The quest for innovation in emerging markets
A study on the effect of firm-level resources and institutions on innovative behaviour of small and medium enterprises in India and Vietnam

Radboud University
Nijmegen School of Management
Master Business Administration
19 June 2017

Name: D.J. (Jelle) Klein
Student number: S4633431
A
E-mail: d.klein@student.ru.nl

Name of assigned supervisor: dr. A.U. Saka-Helmhout
Name of assigned 2nd examiner: dr. A. Marberg
Preface

Before you lies the master thesis ‘The Quest for Innovation in Emerging Markets’. It covers 17 interviews with inspiring and entrepreneurial managers from India and Vietnam. It offers interesting insights on the lives of these managers and the challenges they face. By writing this thesis I hope to show proof of the knowledge, experience and skills I have gained during my studies. It was written to fulfil the graduation requirements of the Master of Business Administration Program at the Nijmegen School of Management, part of the Radboud University.

This thesis was part of a research project initiated by the Department of International Development, supported by researchers from the Tilburg School of Economics and Management, part of Tilburg University. The overarching goal of the Department of International Development is to eradicate poverty in the world’s poorest regions. I am grateful that I have been given the opportunity to contribute to such a noble cause.

I would like to thank my supervisors for the time and energy they have put in the assessment of my thesis. A special thanks goes out to dr. A.U. Saka-Helmhout, who always was willing and able to find room in her busy schedule to meet with me and provide me with excellent guidance.

Finally, I would like to express my gratitude towards my parents, who always have supported me throughout the years. It was more than I could ever hope for.

I hope you enjoy your reading.

D.J. Klein

Nijmegen, June 19, 2016
Abstract

The literature shows us that innovation and sustainable economic growth are effective ways to eradicate poverty. New technological breakthroughs are introduced every day, all over the world. However, many emerging countries still struggle to catch up with their western counterparts. This thesis builds on the assumption that in their quest for innovation and growth, firms in emerging countries are being limited by their institutional environment. The initial goal of this thesis was to investigate how institutions help or limit small and medium enterprises (SMEs) to use their resources to improve their innovative performance. However, the data told us little about institutional enhancers, but more on institutional inhibitors and how SMEs use their resource to cope with them. Hence, a shift was made towards institutional voids and firm-level resource utilization based on those voids. The data shows us that SMEs in emerging countries often lack the ability to produce radical and ground breaking innovations, but are able to add small incremental changes and improvements to their products, services and processes. We believe that SMEs from emerging countries are less able of bringing forward radical innovations due to the presence of several institutional voids. SMEs are confronted with different product market-, labour market-, capital market- and political system voids. To overcome these voids, firms must effectively use their resources in order to survive in these hostile and challenging environments. Firms develop their own internal training programs, invest in the development of new technologies, locate near similar and complementary firms, and build relationships with other domestic and foreign organizations.
# Index

1. **Introduction** 1  
   1.1 Problem statement 2  
   1.2 Theoretical and practical relevance 3  

2. **Literature review** 4  

3. **Methodology** 9  
   3.1 Research background 9  
   3.2 Qualitative research 9  
   3.3 Data sources and operationalization 10  
   3.4 Data analysis strategy 12  
   3.5 Limitations and research ethics 14  

4. **Analyses** 16  
   4.1 Innovation in emerging markets 16  
   4.2 Institutional voids 17  
   4.3 Utilization of firm-level resources 21  
   4.4 Country differences 24  

5. **Discussion** 25  

6. **Conclusion** 29  
   6.1 Theoretical implications 29  
   6.2 Practical implications 29  
   6.3 Limitations and directions for future research 30  

References 31  

Appendix A | Interview guideline 34  
Appendix B | Interview statements 38  
Appendix C | Research Integrity Form 50
1. Introduction

According to a broad body of knowledge, sustainable economic growth is the most effective way for developing countries to make the transition to being a developed country. It is said that innovation is one of many ways to reach and accomplish high levels of economic growth, especially in emerging markets (Summart Inception Report, 2013). The contribution of (technological) innovation to economic growth has been well established in the economic literature (Solow 1956) as well as empirically (Nadiri 1993). Even in the early 1900’s, researchers found evidence “that innovation should be considered as a key driver for economic growth, enhancing competitive advantage and stimulating the productivity of firms (Schumpeter, 1934) in developed and developing countries alike” (Chudnovsky, López en Pupato 1992-2001). This study focuses on any form of innovation, which is actually hard to define. Innovation in western nations is often defined as "the introduction of a new good or service or the significant improvement of an existing product with respect to its characteristics" (Barasa, Knoben, Vermeulen, Kimuyu and Kinyanjui, 2016, p. 1). However, due to the lack of advanced resources and advanced institutions, firms in emerging markets, especially SMEs, often struggle to bring forward revolutionary changes in products, services and processes. Firms in emerging countries often lack technological, managerial and financial resources. However, they can play an essential role in producing innovations. Nevertheless, when striving for high levels of innovative performance firm in emerging countries are faced with two challenges: first, the scarcity of specific firm-level resources and capabilities and second, the role of institutions (Barasa, et al. 2016). The question about what drives innovative performance has been widely discussed in literature. In line with the work of Barasa et al., other researchers have emphasized the importance of firm-level resources as well (Robson, Haugh, Obeng, 2009; Mahemba and Bruijn (2003). However, less is known about how formal and informal institutions inhibit or enhance firms to extract value from their resources in order to innovate. The work of Barasa et al. confirms that there is definitely to some degree a level of interrelatedness between innovative performance, firm-level resources and the role of institutions. However, they do not explain how institutions can stimulate innovative performance of SMEs. This research offers an in-depth analysis of qualitative data gathered from small and medium enterprises in India and Vietnam. Initially, the goal of this research was to explain how formal and informal institutions can help SMEs to fully reap the benefits of their resources in order to enhance innovative performance. However, the data shows few indications on how institutions help SMEs to improve their innovative performance. In fact, the data tells more about the institutional limitations and barriers SMEs in emerging confronted with, and how these SMEs use their resources to challenge these institutional voids. Therefore, the final chapters offer insight on the different institutional voids
that can be found in India and Vietnam, and how SMEs adopt their practices in order to survive in these dynamic and hostile environments.

1.1 Problem statement

This study elaborates on innovative performance of SMEs in emerging markets, more particular, small and medium enterprises in India, Indonesia and Vietnam (Indonesia was removed from the sample due to insufficient quality of the interviews that were conducted over there). These countries all are in the top 15 countries in the world based on the number of inhabitants (India nr. 2 with 1.3 billion inhabitants, Indonesia nr. 4 with 257 million inhabitants and Vietnam nr. 14 with 91 million inhabitants), together making up for nearly 23% of the world population (World Bank, 2015a). However, based on their GDP per capita, these countries rank a lot further down the list. Indonesia ranks 130rd with an average GDP of $11.700 per capita, India 159th with an average GDP of $6.700 per capita and Vietnam 161st with an average GDP per capita of $6.400 (Central Intelligence Agency, 2016). For each of these countries, the GDP per capita has been increasing over the past years, supporting the fact that these countries are nowadays also referred to as emerging markets (World Bank, 2015b). Emerging markets are defined as markets that lack institutions aimed at minimizing sources of market failure. The absence of intermediary institutions makes it difficult and expensive for emerging market firms to acquire necessary inputs such as finance, technology, and managerial talent (Khanna and Palepu, 2000). Emerging markets do have some of these institutions, but are also still in the process of developing them. Due to the presence of different institutional voids, firms in these countries, especially SMEs, still struggle to deliver high levels of innovations. Their level of innovative performance is still far behind those of firms in developed countries. Previously, other researchers have touched upon the topics of institutions, resources and innovation. Oyelaran-Oyeyinka (2005) investigated how innovation is affected by formal and informal institutions in three African countries, however, without considering firm-level resources. Laursen, Masciarelli and Prencipe (2011) indicate that resources and institutions affect innovation. However, their research is based on manufacturing companies in Italy, and therefore lack the emerging market context. The research of Barasa et al. (2016) shows that the effect of firm-level resources on innovative performance is affected by the institutional environment, while considering the emerging market context. Therefore, this study builds on the work of Barasa et al. (2016) and Khanna and Palepu (2000), and aims to explain how institutions can aid or limit SMEs in emerging countries in their quest to improve their innovative performance. The research question of this study is:

