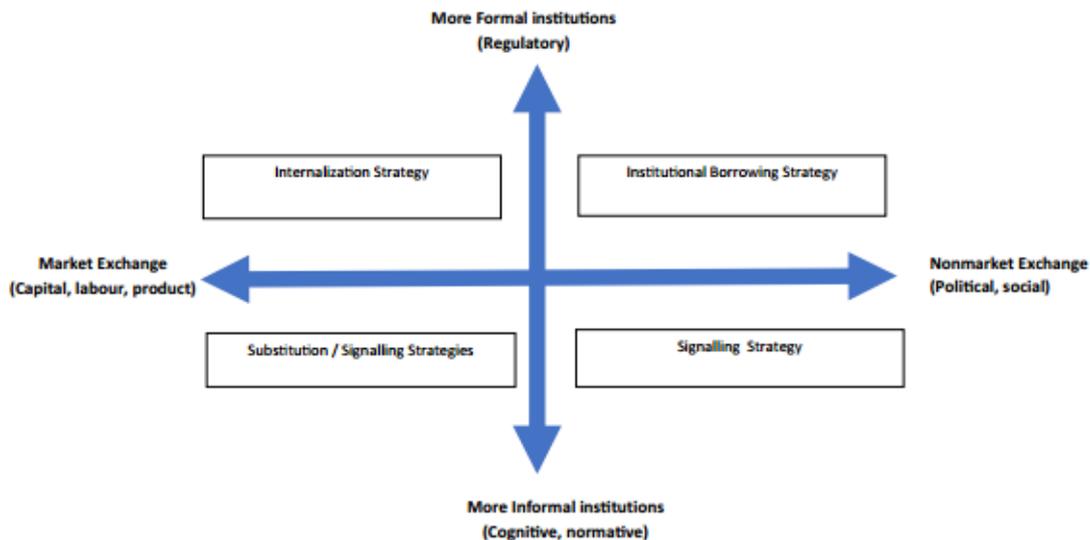


Figure 2: strategies to institutional voids (Doh et al, 2017)

2.3 Small-and Medium sized businesses

Despite a smaller size, SMEs are still capable of engaging in international business (Cullen & Parboteeah, 2014). These authors also list a number of traits an SME possesses that will be important when looking at their internationalisation process. Some of these traits are: less experience in doing business abroad, slower in adaptation and a more reactive strategic approach (Cullen et al, 2014). It is also pointed out that it is important to create a global culture in the company and changing the attitude of key decision makers. The primary difference between SMEs and large MNEs is their size. A smaller size, for example, can result in significantly lower amounts of available resources, knowledge, experience etc. (Cullen et al, 2014). All these traits and differences will influence which strategies a SME can use when going international. In order to determine whether a strategy will apply to SMEs, one must look at differences caused by a smaller size or any of the traits mentioned earlier. An important issue is whether the strategies listed above also apply to SMEs. As mentioned earlier, in a lot of literature, MNE's are used as the point of view. It is therefore necessary to reason which strategies are universal and which are exclusive for large companies. Of the discussed strategies, some might be influenced by a smaller sized company. The internalisation strategy requires a company to develop a number of internal processes that are supposed to compensate for institutional voids. Setting up these processes, for example a

private employment system, will require significant resources. It may be difficult for smaller companies to dedicate resources to this internalisation process. Other strategies like using CSR to create trust and lower transaction costs or creating a joint venture in order to use foreign institutions can be done by SMEs as well. The substitution strategy in which the lack of local public information is compensated by a company's local private information requires a large network. This may also be harder for an SME to set up and upkeep.

Overall, some of the investigated strategies apply to SMEs just as well as they apply to large MNE's. However, some strategies appear to need a large company with more resources available for such a strategy. Therefore, not all strategies may be found frequently among SMEs. This must be taken into consideration in the research.

Chapter 3: Methodology

In order to perform a quality research, various methodological issues must be further discussed. In this chapter, the approach and methods used to answer the research question will be explained as well as certain context specific parameters. By clarifying these matters, a good foundation will be laid for the actual analysis.

3.1 Research method

This research will be of qualitative nature opposite to a quantitative study. In case of qualitative research, “one first needs to look at the character of the social reality before one can decide about the methodology and focus points of a research” (Vennix, 2012). This abstract sentence means that when a lot about a situation/topic is unclear, a broader study will provide the clarity needed for more focused (quantitative) research. This definition also applies to the topic of SMEs dealing with institutional voids in emerging markets. As mentioned before, very little research has been done on this particular topic. It therefore is a relatively unclear situation for which we need to determine the “character of the social reality” first. In this research, we will investigate SMEs that operate in emerging markets. This investigation will be done at the SMEs i.e. their natural environment and not in a controlled environment. Vennix (2012) points out that investigating in the natural environment is an important part of qualitative research. It must be added that the research will take place in the Netherlands but it will concern institutional voids in emerging countries that the Dutch companies face.

Another aspect of the research type that must be explained is the deductive nature of the research. Whether a paper is deductive or inductive is determined by the extent in which it is guided by theory (Bleijenbergh, 2013). Due to the large amount of available theory on the matter of institutional voids, a clear theoretical framework can be formed in advance of the actual investigation. Having this clear theoretical framework allows for the use of a deductive research approach according to Bleijenbergh (2013). A qualitative study with a deductive approach concretely results in this study as using the available literature to construct a clear theoretical framework, use that framework to formulate a list of interview questions, taking in depth interviews with employees from companies that are relevant to this study, transcribe all the interviews word-to-word and finally using the theoretical framework to find useful sentences in the transcribed interviews that allows for drawing up certain conclusions that can answer the research question.

There will, however, be an inductive aspect to the research as well. Because SMEs in the context of institutional voids in emerging markets have not been investigated, unexpected information may arise during the data gathering. Unexpected information may not be consistent with existing literature but still be very useful because it possibly exposes major differences between large firms and SMEs with regard to the research question. Because new concepts may be constructed based on the unexpected information, an inductive method is therefore required. If the inductive element is absent and only a deductive approach is used, only existing construct elaboration will be achieved (Gioia, Corley & Hamilton, 2012).

3.2 Data sources

In order to answer the research question, a number of data sources will be used. Swanborn (2013) indicates that in a case study, researchers use interviews, documents and observations. For this research, interviews will serve as the primary data source. When looking at the various variables that are important for this research (emerging markets, institutional voids and SMEs) and the research (sub)question(s), for each part, different data sources are the most suitable. For the creation of clear definitions and boundaries for the terms SME and emerging markets, public digital information sources were used. There are several renowned institutions that determine the classification of the economies in the world. With the help of a comparison of their classification, the definition and list of emerging markets for this research was formed. This list is further explained in this chapter. The same method was used to determine the definition for Small-and Medium sized Enterprises. The type of company is quite often defined by the number of employees. Various amounts are used as boundaries for small-and medium sized companies. The boundaries are also dependent on the country of origin. In Tanzania, for example, a small business is defined as having 5-20 employees and a medium sized company as 21-100 employees (Mahemba & De Bruijn, 2003). For a study on Ghana they categorised small companies as 10-19 employees and medium sized companies as 20-50 employees (Robson, Haugh & Obeng, 2008). The European Commission (2012) used the definition: small < 50 employees and medium < 250. This definition is most suited for the research. The primary reason is that it provides a simple and clear definition and the companies that will be investigated are all within the European Union. The European Commission also tells to look at the yearly turnover or balance total. In this research however, only the number of employees will be used. The reason for this is that the additional characteristics are too restrictive. Practice has shown that including the additional characteristics will exclude a large number of potentially relevant companies and,

with that, important information. In existing literature, both Robson et al (2008) and Mahemba et al (2003) only use the number of employees. Also, the definition used in papers from developed origin uses only the number of employees (Hudson, Smart & Bourne, 2001). In order to answer the research sub questions and ultimately the overall research question, the primary data source will be interviews. The interviews are conducted in ten SMEs with employees who possess knowledge about the institutional voids that the company faces. The use of multiple cases (SMEs) will reduce the chance of variance, both specific as well as coincidental (Swanborn, 2013). This explains why more than one SME is investigated. By visiting six SMEs the chance of variance is much smaller than when only one company is investigated. The type of interview is called the semi-structured interview by Bleijenbergh (2013). This type of interview distinguishes itself by using questions that were written down in advance while still allowing the interviewer to ask new questions based on something that was said by the respondent. This type provides both structure as well as freedom by allowing additional questions that arise from new useful information.