*How do institutions inhibit or enhance the ability of small and medium enterprises in emerging markets to effectively extract value from their resources in order to improve their innovative performance?*
1.2 Theoretical and practical relevance

Previously, innovation research mainly focused on organizations in developed countries. Subsequently, much is known about the factors driving innovative performance in these contexts. As innovation is still considered as one of the key drivers of economic performance, especially in emerging markets, the topic has been a subject of interest for a growing number of scholars (Govindarajan and Ramamurti, 2011; Zeschkey and Widenmayer, 2011; Gorodnichenko and Svejnar, 2010; Ayyagari and Demirgüç-Kunt, 2012; Intarakumnerd, Pun-arj Chairatana and Tiapawan Tanchitpiboon, 2002; Lundvall et al., 2011). Two important determinants of innovation that have been studied before are firm-level resources and the institutional environment. An important contribution comes from Barasa et al. (2016), who integrated these two elements. In their research, Barasa et al. (2016) found evidence that the positive relationship between firm-level resources is positively influenced by the level of institutional regional quality. They focused on three firm-level resources that had received much attention in prior studies on innovation in emerging markets: internal R&D, human capital and managerial experience. Subsequently, they looked at how each of these resources related to innovation and how that relationship was affected by the level of institutional quality. Institutional quality is based on a) the process by which a government is selected, monitored and replaced, b) a government’s capacity to effectively formulate and implement sound policies, and c) the economic and social interactions between citizens and the state and the way they are governed (Barasa et al., 2016). They conclude their research by stating that better institutional environments increase the value of firm-level resources for innovation, while weak institutions decrease this value. In other words, “the extent to which firms can successfully extract value from resources for innovation is contingent on regional institutional quality” (Barasa et al., 2016, p. 288). Although the research of Barasa et al. (2016) make an important contribution by stating that institutions should be considered when looking at the relationship between firm-level resources and innovation, it does not explain how institutions can improve their ability to help firms increase their innovative performance. By investigating the ways formal and informal institutions can enhance innovative performance of SMEs in emerging markets, significant contributions can be made to the IB literature on innovation as well as the practical field.

This thesis consists of six chapters. After this first introductory chapter, a theoretical review is provided elaborating on innovation and the role of firm-level resources and formal and informal institutions. The third chapter provides insight on the methodological approach. Furthermore, the fourth chapter provides an overview and analysis of the gathered data. The fifth chapter discusses the results in the light of previous research. Finally, the sixth chapter offers a conclusion, theoretical implications, practical implications, research limitations and recommendations for future research.
2. Literature review

SMEs play a major role in most economies, especially in developing countries. In 2015, a study of the World Bank suggested there were between 365 and 445 million small and medium enterprises in emerging markets. Formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income in emerging economies (World Bank, 2015). They do not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries, but also stimulate the industrialization of rural areas (Small and Medium Business Development Chamber of India, 2006). Just in Indonesia, SMEs account for 99 percent of the total amount of enterprises that are operating in Indonesia, provide a total of 107.6 million jobs and contribute 60.6 percent to Indonesia’s gross domestic product (GDP) (Indonesia Investments, 2016). Despite their contributions, SMEs in emerging economies are often confronted with a large number of constraints. For example, they are less likely to be able to secure bank loans compared to large firms. Other issues SMEs are confronted with are sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, working capital shortages, not getting trade receivables from large and multinational companies on time, insufficient manpower, change in manufacturing strategies and turbulent and uncertain market and institutional environments (Small and Medium Business Development Chamber of India, 2006). To overcome these issues and survive in the global competitive environment, SMEs must adopt innovative approaches in their operations.

"Innovation has been considered a key driver for economic growth, enhancing competitive advantage and stimulating the productivity of firms in developed and developing countries alike” (Barasa et al., 2015, p. 280). Although, innovation has been an area of interest for many scholars for many years (Calantone, Cavusgil and Zhao, 2002; Acs and Audretsch, 1987; Knight, 1967; Hitt, Hoskisson and Johnson, 1957), generally research on innovation is based on large organizations in developed countries. Consequently, less is known about the innovative practices of SMEs in emerging countries, even though they are a significant contributor to the overall added value in these countries (Ayyagari, Demirgüc-Kunt and Maksimovic, 2011). Fortunately, the topic of innovation in emerging markets has been receiving more attention by scholars over the past decade. For example, by Mahemba and De Bruijn (2003), who investigated the innovation activities of small and medium manufacturing enterprises in Tanzania, Robson et al. (2008), who studied the link between entrepreneurship and innovation in Ghana, and by Ritter et al. (2016), who discussed how innovation outcomes are affected by gender and institutions. But, what is actually meant by innovation and does it differ across contexts?

Innovation has been defined in many ways and by many scholars (Cooper, 1979; Lawton & Parasuraman, 1980; More, 1989; Souder & Song, 1997; Kessler & Chakrabart, 1999). Much of the
work on innovation is based on the distinction between radical and incremental innovations. Tushman and Romanelli describe incremental changes as "those that encourage the status quo". Incremental innovations are improvements of products or services and these slight changes are not enough to change the industry, companies or their strategies. Koberg et al. propose a similar view on incremental innovation. They define incremental innovation as “low in breadth of impact and comprising the following broad categories: procedural (management-determined innovations in rules and procedures); personnel-related (innovations in selection and training policies, and in human resource management practices); process (new methods of production or manufacturing); and structural (modifications to equipment and facilities and new ways in which work units are structured)” (2003, p. 23). Koberg et al. built their definition of incremental innovation on the work of Herbig (1994), who describes three types of incremental innovation: continuous, modified, and process. Continuous innovation comprises of slight changes to existing products. Modified innovations are slightly more disruptive innovations such as a new technology, but perform the same basic functions as the old one. Process innovation is about improvements in the way an existing product is produced. The other side of the innovation spectrum is radical innovation. Radical innovations encompass innovations that create new industries, products, or markets. They comprise technological advances so significant that no increase in scale, efficiency, or design can make older technologies competitive (Tushman & Anderson, 1986). They permit markets to emerge, transform, or disappear (Kaplan, 1999). Koberg et al. define radical innovation as “strategic changes in product/services, markets served, and technological breakthroughs used to produce a product or render a service based on significant innovation” (2003, p. 23).

This research builds on the assumption that the definition of innovation differs between the contexts of developed countries and emerging countries. Garcia and Calantone (2002) offer a useful operationalization of the concept of innovation. They pose that the level of innovativeness depends on three factors, newness to the customer, newness to the industry, and newness to the firm. Due to the presence of institutional voids, a key assumption of this thesis is that innovativeness of SMEs in emerging countries does not necessarily apply to the factors newness to industry and newness to the customer, but more to the factor newness to the firm. Considering the definitions of incremental innovation given before and the operationalization of innovativeness proposed by Garcia and Calantone, this thesis utilizes the definition of innovation that is used the community innovation survey (2014), which is used by the European Union to track the innovative performance of European firms: “An innovation is the introduction of a new or significantly improved product, process, organisational methods, or marketing method by your enterprise. An innovation need only be new or significantly improved for your enterprise. It could have been originally developed or used by other enterprises or organisations”.

Radboud Universiteit
**Firm resources** are referred to as all assets, capabilities, organizational processes, firm attributes, information, knowledge and more, controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Daft, 1983). The literature on resources extends to many forms and types of innovation. Barney (1991) classified resources into three categories: physical capital resources (Williamson, 1975), human capital resources (Becker, 1964), and organizational capital resources (Tomer, 1987). “Physical capital resources include the physical technology used in a firm, a firm’s plant and equipment, its geographic location, and its access to raw materials. Human capital resources include the training, knowledge, experience, judgement, intelligence, relationships, and insight of individual managers and workers in a firm. Organizational capital resources include a firm’s formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal and formal relations among groups within a firm and between a firm and those in its environment” (Barney, 1991, p. 101). Firm-level resources can lead to a sustainable competitive advantage, if they meet the requirements of the VRIO framework (Barney, 1995). This framework acknowledges that if resources are valuable, rare, inimitable, and can effectively be exploited by the organization, the firm possesses resources that are superior to those of their competitors, and therefore have a sustainable competitive advantage.

Physical resources, such as manufacturing sites and their location, and organizational capital resources, such as interrelations between formal and informal partners, can be complementary to each other. To overcome institutional challenges, firms might choose to locate near similar and complementary firms. This so-called cluster approach is defined in the literature as “a regional agglomeration of sector or value chain related firms and other organizations (like universities, R&D centers, public agencies) which derive economic advantages from co-location and collaboration” (Schrammel, 2013). These clusters, in the literature also referred to as hubs, are made of different actors that are interrelated based on business-related commonalities and complementarities and derive economic advantages from that (Schrammel, 2013).

**Institutions** are commonly known as the rules of the game. More formally, institutions are defined by North (1990, p.3) as “the humanly devised constraints that structure human interaction”. North divides institutions in formal institutions (e.g. laws, regulations and rules) and informal institutions (e.g. norms, cultures and ethics). North’s (1990) distinction between formal and informal institutions is complementary to Scott’s (1995) theory, which suggests three supportive pillars: regulative, normative and cognitive. These different types of institutional forces serve many functions, though their most fundamental role is to reduce uncertainty and provide meaning (Peng, 2006; Scott, 2008). Broadly speaking, “institutions reduce uncertainty for different actors by conditioning the ruling norms of behaviours and defining the boundaries of what is legitimate. Actors, in turn, rationally pursue their interests and make choices within a given institutional framework” (Peng, 2008, p. 66). Over the past decade, Peng (2006) made several theoretical contributions to the literature on institutions. Perhaps his
most valuable contribution was his theory on the institutional perspective as the third leg of the strategy-tripod. In his article, Peng (2006) states that institutions play a vital role by determining differences in firm’s performance, in addition to its resources and the industry it operates in.

Firms in emerging markets often have to deal with weaker institutions compared to firms in developed countries. Well-designed institutions can enhance productive behaviour, yet weak institutions can lead to unproductive behaviour (Barasa et al., 2016). The influence of institutions is not just limited to growth performance on the organisational level, but to the country-level as well. “The security of property and contractual rights and the efficiency with which governments manage the provision of public goods and the creation of government policies, are significant determinants of the speed with which countries grow” (Knack and Keefer, 2010, p. 1). This is in line with North’s (1990, p. 54) idea that “the inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World”. Khanna and Palepu (2004) state that the most important feature of any market is the ease with which buyers and sellers can do business. Developed countries provide specialized intermediaries that offer the required information and contract enforcement that are needed to consummate transactions. Emerging markets often lack these specialized intermediaries. Emerging markets often do not have the infrastructure, physical as well as institutional, required for the smooth functioning of markets (Khanna and Palepu, 2004). Khanna and Palepu (2004) use the term institutional voids to refer to the effects of lacking intermediaries and weak institutions. “Institutional voids come in many forms and play a defining role in shaping the capital, product and labour markets in emerging economies” (Khanna and Palepu, 2004, p. 16). Missing or unreliable sources of market information, an uncertain regulatory environment, and weak judicial systems are three fundamental sources of market failure, and they make doing business in emerging markets a huge challenge for domestic consumers, employers, and investors. Doing business in these circumstances often lead to high transaction costs, which makes it unattractive to do business at all. Transactions costs “include all the costs associated with conducting a purchase, sale or other enterprise-related transaction” (Khanna and Palepu, 2004, p. 17). Developed markets are known for their lower transaction costs and high liquidity, as well as greater degrees of transparency and shorter time frames for conducting transactions (Khanna and Palepu, 2004). This study builds on the assumption that weak institutions lead to higher transaction costs, which might eventually limit a firm’s ability to innovate.

Weak institutions make it harder for a firm to extract value from resources that are needed for innovation. Therefore, our believe is that, in line with the work of Barasa et al (2016, p. 282), “the extent to which firms can successfully use their resources for innovation is dependent on the regional institutional environment”. The relationship between firm-level resources, institutions and innovation has been confirmed by other authors as well, such as Laursen et al. (2012) and Zhu et al., 2015). Weak
or inefficient institutions tend to increase transaction costs and therefore inhibit a firm’s ability to extract value from its resources (Meyer et al., 2009). However, it has been argued that the linkage between institutions and innovation can also be potentially beneficial. This linkage between macro-institutional frameworks and national or regional innovation systems is referred to as regional innovation systems. Regional innovation systems relate to the creation of policies in order to systematically promote innovation and competitiveness in regional economies (Cooke et al., 1998). However, in their article, Cooke et al. (1998) also conclude that most regions do not yet have the required institutional and organisational characteristics to reach the status of regional system of innovation. Our believe is that emerging markets fall into this category, and that they are still developing their institutional and organisational characteristics in order to effectively create innovation systems. Lundvall et al. (2001), who has been studying national innovation systems for over a decade, also state that institutions have the ability to empower firms’ innovative capacity. However, Lundvall et al. (2001) also found that there is a certain discrepancy in what is and what should be. It is said that when it comes to supporting innovation through policies, there is a growing consensus on the need to focus on long term competence building in firms and in society as a whole. Unfortunately, institutions and firms are mainly focused on short-term policies and objectives. At the institutional level this is reflected in the fact that ministries of finance have become the only agencies taking on a responsibility for co-ordinating the many specialized area policies. “Area specific ministries tend to identify with their own ‘customers’ and take little interest in the wider objectives of society” (Lundvall et al., 2001, p. 37). As the research of Lundvall et al. (2001) is mainly based on western countries, our believe is that his ideas on innovation systems might as well be applicable to the context of emerging markets. Consequently, the goal of this research is to understand how institutions can use their power, for example through laws, rules and policies, in order to improve a firm’s ability to effectively extract value from its resources and to improve their innovative behaviour.
3. Methodology

The aim of this chapter is to describe the background of this research. First, the reasoning behind the decision to conduct a qualitative analysis is given. Second, the data sources and operationalization are described. Finally, the reader is provided with an overview of the methodological limitations of this research.

3.1 Research background

This research is part of a bigger project initiated by the Department for International Development (DFID) and conducted by several researchers from the Tilburg School of Economics and Management, part of Tilburg University. It is the DFID’s mission to help eradicate poverty in the world’s poorest regions, and therefore the main objective is to identify policies and institutions that help increase productivity and promote economic growth in developing countries through innovation. The main goal of the ‘Innovation and Growth’ research project is to contribute to innovation and growth and raise productivity in developing countries, in particular emerging markets, leading to job reaction and poverty reduction (Summart Inception Report, 2013). The project is divided in two key research themes, innovation systems and finance for productivity growth. This thesis will emphasize the first theme, innovation systems. The aim is to understand why some firms are more successful than others when it comes to innovative performance, and how this is influenced by two factors in particular; firm-level resources and the institutional environment.

3.2 Qualitative research

Qualitative research covers all forms of research that is aimed at the collection and interpretation of written data, in order to explore or explain a (social) situation (Bleijenbergh, 2013). Therefore, it differs from quantitative research, which is aimed at the collection of numerical data, like scores from a survey. While quantitative research allows a research to reach a large number of respondents in short time, qualitative research takes more time and therefore limits the number of respondents. However, in contrast to numerical data from surveys, written data often offers richer data. For example, an open interview is often a deep conversation about how someone perceives a certain situation or subject. The richness of information allows the researcher to draw conclusions on a specific topic based on a relatively small number of observations (Bleijenbergh, 2013). Little is known about innovation in emerging markets, especially when considering firm-level resources and the institutional environment. Because we want to draw in-depth conclusions about a specific subject, qualitative research is a suitable option. Moreover, we will do a case study in order to eventually draw these in-depth conclusions. “The case study has an established place in qualitative international business (IB) research. A recent review of articles published in four core IB journals over a 10-year period found
case studies to be the most popular qualitative research strategy” (Piekkari and Welch, 2010, p. 740). Case study research has the possibility to generate novel and ground breaking theoretical insights. The case study is a research method which aims at understanding the dynamics present within single settings (Eisenhardt, 1989). The research method can involve either single or multiple cases and multiple levels of analysis (Yin, 1984). The latter is also the case in this thesis, as it aims to investigate multiple organizations in India, Indonesia and Vietnam. Case studies can be used to achieve various goals: to provide description, test theory, or generate theory (Eisenhardt, 1989). This thesis will touch upon all these goals as it builds the work of Barasa et al. (2016) to verify the interrelatedness between firm-level resources, institutions and innovation. It also aims to describe the ways institutions can inhibit or enhance innovative performance of SMEs in emerging markets, which will contribute to current theory as little is known about this topic.