The companies interviewed for the research are active in a variety of different branches and countries. In the table below, basic information about the participating companies is provided.

Company	Industry	Emerging markets	Role respondent	Duration interview
1	Laboratory equipment	Mainly Eastern Europe and China	Owner/director	62 min.
2	Infrared heating	Almost all	Owner/director	58 min.
3	Trucks & Vans	Almost all	Owner/director	62 min.
4	Lubricants	Almost all	Owner/director	38 min.
5	Hatchery machines	Almost all	Manager service	69 min.
6	Investment	South Africa	Owner/director	39 min.
7	Poultry transport	Mainly Eastern Europe	Owner/director	61 min.

8	Hatchery automation	Majority	Owner/director	52 min.
9	Horse trailers	Majority	Owner/director	56 min.
10	Cosmetics	Russia, China, Poland and Turkey	Brand manager	On paper

On a few occasions, documents or digital data was provided as support during the interview. The final company provided answers to the questions on paper due to a lack of time for a physical interview.

3.3 Data analysis

In the following section, the actual analysis will be explained and justified. This will include both the methods used for the analysis as well as the parameters and coding that will be used in the analysis chapter.

3.3.1 Analysis methods

The next step in the research will be the analysis of the gathered data. There are a large variety of analysis methods, however, not all are useful given the form of the research. A qualitative research like this one, will require qualitative analysis methods. An often used method for qualitative research is the grounded theory. Nevertheless, this method places a strong emphasis on exploration and an inductive character (Swanborn, 2013). On the topic of institutional voids, a lot of literature is present. The novelty of this research is looking at institutional voids in a context with different players (SMEs instead of MNEs). Because of the large amount of literature and variables already present, the majority of this research will be deductive. However, since SMEs are investigated instead of the usual ‘large company’ players, it is important to stay alert for previously unknown trends. Therefore, this research will be abductive, being one with both deductive and inductive elements.

The first step of analysis is the registration and preparation of the material (Wester and Peters, 2004). This means that the recorded interviews will be typed out literarily. The next step is to read the transcribed interviews in order to get a clear overview of the gathered data in relation to the theory (Vennix, 2011). Once this is done, the analysis moves on to the coding of the data. A clear setup of deductive coding is given by Verschuren and Doorewaard (2007). They advise to create a tree graph that starts with the central concept, branches out in several dimensions which, in turn, split up in a number of indicators. The concept, dimensions

and indicators all find their origin in the literature. The trees used in this research will be presented later in this chapter. The basis of coding is attaching an indicator from one of the dimensions to a specific sentence/part of a sentence in the margin of the gathered data. When this is done for all of the data, all of the fragments will be investigated in order to discover patterns in the social phenomenon that is being investigated. The discovered patterns can provide answers to the research question (Bleijenbergh, 2013).

3.3.2 Coding tree

The coding is vital for the actual analysis of the gathered data. Which is why solid coding trees must be developed in advance. Bleijenbergh (2013) gives two main rules of thumb for coming up with the dimensions and indicators that will be attached to the sentences. Dimensions as well as indicators must be “uitputtend” and “uitsluitend”. This means that the chosen dimensions and indicators must: (1) cover the entire central concept and (2) have no overlap with each other. The code trees below are based on the literature, primarily Khanna et al (2005) and Doh et al (2017). The trees have been adjusted to the relevance of certain matters during the interviews.

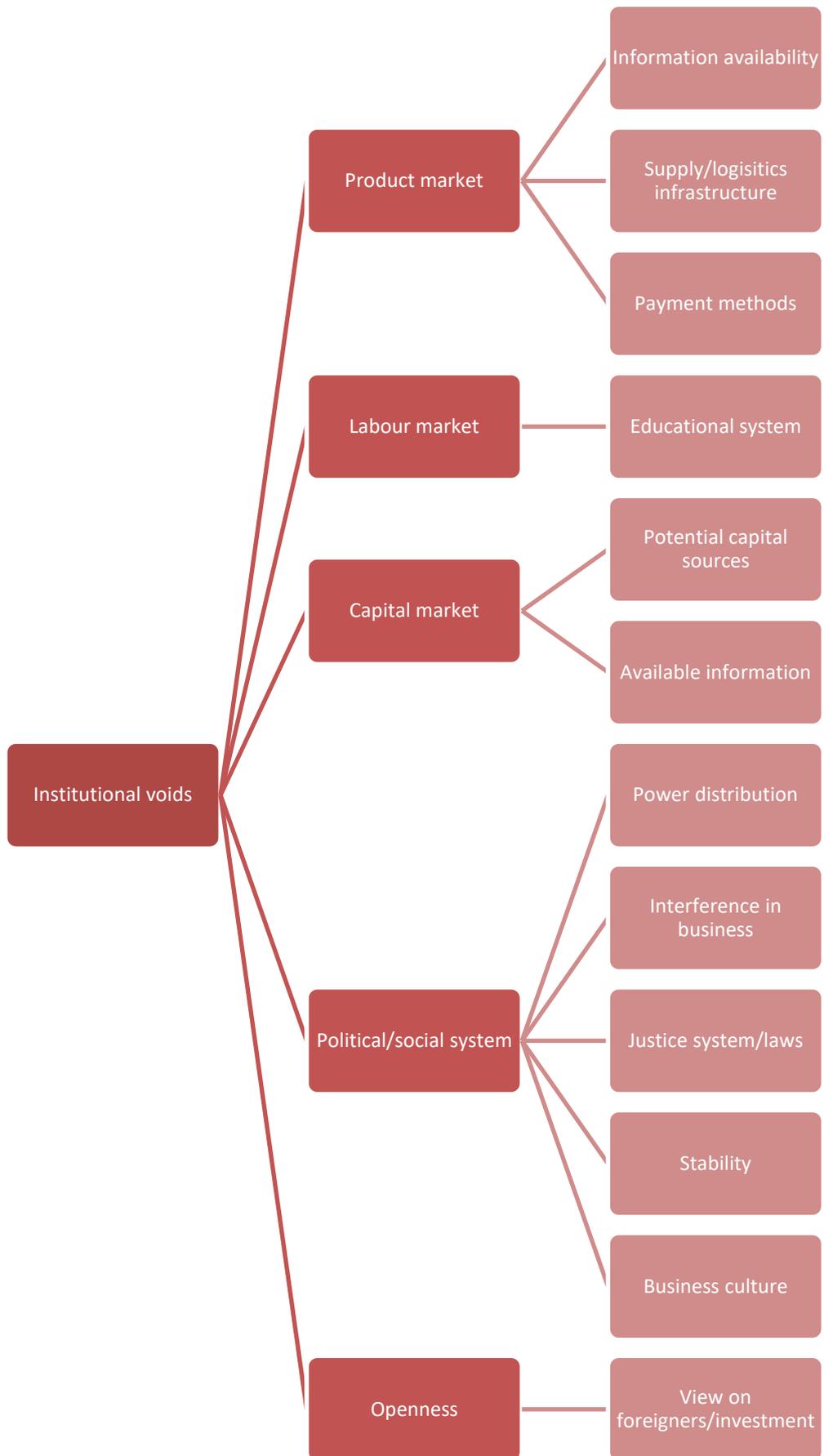


Figure 3: Institutional voids, dimensions and indicators (Khanna et al, 2005)