How case studies should actually be conducted has been broadly discussed by researchers. Important critique came from (Piekkari and Welch, 2010), who argue that the dominant method of inductive theorising in case studies places little emphasis on the context, which is extremely relevant for this thesis. Another critique of (Piekkari and Welch, 2010) on case studies is that it mainly emphasized explanatory research, while they argue that case studies can and should be used for refining, verifying, testing and challenging of existing theory. To overcome the flaws of previous variations on case studies, (Piekkari and Welch, 2010) propose a method they refer to as contextualised explanation. They do however state that their approach is not aimed at replacing existing case study methods, it is a rather complementary contribution to the already existent methods. The method of (Piekkari and Welch, 2010) is based on the idea of Bhaskar (1998) that the explanation of a social phenomena is both causal and interpretative. In other words, it is about explanation and understanding.

3.3 Data sources and operationalization
The aim of this research is to discover how institutions able and disable SMEs in emerging markets to effectively extract value from their resources in order to improve their innovative performance. In order to do so, interviews with company executives (CEO’s, owners and founders) of SMEs (0-250 employees) in three countries were conducted. The interviews took place in December of 2016 and January of 2017 and were conducted in different regions of India, Vietnam and Indonesia.

Due to insufficient quality of the Indonesian interviews, the decision was made to not include them in the analysis. To maintain a certain level of quality, the interviews first had to be analysed for usefulness. After this initial analysis, 17 interviews were found to be useful for analysis, 9 from Vietnam and 8 from India. Most SMEs at which the interviews took place are active in the manufacturing sector. Employee count varied between the companies, ranging between 1 and 250. Table 1 provides an overview of the sample used for this research.
Considering the desire for an in depth analysis of the personal perspectives of these managers, the decision was made to conduct open interviews. ‘Open’ refers to the openness of the question; the respondents are able to formulate their answers based on their own view and perspective’ (Boeije, 2005). They can choose their own words, in contrast to a closed interview, where the possible answers are predetermined. Open interviews are to be separated in two categories, semi-structured interviews and unstructured interviews. In this case, the researchers took a semi-structured interview approach. This means that the questions and order are pre-specified, but that there is room to deviate if deemed necessary. The benefit of this type of interview is that every respondent will be asked, to some extend, the same questions about the same topic, which will increase the reliability of the research (Bleijenbergh, 2015). The downside of a pre-structured conversation is that the direction is set and that new topics are less likely to surface in the process, which might hurt the validity of the research. That is also the reason why the researchers went for a semi-structured approach instead of a structured approach, to allow both the interviewer as the interviewee to come up with new unforeseen questions and information.

It is important to note that the research questions were formulated before the writing of this thesis. Therefore, the literature had to be linked to the interview questions, not the other way around. The interview is separated into six topics. Topic A covers basic information about the company, its people and its history. Topic B covers the topic of innovation, mainly concerning questions about whether the type of innovation, the process of innovation and the added value as an effect of innovation. Topic C (firm level conditions) relates to the RBV, as it concerns internal capabilities.
Questions regarding this topic concerned for example dynamic capabilities, reconfiguration of the company, goal setting and slack time. Topic D (institutional conditions) covers the role of institutions in the innovation process. Questions are about government policies, government participation, intellectual property rights and the involvement of NGOs. Topic E (industry conditions) deals with the business system, spill overs and exports. Questions regarding this topic concern the interaction between the firm and its buyers and/or suppliers, location and export. The last topic, topic F, concerns informal institutions, in which questions relate to the influence of friends and family, culture and communities.

3.4 Data analysis strategy

Given the nature of this research, we will use an inductive coding approach, more particular, the approach proposed by Gioia, Corley and Hamilton (2012). Gioia et al. divide the process into three important steps: 1) determining 1st-order themes, 2) determining 2nd-order and 3) determining aggregate dimensions. In the first phase, we select all relevant information from the interviews, without categorizing them into a certain category or theme. In the second phase, we start seeking “similarities and differences among the many categories, a process that eventually reduces the germane categories to a more manageable number (e.g., 25 or 30). We then give those categories labels or phrasal descriptors (preferably retaining informant terms) and consider the array before us” (Gioia et al., 2012). The third phase transfers the patterns between 2nd-order themes into concepts that might help to describe and explain the observed phenomenon. Figure 1 on page 13 provides an overview of the data structure that was used to code the data.
<table>
<thead>
<tr>
<th>1st-Order Codes</th>
<th>2nd-Order Themes</th>
<th>Aggregate Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms lack sufficient documents to apply for for capital</td>
<td>Limited Access to Capital</td>
<td>Capital Market Void</td>
</tr>
<tr>
<td>Applying for funding is a bureaucratic process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rates are often very high</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficult for firms to get the right materials</td>
<td>Limited access to raw materials and new technologies</td>
<td>Product Market Void</td>
</tr>
<tr>
<td>Advanced technologies not available in home country</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Few highly skilled employees available</td>
<td>Lack of adequate education</td>
<td>Labour Market Void</td>
</tr>
<tr>
<td>Employees often have theoretical knowledge but lack practical experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High number of cases of bribery</td>
<td>Instability of regulations</td>
<td></td>
</tr>
<tr>
<td>Policies change frequently and unexpectedly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High levels of bureaucracy in different governmental departments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate patent system</td>
<td>Poor execution of policies</td>
<td></td>
</tr>
<tr>
<td>Beneficial policies often don’t reach small companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms invest in the development of new technologies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms often buy new technology and equipment from foreign suppliers</td>
<td>Physical Capital</td>
<td></td>
</tr>
<tr>
<td>Firms cluster near other similar and complementary firms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms have developed internal training programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers often seem to have experience from working in other companies</td>
<td>Human Capital</td>
<td></td>
</tr>
<tr>
<td>Managers often seem to have experience from working or studying abroad</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers often have attended a university</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers often have implemented advanced management policies like Kaizen or Lean</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers tend to rely on their relationship with other domestic companies</td>
<td>Organizational Capital</td>
<td></td>
</tr>
<tr>
<td>Managers tend to rely on their relationship with other foreign companies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 1.** Data structure
3.5 Limitations and research ethics

Guba (1981) describes four aspects that determine trustworthiness of the results; (1) credibility, (2) transferability, (3) dependability, and (4) conformability.

*Credibility*, which is similar to internal validity, relates to whether the study measures or tests what is actually intended. Shenton (2004) offers tools researchers can use to determine the level of credibility of their research. This thesis is based on 17 semi-structured interviews that took place at 17 SMEs in 2 different countries. As mentioned before, semi-structured interviews allow researchers to ask in-depth questions on specific topics. However, the data shows that the questions that were actually asked during the interviews, deviated strongly between the different interviews. A second issue is the lack of triangulation of different data sources. As the interviews took place in India and Vietnam, but were analysed in the Netherlands, the researcher was not able to obtain and analyse internal documents or conduct on-site observations. In addition, at each SME only one interview was conducted with just one respondent, which does not allow for the comparison between different perspectives of persons working at the same organization.

*Transferability*, which is similar to external validity, “is concerned with the extent to which the findings of one study can be applied to other situations” (Shenton, 2004, p. 69). This often implies that the results of the study can be generalized to a wider population, which is hard in this particular situation. First, the number of respondents for each country is rather low (8 from India and 9 from Vietnam). Second, the interviews were mostly conducted at manufacturing firms, which makes it hard to say something about SMEs from other sectors. Third, to generalize results to the context of emerging markets, two countries might not suffice. In order to do so, interviews should have been conducted in a wider variety of countries is Asia, but also in other emerging regions such as South America, Africa and Russia.

*Dependability*, also known as reliability, implies that if the study were to be repeated, in the same context, with the same methods and with the same participants, similar results would be obtained (Shenton, 2004). In other words, dependability relates to whether repetition of the research will yield the same results over and over again. Unfortunately, those who have conducted the interviews often depart from the pre-set questions. This has led to an often unstructured approach, with a wide variety of questions across the different interviews. A second issue regarding dependability is that the interviews have been conducted by different researchers in two different countries, and also transcribed and analysed by different researchers.

*Confirmability* is the qualitative investigator’s comparable concern to objectivity. According to Shenton, here steps must be taken to help ensure as far as possible that the work’s findings are the result of the experiences and ideas of the informants, rather than the characteristics of the researcher. Triangulation is something that can be used to prevent the researcher from being biased, as it includes different perspectives on a the same situation. Conformability was improved by dividing the researchers who have conducted and transcribed the interviews, and the researcher that analysed the
data. Possible biases that might have risen when the interviews were conducted have not affected the analysis of the data.

Finally, it is important to acknowledge that the way the data was eventually gathered and transcribed is far from flawless and leaves room for improvement. For example, the number of respondents was lower than initially expected and the quality of the data varied strongly between the 17 interviews. Nevertheless, that does not mean that the results have no value at all. This thesis is aimed at exploring the innovative capacity of SMEs in emerging countries and should be used as a springboard for further research.

In addition to limitations, research ethics are important to consider. The respondents participated on a voluntary basis and were not forced or paid to participate. The goal was explained to them and they were told for what purposes the data would be used. Subsequently, respondents have been ensured of anonymity and confidentiality. This is especially important because of some sensitive topics that were discussed in the interviews. Because the respondents knew that their responses would be anonymized, they felt more free and less pressured to talk about topics like family, political instability and bribery. Respondents will not be called by name in the report and also firm names will be anonymized. Respondents were treated with respect and will never be harmed by the research. All respondents were promised a copy of the report so that they might be able gain valuable information in order to benefit from their participation.
4. Analyses

This chapter provides a description of the research results. These results are based on the data gathered by different researchers through 17 interviews. As a primary subject of this thesis, (1) innovation will be discussed first, followed by sections covering (2) the institutional challenges SMEs in emerging countries are dealing with, and (3) the ways SMEs use their resources to overcome these challenges. Only a selection of interview statements was used in the main chapters. Appendix B offers an overview of all interview statements for each subject.

4.1 Innovation in emerging markets

Of all 17 respondents and their SMEs, not one produced a ground breaking, revolutionary and/or radical innovation that was either new to the customer or new to the industry. However, all of them either changed a product, service, production method, or the way they managed their business in a way that improved their competitive advantage. For example, incremental changes were made in the production process as the statement below describes:

“We made a couple of colour adjustments. We changed the colour options as we went from black and white to actual colours. We increased the quality of the product and we went from low technology to high technology production methods.”
- General Manager at SME R

Another example of simple product adjustments comes from SME C, who changed their product offering based on customer feedback. They say the following:

See initially, when we launched this pack of sweets, we were used to selling both packs as loose sweets. But then, when we observed customer behaviour we saw what they actually bought. They didn’t buy packs, they bought loose sweets. We then talked to customers to find out more about their preferences and decided to change our product offering to only loose sweets.”
- Employee at SME C

SME L indicates that continuously adapting their products is needed to stay ahead of the competition and to maintain their competitive advantage. They do this by constantly tweaking their designs and adding small changes. The respondent states the following on this matter:

“Although it is easy for our competitors to copy our products, it’s hard for them to actually catch up. We always improve our quality and design in order to stay ahead.”
- Manager at SME L
These statements are in line with the expectation that SMEs in emerging countries produce only small incremental changes to their products in order to stay competitive. These small improvements are not only made on a product level, but also at the production level and the management level. For example, SME Q, who adapted the Kaizen and Lean way of thinking in their production and management processes. The manager of SME Q states the following:

“Therefore, we have to keep thinking on how we can improve things, which new methods we can use to produce more effectively, and like I mentioned, we have finished incorporating 5S thinking and are now in the process of adapting Kaizen and Lean in our way of doing business.”

- Manager at SME Q

Another example of this quest for continuous improvement of processes comes from SME F. The CEO initiates quarterly process assessments, and stimulates employees to come up with new ideas and improvements. The CEO of SME F states the following:

“I always want to optimize the process. We define the process for every department and review this each quarter. One of our key objectives is for each department to come up with at least one innovative idea on how to improve things. So we review our processes quite frequently and try to optimize them.”

- CEO of SME F

These statements show that none of the SMEs have been able to produce radical innovations. This is in line with the assumption that SMEs in emerging countries are less able to produce such innovations due to a poor institutional environment. It is also important to note that SMEs from Vietnam and India both struggle to produce radical innovations. In the following section about the institutional environment, a description will be provided on the institutional voids SMEs are confronted with while trying to survive in the highly competitive emerging markets.

4.2 Institutional voids

Khanna, Palepu & Sinha (2005) describe different types of voids. In the following sub-sections four types of voids will be discussed; (1) capital market voids, (2) product market voids, (3) labour market voids, and (4) voids on government and regulations.

Capital Market: A major barrier for SMEs in emerging countries is to obtain a loan from the bank, in India as well as in Vietnam. According to the respondents, this is due to three factors: (1) firms do not possess the right documents to apply for a loan, (2) the loan application process is a time-consuming bureaucratic process, and (3) interest rates are often very high. Applying for a loan requires certain documents that SMEs often not have and SMEs often not able to get them. Getting the right documents requires SMEs to turn to local authorities, which often involves a lengthy and sometimes expensive process:
"At the time, I didn’t have any papers of documents to file for a loan at the bank, so I was forced to turn to a private financer."
- Owner of SME E

Another problem is that applying for a loan often takes a lot of time as it involves a time-consuming and bureaucratic process. The application process often requires SMEs to go through many different procedures and departments, and to fill out a lot of paperwork:

"Getting a loan took me nearly 3 months. It is difficult in the way that they asked me for a lot of papers. I had to go through different government departments and they always told me get me this get me that. It just requires so much paper work."
- Director at SME H

And then, if an SME is eligible for a loan, interest rates are often very high. So high actually, that SMEs struggle to make a good profit that is high enough to cover the costs of a high interest rate:

"If we borrow money from the bank, it will cost large extra fees, and they even require us to hire a third party company to supervise our materials for example. These costs are a burden and could potentially become higher than our profit."
- Employee at SME J

**Product Market:** The main product market voids, SMEs in emerging countries are confronted with, are a limited access to raw materials and more importantly, the lack of advanced technologies in the home country. Although, there were not as many supporting statements as for other voids, SMEs report that it is difficult to compete with other countries such as China and Japan, because of the presence of more advanced technologies over there:

"Increasing our productivity is very important. We try to do it, but is very difficult. It’s hard for us to compete on productivity because they (China) have more advanced technologies and better machines."
- CEO of SME P

"The obstacle is technology. Now, we have to import machines from China, which makes it more expensive and subsequently, prices will be higher as well."
- CEO of SME Q

**Labour Market:** Most of the SMEs experience labour market voids. Two key problems most of the SMEs are confronted with are (1) a scarcity of skilled workers and that (2) university students are often very theoretically trained and therefore lack practical skills. Most people in Vietnam as well as in India have low educational backgrounds. As most of the SMEs that were interviewed are active in the manufacturing sector, technical knowledge, experience and skills are often required to have a sustainable:

"Sir, there’s an unavailability of skilled workers. You can’t find skilled workers anywhere."
- CEO of SME E
Subsequently, those who have attended a university are often very theoretically educated and lack practical knowledge and skills. They usually have plenty of knowledge that is relevant to what the companies are doing, but lack the ability to put that knowledge into practice.

“Many of my friends who are actually teaching at different institutes in Ha Noi (Vietnam) lack practical backgrounds, so when I show them an actual component they have no idea what they’re holding in their hands.”

- CEO of SME J

Honesty, I don’t trust people from Vietnamese universities. They just know their theories, but have no clue how to put their knowledge in practice. I also went to a university, but I learned most of my skills on my first job at a security company.”

- CEO of SME N

**Voids on government regulations:** Emerging countries are often characterized by undeveloped government processes, structures and regulations. The data shows supporting statements for both countries. Political institutions are often highly unstable and lack the ability to produce and implement sound policies. The data offers evidence for five key issues that could be found in both India and Vietnam: (1) bribery, (2) unexpected changes in policies, (3) high levels of bureaucracy, (4) an inadequate property protection and patenting system, and (5) the disability of political institutions to produce and implement policies that actually benefit smaller organizations.