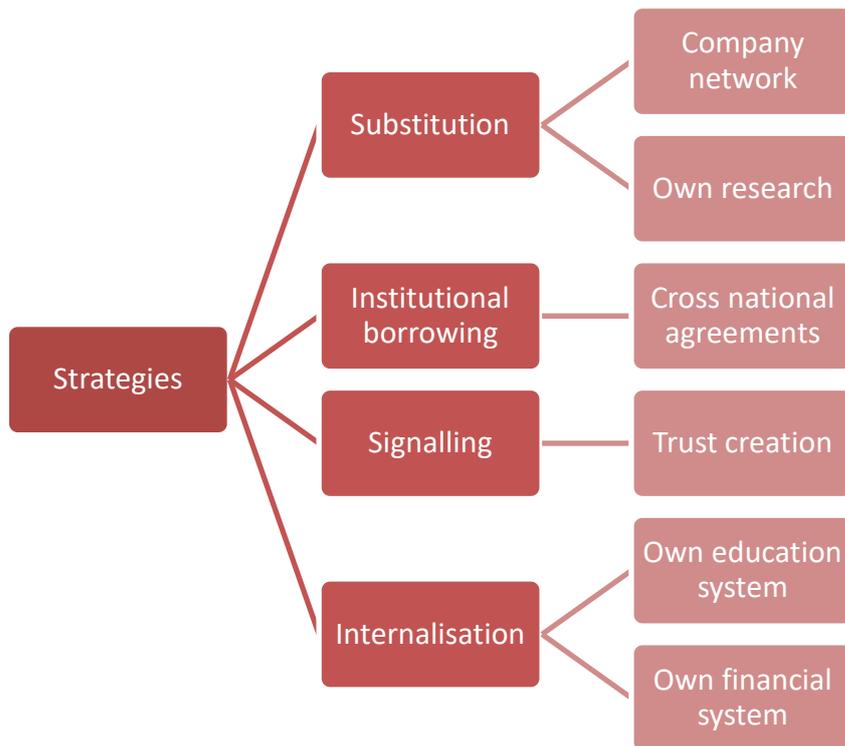
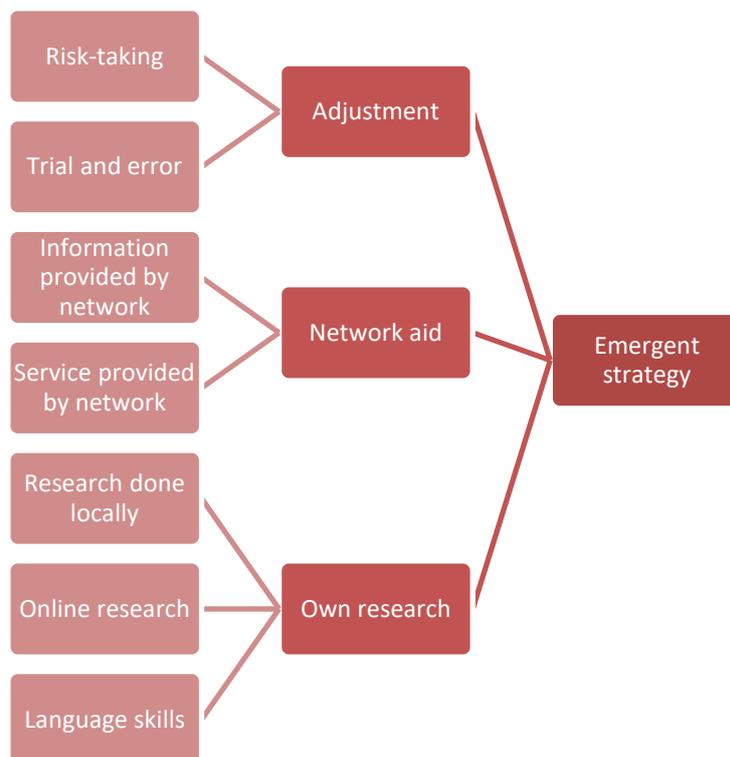


Figure 4: Strategies, dimensions and indicators (Doh et al, 2017)

In the beginning of this chapter, the inductive element was mentioned. After the interviews, a clear trend was noticed in the interviews that has not been mentioned in the literature. The data structure below shows this trend. Further explanations on the findings will be given in chapter 4.



3.3.3 Emerging markets classification

The “playing field” of this research are emerging markets. Therefore, in order to have a valid research, a clear list of emerging countries/markets must be developed. Several official organisations have created such lists. These lists contain a lot of similarities, but also some differences. A selection of these lists will be compared in order to reach a decision about which list shall be used for this research.

The Morgan Stanley Capital International (MSCI), a large and independent provider of indexes on financial topics, created the following list of emerging countries:

Emerging markets		
Americas	Europe, Middle East, Africa	Asia
Brazil	Czech Republic	China
Chile	Egypt	India
Columbia	Greece	Indonesia
Mexico	Hungary	Korea
Peru	Poland	Malaysia
	Qatar	Philippines
	Russia	Taiwan
	South Africa	Thailand
	Turkey	
	UAE	

Source: (MSCI, 2016)

MSCI has decided to categorise the emerging markets per region (several continents) in the world.

Another well-known institute that categorises markets is the International Monetary Fund (IMF). The IMF has classified 37 advanced economies and considers all the other 152 countries as emerging markets and developing economies (IMF, 2015). This distinction is too generic to use since they do not differentiate between emerging markets and markets that aren't emerging in a significant pace. Given the fact that there are more accurate categorisations, the one provided by the IMF will not be used.

FTSE Russel is an indices provider for several major financial markets, for example the main British stock index FTSE100. They also provide analytics and data solutions and

they have also formed a classification for different economies. They distinguish the following categories: Developed, advanced emerging, secondary emerging and frontier (FTSE, 2016). For this research, the second and third category are relevant. The countries in these two categories can be found in the table below.

Emerging markets	
Advanced emerging	Secondary emerging
Brazil	Chile
Czech Republic	China
Greece	Columbia
Hungary	Egypt
Malaysia	India
Mexico	Indonesia
Poland	Pakistan
South Africa	Peru
Taiwan	Philippines
Thailand	Qatar
Turkey	Russia
	UAE

Source: FTSE, 2016

The IMF categorisation only distinguishes two categories for all the countries which makes it too generic. The lists of emerging countries formed by FTSE Russel and MSCI are very similar to each other. When examining other articles that require an emerging market classification, it turned out that FTSE and MSCI are used as correct classifications (Kim & Song, 2016). Their research looks into filling institutional voids in emerging markets. The great similarity between their research and this allows the use of the same classifications with regard to emerging markets. The two classifications only have minor differences, MSCI includes Korea and FTSE includes Pakistan. All the other countries are the same. Therefore, the countries that will be regarded as emerging markets are all the countries the two lists have similar + the Republic of Korea (South Korea) and Pakistan.

3.4 Limitations and ethics

The main limitation of this research, which has already been mentioned, is the fact that no observations or interviews will be taken in an emerging market. All the interviews will be held in the Netherlands with employees from SMEs that have activities in emerging markets. This is out of practical reasons, but it will pose a limitation worth mentioning. People who work/live in the emerging market might have a different perspective on institutional voids than employees from the Netherlands. In order to reduce the effects of the limitations somewhat, there will be questions in the interviews in which is asked about the perspective of workers from the emerging markets.

In order to assure that the research is conducted in a scientific ethical way, a number of rules will be uphold. (1) The researcher will never fabricate fake information (2) the researcher will never intentionally interpret information in an incorrect way (3) the researcher will never ask suggestive questions (4) the researcher will guarantee anonymity for people and companies involved in the research that desire this (5) the researcher will not share any full transcripts with other parties except the first and second supervisor (6) the researcher will give all participating parties the opportunity to read the end result of the research. These rules will help to create/maintain trust among the participants in the academic world, preserve the good reputation of the Radboud University but above all, it helps to create an honest and correct research.

Chapter 4: Analysis

After conducting, transcribing and coding the interviews, the analysis is the next step in answering the research question. In order to determine how developed-marked SMEs deal with institutional voids in emerging markets, the two sub-questions mentioned in chapter one will be answered separately.

4.1 Which institutional voids do SMEs face in emerging markets?

The codes, relevant for answering this question, are the codes from the first coding tree which is based on the five contexts framework (Khanna et al, 2005). Each of the five contexts will be analysed individually which will lead to an answer to the sub-question.

The **Product market** has appeared as a context that has great influence on the SMEs that were interviewed. The information availability is an issue in emerging markets, especially compared to developed markets. This works for both the SME as well as the customer in an emerging market. A code that shows the difference between a developed country and an emerging country in this matter is given by an investor who invests in South Africa. He says *'there is a Kadaster, there is a notary that works, everything is very well documented'*. This is the situation in the Netherlands while in South Africa, it is often seen that the title of property is *'a question mark'*. This finding shows that in a developed country like the Netherlands, institutions like the Kadaster provide necessary information that is often missing in an emerging country like South Africa. A producer of infrared heaters shows that, due to technological development, information availability for both company and consumer in both developed as well as emerging countries has increased significantly. *'Nowadays when you introduce something, the whole world sees it immediately so it has gotten very transparent'* is how he indicates that, when it comes to information, the availability has increased significantly thanks to the internet. This is confirmed by the director of an SME that sells oil lubricants. He states that internet contains everything. It shows that innovation in telecommunication is diminishing certain institutional voids compared to the past. Finding information on other companies in the sector is also harder in an emerging market. A trader in used trucks and vans indicated that when he looks for company information in the Chamber of Commerce in an emerging market *'it is nearly always one big chaos, the contact data is never right'*. So overall, the information availability is definitely an institutional void, but a decreasing one because of the emergence of the internet.

When it comes to logistics and infrastructure, emerging markets still fall behind on developed markets. The trader in trucks explains that they keep a special shipping document with them until the truck is picked up from the port because in emerging economies '*ports are often not closed*'. This basically means that the ports in emerging markets are not properly secured and that cargo, his trucks, can be stolen before they are picked up by the actual buyer. Issues with ports are also confirmed by the investor. He states that Brazil '*has a significant shortage of logistics and port capacity*'. Roads are generally of lesser quality, resulting in a longer travel time. Something that is pointed out as a void by multiple SMEs. When it comes to digital infrastructure, the respondents send mixed signals. One says that '*internet is difficult*' in the emerging markets while others indicate that both internet and phone service are no problem in the emerging countries they are active in. The general image is that lesser physical and digital infrastructure are a real void for SMEs but not to an extent that it prevents them from doing business. As one of the respondents states '*we can even get it to Iraq*'.

The final type of voids within the product market are related to the payment methods in emerging countries. The best comparison between emerging markets and developed markets comes from the producer of infrared heaters. He describes how his agent in Columbia pays money to him. The payment there still happens in a bank office '*where there are 30 people in a row all waiting to move one seat*'. The use of cash is also still present. The trader in trucks, the cosmetics company and the producer of horse-trailers are still regularly paid with cash money. One indicates that this is partly because '*payment structures are still emerging*' while the other says it is more a branch-related thing. He also indicates that in the gulf states '*swift and iban, things go smoothly*'. This shows that the state of the payment systems differs significantly between different emerging markets. In emerging markets, the banks play a larger, more active role in the payment system. This is shown by the quote regarding the Colombian bank but also by the method called LC. A Letter of Credit is when '*we and the other party place the agreement at our banks*'. The banks basically become intermediates and only '*empty the LC when the commercial invoices of delivery are handed over*'. This is a common payment method when it is difficult to find out whether you are dealing with a reliable other party. Another, simple method, is also used by multiple respondents, '*no car leaves before it has been paid for*'. So either pay completely in advance or part of the sum. The conclusion on voids with regard to the payment methods is comparable to logistics and infrastructure. Due to the voids, there is a little more work involved, yet it does not deter the SMEs to do business in emerging markets. An issue that is

not an institutional void, but was mentioned multiple times is the payment moral. In four interviews, the payment moral was explicitly mentioned. This relates to the payment methods because the SMEs have to take measures to make sure that they are not cheated out of their money. This influences not the payment methods but the payment conditions. SME's demand that the buyer *'first pay the old bill before they can order again'*. The seller of horse trucks even states that *'no truck leaves this place before it has been paid for'*. The problem of poor payment moral seems wealth related. The respondents indicate that the payment moral in Northern Europa is good but already gets worse when moving to the south. Regions like Eastern Europe, Russia, Peru and Arab countries are also specifically mentioned as markets where payment must be in advance.

The three types of voids that were explained above are the main voids that were voiced by the SMEs that participated in this research. The interviews show that, within the product market, there are definite voids, that the extent of the voids differs between emerging markets as well but that the SMEs generally are not deterred by the voids from doing business in emerging markets. How the SMEs deal with these and other particular voids will be explained later in this chapter.

When discussing the **Labour market**, the SMEs experienced less institutional voids than when discussing the Product market. Some of the SMEs have own staff in emerging markets. Others do have partners/agents there. When asked about the availability of qualified staff, which relates to the educational system, the responses were generally positive. The investor states that *'in South Africa you get fantastically well educated people'*. Another example comes from a poultry transporter who tells that *'every five years, drivers have to attend a course to transport poultry. Someone in Poland also has to do that'*. He does add that the course in the Netherlands is stricter. The company who sells horse trailers even tells that their partner company who produces the trailers in Hungary has *'over-schooled staff'*. There were also negative experiences with the educational level in emerging markets. One problem is that customers only speak their native language like Spanish. The issue with the customers lacking knowledge and education is confirmed by the SME that produces and sells hatching machinery. The respondent noticed that *'the level of knowledge is less than with a European client'*. The lubricants seller tells that the staff of the distributors are *'usually not well educated'*. He does add that he believes this is typical for his market. Overall, the level of knowledge and educational level was not considered a big problem/void by most participating companies.

When it comes to the actual hiring of staff, the employment agency or head-hunter was barely mentioned. Most companies did not have foreign staff in emerging markets. Those that do generally use alternative means to find proper personnel. These means will be explained in section 4.2.

The **Capital market** does play a role, be it a minor one. Matters like shareholder power is rarely relevant for the SMEs in the research. The potential capital providers and information availability are relevant issues. Especially for the companies selling large capital intensive products like trucks, hatching machines etcetera. The Dutch SMEs themselves rarely seek financing with a capital provider from an emerging country. As one of the respondents states *'I would never do that...you can't see exactly what they do'*. So, one of the reasons for the SME not to use emerging market capital providers is the lack of available information/lacking transparency. This problem is also mentioned by another respondent. He tells that it is difficult for the company to provide capital to a buyer by letting him buy on credit. The reason for this is that it is *'difficult, almost impossible'* to get information on that company's financial status. The final statement on information availability was given by the company in the horse trailer business. The company is very active in the UAE. The company has been in situation where the money from the UAE actually came from Syria or Iran. The respondent explained that he *'can't check that'*. Indicating that money flows in those emerging markets can be very little transparent.