At least five SMEs spoke of bribery. They reported that bribery often is required to smoothen and speed up processes. A lot of processes, applying for subsidies for example, always take a lot of time due to the high levels of bureaucracy within the different departments of the government. Bribes are often required to shorten this time.

“We had to bribe 22 departments to get things started. It took over one year, and there was no clarity at all about any progression.”

- CEO of SME C

“It’s very common to give some money to make things go smooth and move faster.”

- CEO of SME P

“Sometimes, local police and fire department come in and demand money. It’s not making doing business impossible, it’s just twice a year and small amounts.”

- CEO of SME Q

Another problem is that policies change fast and unexpectedly. In addition, new policies or changes in current policies are often communicated poorly. They are usually announced through newspapers or television, which leaves companies with little time to adapt and adjust their business practices.

“The situation remains highly unpredictable. They announce new policies through television of newspapers and introduce it the next day.”

- CEO of SME Q
Another inhibiting factor are the high levels of bureaucracy across all government institutions and departments. Running a business often involves a lot of paper work and approval notes from the government. However, due to bureaucracy SMEs often experience difficulties when applying for subsidies, registering patents, filing for approvals and engaging with other government departments:

“It was not easy to get a licence. At some point, my friends were counting the times that I travelled to government officials. 761st time, 762nd time. I have visited Ahmedabad, Baroda and other places so many times.”
- CEO of SME D

Moreover, an inadequate patent system fails to protect smaller firms from copycats. Both countries have patent and property protection systems. However, the systems are far from flawless. First of all, registering a patent or a property right involves a lengthy and expensive process, and equal to other governmental processes, it often means going through different government departments and a very bureaucratic system. This also means that firms have to make potential demand and profit estimations in order to decide whether to apply for a patent or not:

“We can actually register a design, but before registering we need to know whether the product will be in demand, otherwise it’ll be a waste time as it takes many time to register.”
- CEO of SME P

An SME from Vietnam also states that the flawed patent system in Vietnam allows competitors to easily bypass the system by adding small changes to publically registered products and patents.

“It’s hard to register for the design because they (competitors) can change the dimensions by just half of an inch, and with that, copy the product anyway.”
- CEO of SME Q

An SME from India states that even though they can patent their research, they decide not to do so. They argue that when something is patented, it becomes publically available which allows competitors to use the patent information to copy the research.

“I haven’t patented our products, let me tell you why. We do not have a very strong patent market in India. If I wanted to, I can apply for a patent but I’ll never do that. Even though I should produce 40 years of research, we want to avoid patenting because if I would patent our products and research, it’ll be publically available and it’ll take only some time, but someone will eventually find out. And even if anyone would actually copy it, it’ll take at least 10 years and a lot of money to prosecute and to get some results.”
- CEO of SME D

Finally, SMEs were asked about beneficiary political policies, for example subsidies. Although, a couple of SMEs acknowledge that there are some subsidy programs or other benefits, at the same time
they indicate that many of these programs never reach smaller companies, while most of the
government aid goes to large corporations in large cities.

“I know nothing about any innovation policies or receive anything at all. This kind of policy is not for
small businesses and often not reach people like me.”
- CEO of SME Q

In case SMEs are able to apply for government programs, they are required to go through a lengthy
bureaucratic process, which often includes bribery.

“We are trying to get some benefits, there are a lot of schemes and benefits the government provides,
but as I told you, bribery is required. If you get in the system for three years of subsidy, it’ll take three
years to get it, bribery speeds this process up.”
- CEO of SME C

There are clear indications that the SMEs suffer from the different voids that have been identified in
Vietnam as well as in India. In the next section, the ways in which these SMEs utilize their resources
in order to overcome these voids are described.

4.3 Utilization of firm-level resources

To overcome the different institutional voids in emerging markets, firm must effectively make use of
their resources. Resources can be divided into three categories (Barney, 199): (1) physical capital
resources, (2) human capital resources and (3) organizational capital resources. In the following sub-
sections, results regarding each type of resource will be described.

Physical capital resources: Physical capital resources include the physical technology used in a firm,
a firm’s plant and equipment and its geographic location. However, instead of simply describing
resources SMEs possess, the analysis focuses on actions firms have undertaken to enhance their
physical resources. As mentioned before, due product market voids, SMEs experience limited access
to advanced technologies within the home country. Thirteen SMEs have indicated that they have
invested in the development of new technologies. Some SMEs invested in new machines or robots to
improve their production processes, aimed at either cutting down production costs or improving
product quality.

“It changed a lot, we use more robots for our production. We’ve also enhanced the process as we
improved our quality standards. We’ve introduced 5S, Lean and Kaizen thinking to our production
and management processes”.
- CEO of SME M

Because of the poor availability of advanced technologies in the home country, many firms have no
other choice than to turn to other regions in the world like Europe, North America and other parts of
Asia, for example Japan and China, to buy more advanced technologies over there.
“We cannot buy machines in Vietnam. I buy them from Iran, Sri Lanka and from China. Vietnam can’t make those machines.”

- CEO of SME N

“The obstacle here is about technology, now we have to import machines from China.”

- CEO of SME Q

Another form of physical capital is the location of a firm. The data shows that many SMEs are located near buyers, suppliers and even competitors. The respondents indicate that they are operating within some kind of hub or network of similar businesses. This allows firms to cut down transportation costs, to create a stable supply and demand, and to share resources with other businesses:

“We’re operating in a business that creates its own demand as we’re part of a cluster.”

- CEO of SME X

“We even share resources with other companies if needed. That’s the main benefit of being part of this cluster. We’re basically one big community.”

- CEO of SME X

“Although there are a lot of competitors, we don’t really see them as competition to be honest. Each manufacturer produces his own kind of dye, and because our customers need them all, competition was replaced by synergy amongst competitors.”

- CEO of SME X

**Human capital resources:** Human Capital resources include the training, knowledge, experience, judgement, intelligence, interpersonal relationships and the insight of individual managers and workers in a firm. As mentioned earlier, emerging countries suffer from labour market voids that often relate to an inadequacy of human capital resources. The data shows four important factors that allow SMEs to cope with these labour market: (1) development of internal training for employees, (2) managers often seem to have experience from (3) working or studying abroad, and most of the successful managers have attended at least a local university. As mentioned in the section about labour markets, most workers have never attended university and are often unskilled and lack proper knowledge and experience. Those who have been fortunate enough to go to a university often have plenty of knowledge, but lack the ability to put that knowledge in practice. To overcome this gap of an underdeveloped workforce and therefore a scarcity of skilled workers, SMEs have developed their own training programs:

“Frankly speaking, the requirements we have are difficult to find. We use two ways to deal with this. First, we identify potential people from the ‘scathe hole’, and then we train them through our training and certification system, which we developed by ourselves. Second, we focus on retention of good workers, because it is hard to find new people. It’s difficult to find such people, so we try to retain them by making sure they’re happy.”

- CEO of SME F
Those respondents that have been able to reach higher management positions, usually have attended some kind of university. Most of them have a business, a chemical or a manufacturing educational background. However, most of them acknowledge that it is not necessarily their educational background that helped them in setting up and building the company, but their experience of studying or working in another country. This could be related to the fact that the educational systems in their home countries are inadequate and highly theoretically oriented, and that being abroad filled this gap through different educational systems, cultural systems and ways of doing business.

“I studied computer science in Sydney. I got my bachelor degree over there. After I came back to Vietnam, I worked for a research institute and I found out that there was a lot of work to do. I think that by studying in Australia for four years, it gives me a more open mind.”
- CEO of SME O

**Organizational capital resources:** Organizational capital resources include a firm’s management systems and processes, as well as formal and informal relations among groups within a firm and between a firm and those in its environment. However, the data shows that few of the SMEs actually have advanced formal planning, controlling or coordinating systems. They often rely on the manager or CEO to manage the business by himself. We do however see some firms starting to incorporate some kind of management systems, for example LEAN Thinking. The transition to LEAN Thinking and therefore increased efficiency, helps firms to overcome voids such as the scarcity of raw materials.

“We use more robots for the production of goods, and in terms of process management, we improved it by following quality standards and incorporating LEAN Thinking and KAIZEN production systems.”
- CEO of SME M

Finally, to overcome the voids of a scarcity of raw materials, limited access to advanced technologies, a shortage of skilled workers and inadequate government regulations, SMEs build strong relationships with other companies inside, as well as outside the home country. These relationships are also complementary to the locational resources of the firm, more particular the networks and hubs many of these SMEs operate in.