The potential capital sources were an often mentioned subject during the interviews. The director of the company that sells/produces laboratory/measuring equipment explained that in some emerging economies, getting a loan was actually very easy. *'People could just borrow €20.000,- from a bank'*. The country in question is/was Greece. This contradicts information in the literature that states that getting a loan in an emerging market is very difficult. The statement shows that this issue is different for every emerging country. The producer of infrared heating, who is very active in South America, indicated that getting a loan from a local capital provider requires a lot more paperwork than when the company uses a Dutch capital source. In some emerging markets, the customers can get a leasing finance relatively easily. The company that sells trucks has customers who take care of their own lease. *'Poland is well taken care of'* explains the respondent from the truck dealer, indicating that Polish customers can get proper leasing finance in their own country. The story of extreme interest rates in emerging markets, that was mentioned earlier in the research, is confirmed by the director of the lubricants business. He tells that *'even if they get it (locals*

getting financing), the banks ask very high interest rates'. Again, a contradicting statement is provided by the investor in South Africa who indicates that the company they invested in, *'looked for support to the banking system and it actually worked'*.

The image that was given by the respondents about the capital market in the emerging markets is mixed. In some countries, getting a loan is doable while in other countries it is very difficult and comes with high interest costs. A consistent issue was the lack of available information and transparency for this market.

The **political/social system** is the next context in Khanna's framework. It is a context that, by looking at the interviews, appears very influential in day to day operation in emerging countries. The first section of this context that will be discussed is the interference in business by the local government. The respondents have given a number of examples where the bureaucracy imposed, hinders business. The producer/seller of measuring equipment is very active in Eastern Europe. He states that all his products *'need a type approval...for which an institute must be used'*. *'Nothing much actually happens but it is of course about money'* he tells, which is a good example that the interference in business is a form of protectionism by the government of an emerging country. Finally, he also tells that, in order to get the product past all these bureaucratic measures with customs *'sometimes bribes must be paid'*. This is often done by local agents/distributors. Customs in emerging markets are experienced to be very troublesome by other respondents as well. Examples of countries with difficult customs are Russia, Peru and Brazil according to the producer of hatching machinery. The producer/seller of infrared heating mechanisms tells that bureaucracy is also a major issue in South America. Again to *'protect their own local production'*. The same respondent also gives an example about doing business in Egypt. He explains that *'every bill must be legalised by the Chamber of Commerce and then by the Egyptian embassy'*. This rule too is to protect the local economy. Import tariffs are also a weapon used by governments to prevent foreign companies from doing business in their country. In Thailand, they go a step further. If the lubricant salesman wants to export to Thailand, he has to provide *'the formulas of all his products'*. Which was reason for him, not to export to Thailand. The government, who itself is a major institution, is often not facilitating easier international trade but instead is making international trade harder through imposing protectionist measures. All the examples above show that governments in emerging markets often are significant institutional voids that will impact the SME's business there.

The matter of corruption is already briefly mentioned above and is related to the issue of interference in business. Corruption was often mentioned in the interviews, it was mentioned thirteen times in 60% of the interviews. By talking to the respondents, it became clear that, when doing business in emerging markets, there will always be small bribes to pay to various people. When you want to export to such a market, customs often want some money before they help. If you don't pay *'they can simply leave it in the customs warehouse and say the paperwork isn't ready'*. The lubricants dealer even tells that it *'has become the standard in Egypt'*. This shows that the customs agency in those country is an poorly performing institution, a void that the SME has to deal with. Corruption is also not limited to customs. The producer/seller of horse trucks also tells that there is a lot of corruption in the legal system in Middle-Eastern countries.

The justice system and laws are related to interference in business by the government. The justice system and its issues become apparent when the subject of protecting intellectual property is mentioned during the interview. Most respondents indicated that a court case in an emerging country is difficult. Both the producer of infrared heating mechanisms as well as the trader in lubricants mentioned that they experienced infringements on their intellectual property in emerging markets. The director of the infrared heating company indicated that protecting intellectual property is very difficult. Considering these infringements, the lubricants seller said *'our brand is protected so it is usually short lived'*. Court cases about a payments issue are rare. The company that deals in hatchery automation responds with *'forget it'* when foreign lawsuits are discussed. The producer/seller of horse trucks explains that *'a signature under a contract means little in court'*. The overall attitude of the respondents was that a court case is not worth the negative energy. It must be mentioned that this applies in general and not only to emerging markets. A few other interesting remarks on the legal system of emerging countries were made. The poultry transporter, who is very active in Poland, explained that *'when fighting a traffic ticket, we are troubled by the fact that we are foreign'*. A risk that the investor in South Africa faces is that the land on which their macadamia-operation resides can be expropriated by the government. This because of ideas regarding *'black empowerment'*. He does explicitly add that you are paid for your land and that the South African legal systems works.

One could reason that with the uncertain circumstances in emerging markets, contracts would be a good way of reducing the uncertainty. It turns out, however, that most SMEs rely very little on contracts. They often say *'a man, a man, his word, his word'*. Whenever contracts are drawn up, the companies see them as less important than the moment when

payment is made. The reason why contracts are deemed less important has already been covered in the section above about the legal system.

The next part of the political/social system is stability. In a number of ways is this a real issue/void for the SMEs. The producer/seller of measuring equipment remarked that *'you never know what Putin is going to do'*. For a company operating in Russia, the actions of the Russian president can have major consequences and does not provide a stable market. The invasion of Crimea and the following sanctions from Western countries are a good example. The trader in used trucks told that his company indeed used to sell a lot to Russia but due to the sanctions, very little in recent time. The hatchery automation company noticed orders from Russia being cancelled after the MH-17 incident. Russia appears to be a good example of how a lack of political stability can influence business. The producer of infrared heating mechanisms explained that in *'Brazil, Mexico and Colombia, primarily South American countries, its running or standing still'*. This explanation indicates a very unstable situation which usually applies to both economic as well as political stability. That same respondent told that after a corruption crisis (political instability), the *'currency crashes'* (economic instability). The issue of a volatile currency is also experienced by the trader in trucks and the dealer in lubricants. Overall, most SMEs experienced noticeable negative effect from a reduced amount of stability that is often found in emerging markets.

During the interviews, many examples of different business cultures were given by the respondents. However, to state that emerging markets have a different business culture than developed markets would be inaccurate. The many examples showed large differences between emerging countries but also between developed markets. A number of examples will be mentioned. Loyalty is part of the business culture that differs a lot. A Japanese sales agent is described as *'faithful as a dog'*. African dealers/agents, however, aren't loyal at all. The director of the hatchery automation told a story from Turkey about how *'Allah determined whether you would go to work or not'*. Another story warned never to show the underside of your shoe in Indonesia because this is considered a great insult. The cultural differences are not restricted to just the emerging markets. Developed markets have large internal differences as well. In Germany, for example, hierarchy is far more important than in the Netherlands. All in all, there are always cultural differences between countries. If one wants to do business in that country, one should always adapt. This is not inherent to the institutional voids in emerging markets.

Summarising the influence of the political/social system, there are many voids in this context, the largest being the government. On numerous moments did the influence of the

government become apparent. This influence often consisted of bureaucracy and protectionism. Both issues that severely hinder international trade.

The final context in the framework is the **openness** of a country. When discussing the openness, the most often mentioned aspect is the attitude of the emerging country towards foreigners and foreign investment. A number of examples of the various attitudes will be given. The producer/seller of measuring equipment experienced it to be *'easier to penetrate Eastern Europe than Germany'* when it came to willingness and openness. This is contradicted by the director of the truck trading company who explains that *'if I show up in Russia like I am dressed today, they will say that's a Westerner, plenty of money'*. That same respondent is very positive about the Middle-East, where he experienced the local population to be very friendly towards foreigners. Another respondent explained that it also differs within a country. He uses Poland as example, explaining that the police is very nationalistic and not open while the normal people are *'almost more welcoming than in the Netherlands'*. The general image that the respondents pictured regarding the openness and attitude towards foreigners was that they are very willing to do business. Specific comments regarding trade relations were not made. However, analysing other sentences showed that the SMEs could get their product almost anywhere in the world. Therefore, trade relations don't seem to be a void.

4.2 Which tactics/measures do SMEs use to deal with institutional voids?

The different voids that have been covered in the previous section can, and often will have a negative impact. This section will look at the four tactics/strategies/measures for dealing with institutional voids that have been found in the literature. This section will also contain the types of strategies that were mentioned by the respondents which were not found in the literature.

The first strategy that is discussed, **substitution**, turned out to be frequently used by the SMEs in the research. When being asked about the activities in emerging markets, most respondents explain that they use a network of agents, distributors or even ambassadors. This company network seems to be vital for the operations abroad. A good example is given by the producer of infrared heating mechanisms. He explains that getting the product into Brazil is really difficult, in which case their local agent *'has to come up with some money'*. This is a good example how someone in the company network helps them overcome the customs void.

That same respondent told an anecdote about the inefficient banking system in Colombia and how his agent made sure that they were first in line. The agent functions, not only as a salesman, but also as a local guide for the SME. Several respondents also indicated that they use the company network to find qualified staff. '*You work with the network of your current employees*' or the network of your customers. This story is confirmed by the company that produces hatching machines who used this technique in Russia. The general information of how a market in a particular country works is also often learned from local agents in the company network. Examples have been given of the SMEs doing this in Brazil, South Africa, Middle-Eastern countries and others markets. From the interviews, it also became apparent that the usage of agents/distributors can happen in every type of country but is seen more in emerging countries. Something that is formally confirmed by the producer of hatching machines who showed a list of the countries where they did and didn't have agents.

Besides the company network, doing own research is also a used substitute for institutions. A number of ways are described by respondents to gather needed information by own research. Many of the interviewed companies visit conferences/expositions regularly. Here they network and acquire information about the market. The director of the company that produces infrared heating mechanisms uses a very hands on method of doing research. He speaks five languages and uses that to '*go to the land, visit stables and see how it is installed there*'. This shows that visiting (potential) customers is also a good way of doing research. Additional methods mentioned are government attachés and both the Dutch and local Chamber of Commerce. Finally, a big difference with the past is the use of internet as an information source. The difference between the past and the present was mentioned several times during the interviews. Four different respondents showed that in the present, dealing with institutional voids has become easier. The two main improvements are in information gathering and communication. As one of the respondents explain '*you applied for a conversation to the Netherlands and then waited for an hour for the call back*'. Nowadays, one can contact someone or be contacted at any given time. Other respondents also indicate that useful information can often be found online, also in emerging markets. The improvements in telecommunication and IT have made it much easier for SMEs to manage their business activities abroad with less means and resources.

The conclusion can be drawn that for SMEs, the substitution strategy is an often used, well-functioning strategy for overcoming institutional voids. Within this strategy, the use of the company network came out as potentially vital for doing business in other countries, especially in emerging countries.

The second predetermined strategy is that of **institutional borrowing**. This strategy is used significantly less than the above mentioned strategy. No forms of a contractual relationship were mentioned as a form of overcoming institutional voids. Cases where cross national agreements helped were mentioned a few times in the interviews. One is used by the lubricants seller where a quality mark, acquired in Russia, can be used in several surrounding countries. Another example is given by the producer of horse trailers. According to him *'I can have the cars checked in the Netherlands by the German inspector'*. This is of course a cross national agreement between two developed markets. The agreement that allows for the most institutional borrowing is the EU and the euro. Several respondents explain that the euro rules out currency issues in emerging markets in Europe and beyond. Another example is that *'you can carry on driving because the papers are worth the same'*. This example is given by the poultry transporter who can cross borders and export goods much easier thanks to the EU and the Schengen treaty.

Overall, the use of cross national agreements will help the SME do business in emerging markets. However, compared to the substitution strategy, the institutional borrowing strategy plays only a minor role.

Another strategy extracted from existing literature is the **signalling** strategy. One way of using this strategy is with CSR activities in the emerging markets. Generally, the SMEs don't do this. The reason is that they have no physical presence in those markets. The producer of hatching machines, who is physically present in China, does have a few CSR-activities there. These activities are mainly sponsoring local things.

Trust creation is significantly more important for the SMEs. It is also more important in emerging markets than in developed markets. The director of the lubricants business explained that he sometimes hasn't met distributors in Belgium and Germany while they are already doing business. In emerging markets *'they want to see you, they want to talk to you, they want to have the product in their hands'*. So, a closer approach with trust creation is very important in those emerging countries. In the section regarding openness, it was pointed out that Russians aren't always very open towards westerners. The dealer in trucks recognises this problem but uses his Russian language skills to overcome it. *'If you are a foreigner, they hate you but when you talk Russian to them, they think wow'*. This quote shows that trust creation is a valuable way of overcoming a lack of openness. Another way of creating trust is by first working with a verbal agreement only, instead of contracts. The lubricant company uses this

way to create a trusting relationship with its dealers. The respondents have given a number of examples like the before mentioned in order to work towards a trustworthy, and preferably, long-term relationship. They recognise that this type of relationship will contribute to better business and overcoming multiple institutional voids.

The final predetermined strategy is that of **internalisation**. In order to overcome a number of institutional voids, companies can decide to fulfil the function of the institution themselves. The type of internalisation that was mentioned the most during the interviews is an own educational system. The SMEs indicated that they frequently offer courses for their staff but also for agents/distributors abroad. They sometimes invite them over to the Netherlands or combine a visit to the emerging country with training. The producer of hatching machines goes further than that. They sometimes train staff abroad completely internally. The SMEs point out that the reason for this is not because the educational system in the country is insufficient.

Another form of internalisation is the creation of an own financial system. This happens by providing lease options for customers, especially for the larger, more expensive products. Both the producer of horse trucks as well as the producer of hatching machines offer lease options to their clients. The latter also states that they '*help getting their client financing*'. This happens with the help of companies like Atradius. The internalisation of component production, in order to overcome institutional voids, was not mentioned or indicated during the interviews.

In conclusion, the interviews show some degree of internalisation in the SMEs. However, this is mostly limited to training courses and lease options. These internalisation strategies are also not limited to emerging markets but apply to all markets the SMEs in question are active in.

When asked about the type of strategy the SMEs use in emerging markets, the respondents often indicated that they went in and just tried. This just try strategy, better known as **emergent strategy**, was detected in the vast majority of the interviews. The first to coin this term were Mintzberg and Waters (1985). When the strategic planning process is emergent, the strategy is gradually shaped during an iterative process of thinking and doing (De Wit & Meyer, 2014). Several respondents simply call it pioneering. The poultry transporter explains that he just started and tried to find a good partner in Eastern Europe. And if something went well, they did it more often. He says that in emerging markets, it's more

risky and *'you have to dare more without knowing whether it will turn out right'*. Some even told that they don't have a strategic approach or plan. The producer/seller of horse trucks told that he *'booked a hotel for ten days and started doing cold acquisition'* when he wanted to enter the Middle-Eastern (UAE) market. During the transcription of the interviews, sentences or pieces of sentences that point into the direction of emergent strategies were marked. All the marked sentences or 1st order concepts led to the data structure that can be found in chapter 3.3. The first order concept, given about the UAE, is a good example of research done locally and on the spot. Another example is given by the poultry transporter with regard to doing business in Eastern Europe. He describes it as adventuring and *'just start and find a partner there with whom you can think you can make a good deal'*. Meaning that through an iterative process on location, a company devises its strategy. Plenty of people living in an emerging market do not speak English and on several occasions, respondents told that their language skills helped them to overcome certain institutional voids. The dealer in trucks explained that Russians don't like outsiders but when you talk Russian to them *'they think wow'* and they are positively surprised. Because of that, his company has plenty of employees that speak the local languages. Research is also performed from the companies home bases. This often happens through online research which shows the importance of internet nowadays. Online research, for example, includes getting information from the KvK. The producer of infrared heating mechanisms explains that, when entering an emerging market *'there are many ways of approach, and those can be easily found online nowadays'*. The emergent element in this is that this information gathering didn't seem clearly planned in advance. They don't have a blueprint written out. They decide to enter a market and start to look for good information sources.