“I also try to look for them through my social network and professional network. Sometimes I join conferences in the United States, so I can meet potential partners. We start to trust each other and become friends. Later, when they have some orders, they’ll think of me and contact me.”
- CEO of SME O

“Sometimes we meet. Customers come here and we meet them at exhibitions and at home and we try to maintain the relationship. Eventually we’ll start to get to know each other and than we’re doing business.”
- CEO of SME G
4.4 Country differences

The data shows that the results regarding the three key topics innovation, institutions and resources are similar across Vietnam and India. However, there are some differences. For example, there are more cases of bureaucracy amongst Indian SMEs as opposed to Vietnamese SMEs. From the 8 Indian interviews that were analysed, 6 contained details regarding bureaucracy. In comparison, only 3 of 9 Vietnamese SMEs spoke of high levels of bureaucracy. Another example is the different approach of using networks to fill institutional voids. Indian SMEs tend to locate near firms from the same industry, such as suppliers, buyers and even competitors. Four Indian SMEs talked about being in a cluster or a hub of similar companies, while non of the Vietnamese SMEs talked about this.

“Dye is a cluster industry. Singly industries don’t survive. We need many things, we need ice, we need steam, we need soda, we need so much. We need at least 15 raw materials for produce only one colour. Without this cluster we wouldn’t be able to operate. Transportation is key and materials should be in the vicinity.”
- CEO of SME B (India)

While Indian focus tend to locate near similar and complementary firms, Vietnamese firms rely on a different form of networking behaviour. They often rely on their relationships with foreign firms in order to fill the institutional voids they are confronted with. They import raw materials, advanced technologies and knowledge from other countries to fill the gaps they are faced in their own country. In other words, Indian SMEs tend to rely on clusters, while Vietnamese SMEs tend to rely on their international network of suppliers.

“We cannot buy machines in Vietnam. I buy them from Iran, Sri Lanka and from China. Vietnam can’t make those machines.”
- CEO of SME N (Vietnam)
5. Discussion

This thesis combines different theories regarding institutions, resources and innovation. Initially, the goal was to investigate how institutions might enhance or inhibit the innovative performance of SMEs in the emerging markets of India and Vietnam. Therefore, the research question that was to be answered is: “How do institutions inhibit or enhance the ability of small and medium enterprises in emerging markets to effectively extract value from their resources in order to improve their innovative performance?” However, little evidence was found on how institutions actually help SMEs improve their innovative performance. Subsequently, a transition was made to a focus on the different institutional voids SMEs are faced with and how they can use their resources in order to fill these voids.

Around 30 interviews at different SMEs took place in India and Vietnam within the period of last year. Based on the quality of the interviews, the operating sector, and the number of employees, 17 interviews were eventually selected and used for analysis. Differences between these countries were also found. Indian SMEs tend to rely on hubs and clusters in order to fill institutional voids, while Vietnamese SMEs use their international relations to attract resources that are scarce or can not be found at all in the home country.

The literature review in chapter 2 describes an operationalization of the concept of innovation from Garcia and Calantone (2002). It divides innovation in three parts: (1) newness to the customer, (2) newness to the industry, and (3) newness to the firm. In addition, a definition of innovation is proposed by the Community Innovation Survey (2014), which states that “an innovation is the introduction of a new or significantly improved product, process, organisational methods, or marketing method by your enterprise. An innovation need only be new or significantly improved for your enterprise. It could have been originally developed or used by other enterprises or organisations”. This thesis builds on the assumption that SMEs in emerging countries are less capable of bringing forward radical and revolutionary innovations compared to large Western organizations. In other words, the assumption therefore is that SMEs in emerging countries produce innovations that are innovative in such a way that they are new to the company, but often not new to the customer, the industry or both. The data confirms this assumption and shows that most of the SMEs have made small incremental improvements to their products, services, production- and management systems, but fail to produce radical and ground breaking innovations. The innovative performance of SMEs was expected to be lower because of the the presence of institutional voids that often can be found in emerging markets.
Institutional voids refer to the effects of lacking intermediaries and weak institutions (Khanna and Palepu, 2004). Poor institutions generally lead to uncertainty, instability, increased transaction costs and much more. These institutional voids create barriers many SMEs in emerging countries are confronted with. Khanna, Palepu and Sinha (2005) introduced a categorization of the different institutional voids: product market voids, labour market voids, capital market voids and voids on governmental regulations. In their article they also propose a framework of questions firms can use to determine which voids they are facing. The data was compared to this framework and shows that there are signs of all four types of institutional voids. Although, not all SMEs are confronted with the same set of voids, there is a pattern of voids that characterize the environment of most of the firms that were interviewed.

Capital market voids describe the inadequacy of financial institutions, for example banks. Sample questions proposed by Khanna et al. (2005) cover how effectively banks collect savings and channel them into investments, the reliability of corporate performance information and bankruptcy processes. Although these subjects were not covered in the interviews, the data sheds light on other capital market related voids. SMEs from both countries experience limited access to loans from banks. Firms often lack proper documents, are faced with a bureaucratic application process and are forced to pay high interest rates. This means that transaction costs are generally high and that many firms are not able to apply for a loan at all.

According to Khanna et al. (2005), labour market voids describe the strength of educational institutions, especially those institutions focused at technical and management training, but also whether people conduct business in English and whether it is common to offer performance-based pay. Although, these last topics have not been touched upon in the interviews, the data shows that there is a certain degree of inadequacy of the workforce in both countries. Firstly, universities have a strong focus on theory, without educating students on how to use that theory within an organization. Therefore, many university students lack the ability to put their knowledge into practice. Secondly, many people from both countries have never been to a school, or dropped out at a young age. The combination of these two factors leads to an unskilled and poorly educated workforce, and therefore a shortage of high skilled and experienced workers. To fill this institutional void, firms focus on internal training practices to educate their employees.

In addition to capital market and labour market voids, some of the SMEs were also faced with product market voids. They experienced an unavailability of advanced technologies in the home country and a scarcity of the right raw materials. Firms have to rely on other countries to acquire new technologies and materials. This basically also relates to the inadequacy of the labour market. Due to the low quality of most of the universities in both countries, quality of research and development practices is low, which means that few technological innovations are developed by these universities.

And finally, SMEs are confronted with different voids on government regulations. Khanna et al. (2005) propose that the quality of the political system depends on factors like the distribution of
power between the central, state and city governments, the quality and effectiveness of laws and regulations, the level of corruption, and the level of bureaucracy within the government. The data confirms some of these factors, and shows that there are definitely flaws in the political system. First of all, firms encounter situations in which bribes are required when dealing with government officials. Bribes are often required to speed up processes, and is spread out across different parts of the government. One respondent spoke of a situation in which people from the local police and fire department come in to demand small bribes, while other respondents speak of the necessity of bribing government officials to get building permits or to speed up the process of applying for a subsidy. The second problem is that policies change frequently and unexpectedly, which leaves firms with little time to adapt. Firms report that the government changes policies over night, without notifying firms in advance. The new policies are communicated through television broadcasts or newspapers, and firms are expected to obey the new policies without having the time of adapting to them. A third problem to which Khanna et al. (2005) refer to as well, is the inadequacy of laws to articulate and protect private property rights. The respondents report that the patent system fails to do these things. According to the SMEs, the systems involves a time consuming bureaucratic process, which also often requires bribery to get a product patented. In addition, patents often are not able to prevent competitors from copying products or technologies. Small adjustments in, for example, the size of a product, bypasses the patent system. Furthermore, when a firm applies for a patent, the patent becomes publically available, which allows competitors to gain insight on that patent and use that knowledge to their own advantage. A fourth flaw in the political system these SMEs are dealing with, is that beneficial policies often do not reach smaller companies. The fifth and final political problem SMEs are confronted with, and this perhaps the most important one, is that there are still high levels of bureaucracy across many departments of the government. Bureaucracy often means that firms must go through different departments and file a lot of paperwork to, for example, register their businesses, file for patents, apply for subsidies, and file for building or expansion permits.