The company's network is also very important in the concept of emergent strategies. People within the network often provide information that helps the company to find the right direction again. A good example is given by the trucks and vans dealer. He tells that he *'shifts on the network of the people he already employs'*. The poultry transporter told a story where he prevented the loss of a lot of money by going after a lead provided by his network. Besides information, people from the network also often provide services. The producer of infrared heating told an anecdote about his sales agent making sure they could overcome the flawed Colombian financial system. When they walked into a bank for a large payment, there were a lot of people in line *'but they know him there so he waves and we enter a room where someone can immediately help us with the payment'*. The network can help in many different ways, including the recruitment strategy. In Russia, the seller of hatching machines got good

employees, provided by its network. When someone was performing well during an installation job the client would direct them to the company as a potential new employee.

An important element for emergent strategies is the iterative character. The strategy is not predetermined but changes based on events and inputs along the way. The respondents gave a number of examples that show how this happens in practice. Several respondents indicate that in emerging markets, more than in other places, it is about risk-taking. When the investor talks about the instability of South Africa, he says '*Once again, you just have to accept the risk. And hopefully you'll be able to value and price that accordingly*'. Another example, given by the poultry transporter tells that '*more often, you just have to dare without knowing whether it will turn out alright*'. The increased risk is often caused by uncertainty and in these uncertain situations, trial and error is sometimes needed during the process of doing business. The producer of infrared heating told that a new customer, depending on the country, '*often begins with a test period of one season*'. Another area where trial and error is also seen in several cases is the financial area. If agreements (including payments) for new customers in Eastern Europe aren't met '*we knock it off immediately*' tells the poultry transporter. And if things go well '*we can do it more often*', he adds.

All of these quotes show that, quite often, the SMEs go in without a written down action plan, that they improvise on the spot and that they often shape their strategy based on trial and error in an iterative manner. This unscripted and volatile nature of strategy seems to be a very distinctive part of the way SMEs deal with institutional voids. Something that doesn't return clearly for the large companies that have been previously investigated. It should be noted that several quotes that were used in this section, were also used in the section about the substitution strategy. The emergent strategy is often used by companies but in an iterative and non-predetermined way. This makes it an important element of the emergent strategy concept.

Chapter 5: Conclusion and discussion

Now that the analysis is completed, it is time to look at all the data and determine the theoretical implications and the managerial recommendations. It is also important to name the limitations of this research and make recommendations for future research on this matter. All this shall be covered in the following chapter.

5.1 Conclusion

In the beginning of this research, a main research question and two sub-questions were formulated.

Main research question:

'How do developed-market SMEs deal with institutional voids in emerging markets?'

In order to answer this question, the two sub-questions are answered first.

The first sub-question is *which institutional voids do SMEs face in emerging markets*. The basis for answering this question was in the existing literature. There, the five contexts model of Khanna et al, provided a framework with the main categories of institutional voids. The direct answer to the question is that the investigated SMEs faced voids from all the five categories. However, the number of different voids was not evenly spread over the five contexts. Most voids were found in the product market or the political/social system. In the product market, it becomes apparent that information is not as readily available in emerging markets, as it is in developed markets. This void is becoming less due to the emergence of the internet. Another void in the product market is logistics and infrastructure. Roads are of inferior quality, ports are often not well secured and internet and phone connection tend to be less strong. This all makes transport more expensive and more time consuming. The payment system is not as efficient as it is in developed countries, however, digital transactions are widely possible. Here, banks from developed as well as emerging countries will facilitate the digital payment. The labour market had significantly less voids. Despite that most SMEs made no mention of head-hunters or other employment agencies; those that did have staff in emerging markets did not have a lot of difficulty finding qualified staff. This implies that the educational system is sufficient. The SMEs did mention that raising capital or getting a loan in emerging markets is more difficult. However, the SMEs rarely seek funding for themselves in emerging markets. Possibly the biggest void that the SMEs face, can be found in the

political/social system. This void is the government. The governmental institutions can also be described as multiple voids. Governments in emerging markets often impose strict protectionist rules that will seriously hinder the SME. The large scale corruption is also an issue that is found in many government agencies like customs. Therefore, the government will be a void (or voids) that the SME has to take into consideration. The openness of the countries did not turn out to contain a lot of voids. Strongly connected to the government is the stability void. SMEs did indicate that in a lot of emerging markets, political and economic stability is a real issue. Large changes in the stability can happen relatively quickly. These changes can, and often do, have serious consequences for an SME's business in that market. The attitude of most businesses in emerging markets was very willing to do trade. Furthermore, getting the product to an emerging country is always possible, even with some difficulties.

This all shows that SMEs do face a lot of the institutional voids that are present in the existing literature.

The second sub-question is *which tactics/measures SMEs use to deal with institutional voids*. In the literature, a number of existing tactics were specified. These were presented to the SMEs in order to see whether they use these tactics or others. The results were that some of the tactics are indeed used by them. However, most of the SMEs haven't specified their tactics for operating in emerging markets and dealing with its institutional voids. They use a tactic that possibly is very distinctive for smaller companies, the emergent tactic. The companies gather some information, try out a number of 'things' and if it works out, they'll do it again. If it doesn't, they won't.

From the predetermined four tactics that were found in the literature, the SMEs show occasional uses of the institutional borrowing, signalling and internalisation strategy. The most used one, however, is the substitution strategy. By doing own research but especially by using their, often large, network, the SMEs deal with the institutional voids that they face in emerging markets. They overcome the lack of knowledge and information, different business culture, inefficient banking system, complicated and protectionist rules, extensive corruption and many other voids with the help of their network. This network basically includes everyone they know that can provide some form of help. This can be, but is not limited to: previous customers, complementing companies, sales agents/distributors and current employees. The emergent strategies used are mostly iterative substitution strategies that have not been predetermined.

Using the conclusions above, the main research question of how developed-market SMEs deal with institutional voids in emerging markets, can be answered. SMEs from developed countries (the Netherlands) face a large number of the known institutional voids that are present in emerging markets. These voids do have a noticeable impact on their operations in these emerging markets. In order to deal with these institutional voids, the SMEs mainly use their extensive network to deal with all sorts of situations and circumstances, caused by institutional voids. Besides using their network as substitute for institutions, the SMEs often lack a more formal predetermined strategy, specific for emerging markets and the institutional voids there. They tend to 'just go in and try things out'. This form of emergent strategy was found to be a very distinct *modus operandi* for these smaller companies.

5.2 Discussion

With the main research question answered, it is important to look at what the findings mean for the existing literature, but also for the companies in the field.

5.2.1. Theoretical implications

The findings in this research have implications for the existing theory. The first sub-question looked at which institutional voids have impact on the activities of the SMEs. In the literature, the five contexts framework is very popular for showing the types of institutional voids in existence. In the research, it becomes clear that the contexts do not have an equal impact on the SME. It should be noted that, for SMEs, the institutional voids in the product market and the political/social system have a much greater impact on their activities than voids from the other contexts. A possible reason for this might be that SMEs generally have less extensive activities in emerging markets. This is why they often have no staff in those markets and why they don't need to find funding within those markets. The larger companies can have factories and offices in emerging markets. This might be a reason why the labour and capital market are less impactful on the SME, compared to the larger companies. However, this is only a hypothesis and should be investigated before it can be confirmed or rejected. Nevertheless, it should be noted in institutional voids literature that not every context has the same importance for each company.

A second implication can be found within the political/social system. Quotes from the interviews show that the role of the government should have a more prominent place in literature. The government is already mentioned often in the literature by, for example, Khanna. However, the role that the government is given in the current literature doesn't do

justice to their impact that is shown in the research. In the interviews, it becomes clear that corruption in governmental services and protectionist measures play a major role in the SME's activities. As mentioned earlier, the government is basically one big institution (or a large network of institutions). Respondents have given countless examples of governments prohibiting or complicating trade in order to protect their market. Protectionism has been gaining popularity in recent years. Enderwick (2011) explains that the countries that benefitted globalisation most (the emerging countries) '*are now at the forefront embracing protectionism*'. Reasoning that protectionism will lead to less economic activity, SMEs are dealing with a large institution in emerging markets that is not functioning optimally. Another issue where the government plays a major role is corruption. SMEs often experience the necessity to engage in small bribes in order to have government agencies do their regular job. The link between corruption, emerging markets and institutions has been made before. Kaymak and Bektas (2015) discovered that the rapid growth potential of emerging markets, combined with political issues and a weak institutional environment may encourage corrupt behaviour. With corruption ever present and global protectionism on the rise, this issue and the pivotal role the government plays, should become more prominent in future institutional voids literature. The focus in the literature should also be on the two important impacts of corruption and protectionism. These two topics too, are mentioned in the literature but are not given the attention they should receive given their importance.

The third implication for the literature is not about the voids themselves but about the concept of the emerging market. On several occasions, there was discussion in the interviews about the definition of an emerging market. This is well defined in the existing literature. What did become clear are the major differences within the group of countries that have been defined as emerging. Countries like Korea, the UAE and Poland are described as much more developed than countries like Indonesia or Colombia. This also showed in the institutional voids, experienced by the respondents. In the more developed emerging markets, there are often less protectionist measures and better infrastructure than in the 'lower group'. Khanna and Palepu briefly mention this in their 2010 book. Research on different groups within the emerging markets and the '*particular combination and severity of the voids*' that belong to each group may be beneficial for future research. A framework that provides broad groups of emerging markets with often experienced institutional void and their severity may be difficult to create because of the uniqueness of each country. However, despite it being not perfect, such a framework would provide people with a rudimentary overview and be able to tell

companies which voids they are likely to encounter in a particular emerging country and the severity of the voids.

A final implication that stood out is the frequent use of emergent strategies. This is possibly the biggest difference between the 'large company' based literature and the SME perspective that this research uses. The interviews show that SMEs often do not have a predetermined strategy to specifically deal with the institutional voids in emerging markets. They engage in business in these countries and adjust their strategies as they move along. This can be clearly seen in a lot of the participating companies in this research. Gibbons and O'Connor (2005) cite a number of authors that explain that a formalised/deliberate strategy yields superior results. Despite being contradicted by a few authors, this idea has become the generally accepted rule. This research shows that a lot of SMEs use an emergent strategy. This, according to the general rule, will not allow them to optimally deal with the institutional voids in emerging countries. This research contains an inductive element regarding emergent strategies and their presence in the interviewed companies. However, the expectation is that the role of emergent strategies is larger and more elaborate than it is in this paper. Therefore, the institutional voids literature would benefit from new research that focusses more on emergent strategies and that investigates the relation between performance and using a deliberate/emergent strategy in dealing with institutional voids in emerging markets. Such a research can disclose whether a deliberate strategy for institutional voids by SMEs will, in fact, yield superior results.

5.2.2. Managerial recommendations

It is important for academic research to be useful for companies in the real world. This particular research contains several important recommendations for companies (SMEs) that also have activities in emerging markets.

Many of the respondents were able to name problems that are in fact institutional voids. A lot of them, however, did not see them in such a way. Being made aware of institutional voids can benefit them and the company greatly. In order to operate in an emerging market more efficiently, a company should get a clear view of the existing institutional voids and their severity in the country of interest. Doing this in advance of their entry in that market will prevent certain unexpected issues. Determining the institutional voids in a specific emerging market can also help to improve existing activities in that particular country. In order to make an overview of the voids and their impact, managers can use the five contexts framework of Khanna et al. They should, however, keep an open mind and

ignore contexts that aren't relevant to them and include institutional voids that are not in the framework but prove to be relevant.

Besides knowing which institutional voids the company faces or is going to face, it is also beneficial for companies to develop a more specific strategy for their activities in emerging markets. This strategy should not only be a general strategy but also, more specifically, a strategy that helps to deal with, or take advantage of, institutional voids. Up until now, a lot of SMEs use an emergent strategy. With newly acquired knowledge about the meaning of institutional voids and which voids their company is likely to face, they can, and should, develop a clear and formal action plan on how they are going to tackle each individual institutional void. This plan can help to diminish risks and avoid unnecessary costs for the SME. The type of strategy that proved to be really effective, is having a broad and diverse network. This specific recommendation is not necessary in most cases, given the extensive networks that the SMEs have. The other types of predetermined strategies turned out to be less relevant. Which is why companies should keep an open mind when determining their specific strategy for dealing with institutional voids in emerging markets.

5.3 Limitations and future research

After evaluating the research as a whole, a number of limitations can be found in subjects like methodology and the executing part. In order to improve the research on the topic, it is important to determine the points that turned out to be not optimal. Having a clear understanding of the limitations also allows to come up with points of improvement for studies done in the future. These recommendations can help clarify matters that are still unclear or shed more light on matters that have not been covered (enough). The limitations and corresponding recommendations for future research are listed below:

- All of the SMEs that were interviewed are Dutch. This means that it is difficult to generalise the findings to SMEs from other developed nations. There might be significant differences between SMEs from the Netherlands and, for example, France. Respondents during the research already gave examples of significant differences between developed nations. Therefore, in future research, SMEs from other developed markets should be included. This means that a future study will, most likely, be larger in the number of participating SMEs. Using more companies as well as a larger geographical diversity will increase the generalisability of the research.
- When the research is repeated on a larger scale with SMEs from different developed countries, a point of improvement can be to use a more even division of different types

of companies. In this research, 30% of the SMEs was present in the egg and poultry market. Using several companies from a large number of sectors can help to uncover differences in institutional voids between different sectors. On several occasions, voids were mentioned that were considered to be inherent to their specific sector. This suggests that differences between sectors are present. Unfortunately, the variation in a relatively small number of companies makes it difficult to come to broad conclusions.

- It was stated earlier in the theoretical implications that emerging markets are still a very broad group. There are significant internal differences between these countries. In this research, little attention went out to these differences because they became apparent at a later stage. Investigating the different types of institutional voids in different types of emerging markets might yield very interesting findings. Similar to the previous limitation, the variation in emerging markets makes it difficult to reach broad conclusions.
- Most limitations and recommendations above will lead to a larger and more extensive eventual follow-up research. It is important that this research is done with multiple researchers. This is needed for practical reasons like dividing the work load of such a large research. However, using multiple researchers will also increase the quality of the research. Having different inputs with regard to used theory but especially during the interviews and the coding process will increase the 'intercodeur reliability'. With multiple people, mistakes are easier noted, missing parts included and misinterpretations in coding and theory prevented. A good example is the difference in emergent strategies and a predetermined substitution strategy. In chapter 4, it becomes clear that the emergent strategies are primarily substitution strategies that show the absence of a predetermined character and also frequent alterations to the strategy. The sentences that are considered 'emergent' now, may be interpreted as 'predetermined' by another researcher. Sometimes, the difference is not very large. The severity of this issue would be reduced by multiple researchers.

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Appendix

- Appendix 1: Transcript+coding interview 1
- Appendix 2: Transcript+coding interview 2
- Appendix 3: Transcript+coding interview 3
- Appendix 4: Transcript+coding interview 4
- Appendix 5: Transcript+coding interview 5
- Appendix 6: Transcript+coding interview 6
- Appendix 7: Transcript+coding interview 7
- Appendix 8: Transcript+coding interview 8
- Appendix 9: Transcript+coding interview 9
- Appendix 10: Transcript+coding interview 10
- Appendix 11: Inductive codes