To overcome these voids, or at least some of them, SMEs must use their resources effectively. Especially, because resources are often scarce and hard to come by in emerging countries. Barney (1991) describes three types of resources, physical capital resources, human capital resources and organizational capital resources. This categorization was used to identify ways and methods used by SMEs to fill the institutional voids they are confronted with.

*Physical capital resources* are the physical resources or technologies that are used by a firm. As mentioned before, due to product market voids, firms are confronted with a limited access to raw materials and a scarcity of advanced technologies in their home country. To overcome this void, firms either invest in the internal development of new technologies, or rely on their foreign partners to get raw materials and advanced technologies, like the United States, Europe, and other parts of Asia.
**Human capital resources** include knowledge, experience, intelligence and internal training activities. Emerging countries are often characterized by inadequate educational systems and a workforce of which the majority is unskilled. Many workers often lack sufficient knowledge, experience or intelligence that is needed in most firms. Especially, those firms who are operating in the manufacturing or chemical sectors, which are often very technical and knowledge-intensive industries. Managers of these SMEs are often successful because they have been fortunate enough to study and work abroad, which allows them to have more advanced knowledge and experience than most of the people from Vietnam and India. For those workers that are not able to go abroad or to a fine educational institute, firms often develop internal training programs to educate workers themselves.

Finally, organizational capital resources include management, controlling and planning practices, which are often absent in SMEs in emerging countries. A more dominant form of organizational capital are the relationships SMEs build and have with other domestic and foreign firms. Many Indian firms locate within industry hubs and cluster with similar firms, which is mentioned by Schrammel (2014), a useful method to overcome institutional voids. As opposed to clustering, Vietnamese firms do not rely on clusters, but on their relationships with foreign firms. They often import machines and other materials from other countries, to overcome their scarcity within the home country.
6. Conclusion

Emerging markets are characterized by different institutional voids, which leaves SMEs struggling to effectively utilize their resources in order to improve their innovative performance. This research describes the innovative capacity of SMEs in India and Vietnam, the institutional barriers they are confronted with, and how they use their resources to challenge these institutional voids. Although, the experiences of the respondents differ, there are patterns indicating that SMEs experience similar voids. These voids include a limited access to raw materials and advanced technologies, an underdeveloped workforce, an inadequate educational system, a limited access to loans from banks, multiple cases of bribery, and high levels of bureaucracy within the different departments of the government. To counter these voids, firms have developed internal training programs, formed clusters with similar and complementary firms, and rely on their relationships with domestic as well as foreign firms to exchange experience, knowledge, technologies and other resources.

6.1 Theoretical implications

This research combines the literature streams on innovation, resources and institutions and offers several theoretical implications. First of all, this research shows that small and medium enterprises in emerging countries often lack the ability to bring forward new and radical innovations. Most innovations they produce are small incremental changes that are new to the firm, but often not new to the customer they serve or the industry they operate in. The ability of SMEs to produce radical innovations is affected by the institutional barriers they are faced with. The data shows that, and this is the second theoretical implication, India and Vietnam still suffer from different institutional voids, even though they are seen by many as emerging markets. Khanna and Palepu (2002) propose a framework of different institutional voids; product market, labour market, and capital market voids, and voids on government regulations. The data shows indications and confirms each void. The third theoretical implication is that previous research on institutional voids focused primarily on large organizations, while there is little known about small and medium sized organizations and how they use their resources to deal with institutional voids. The fourth theoretical implication is that the data shows different networking behaviours between SMEs from India and Vietnam. Indian SMEs locate near other firms to form clusters of hubs based on commonalities and complementarities, while Vietnamese firms tend to rely on their relationships with foreign firms in order to overcome the institutional challenges they are faced with.

6.2 Practical implications

The results of this research have practical implications, and might be useful to four different stake holding parties. The first practical implication relates to the SMEs in emerging markets.
Those that are confronted and troubled by institutional voids might use these results to learn about ways in which they can use and develop their resources to overcome institutional challenges. They could develop internal training programs, relocate to hubs or clusters of similar firms, and build relationships with other domestic and foreign firms. The second practical implication relates to financial institutions, such as banks. Banks should focus on making loans more accessible to smaller firms. This means reconsidering the interest rate and making the application process for firms faster and less complex. The third implication relates to the political system. The government could use these findings to create awareness within the different government departments that bureaucracy and bribery are still present. The government might want to re-think their procedures, and change them adequately in order to improve the quality of institutions. The fourth and final implication relates to foreign firms and investors. Although, both India and Vietnam are still struggling with different institutional voids, both countries show tremendous potential. Average income keeps growing which will create more demand and new markets for foreign firms to penetrate. In addition, SMEs in emerging countries show a demand for high skilled workers, advanced technologies, intelligence, experience and knowledge. Foreign firms that have these resources and are looking for investment options, might consider investing in these SMEs or collaborating with them.

6.3 Limitations and directions for future research

Aside from the methodological limitations which are described in chapter 3, this research does have other limitations that might provide directions for future research. Firstly, the research was only limited to SMEs in India and Vietnam, of which most of them were operating in the manufacturing sector. This makes it difficult to generalize the results to other SMEs, other countries and other sectors. Future research could focus on other emerging regions such as other countries in Asia, African countries, North American countries and Russia. Secondly, the research tells us that SMEs in emerging countries are less capable of producing radical innovations. Future research might want to focus on an in-depth qualitative analysis of the innovative capability of large organizations, and how that is affected by the way they use their resources and the institutional voids they are confronted with. The work of Barasa et al. (2017) shows a link between innovativeness, firm-level resources and institutional quality. However, this work is based on a quantitative analysis and does not tell how firms use their resources effectively to overcome low levels of institutional quality in order to improve their innovative performance.


Appendix A | Interview guideline

A. BASIC INFORMATION

1. Name of business and owner, location, legal status, years of operation, types of products, manufacturing subsector, productive activities, number of employees, management structure, some indication of turnover and profit and average investment size.

2. Short history and background of business model. How is the company generating value? Position in a value chain if applicable, suppliers, major clients/markets.

3. Did the company grow/expand in recent years? To what extent (why) does the owner consider his/her company as an innovative company as compared to other manufacturing SMEs in South Africa?

4. Did the company itself introduce a new product, process or technology to raise productivity or to face competition? Provide examples of product/process/technology innovations that enabled survival/growth/expansion in the past 3 years.

B. INNOVATION

New

1. Description of the type of innovation (process, product, incremental, radical). What is new? Did some innovations enable/trigger other types of innovation within the company? Management innovation in terms of goal setting?

2. Is the innovation ‘new to the world’ involving inventions by internal R&D, or is it a copy, adaptation or adoption of an existing product or technology?

3. How does the owner, employees, clients and others actors perceive the newness? (just a small improvement or as a ‘breakthrough’)?

Process

4. Idea: Where did the idea and motivation for the innovation come from? What were the first steps in the idea formulation and who initiated these? What was difficult and what was easy?

5. Testing: What were the subsequent steps in testing? At what point in time did it become clear that the new product or process would become a success? On what basis did the owners decide to further implement/commercialise it? Did the owner try new things that failed?

6. Commercialisation: what were the steps towards the implementation? What confidence/trust provided back-up? What was difficult and what was helpful?

Value

7. How do product/process/technology innovations create value for the company?

8. Did the innovation increase productivity, if so how? (lowering production costs per unit, labour/capital input)?

9. Did the competitive position change as a result of the innovation, if so how? (via premium products, better, newer fashionable products and new export markets)?

C. INTERNAL CAPABILITIES (FIRM LEVEL CONDITIONS)

What are the internal strengths and weaknesses with regard to the innovativeness of the company?

Dynamic capabilities

Sensing and shaping opportunities for product/process/technology innovations

1. To what extent do you (and the employees) see the need/urgency to be innovative?

2. How do you or your employees identify new business/innovation opportunities?

3. Who is actively involved in identifying these opportunities?

4. How is raising productivity and competitiveness linked to identifying opportunities for innovation?
5. How do you target a new market segment? How do you consider the competitiveness of your company?
6. How is your company adjusting to customer needs?
7. How does the company select the ideas that it is willing to invest/innovate in?
8. Who is involved in this process?

Reconfiguration of the company
9. How do you adjust by being innovative to the surrounding business environment?
10. How do you share knowledge within your company?
11. How are employees informed about new developments?
12. How does your company train employees to adjust to new developments?

Goal setting
13. Do you have an implicit or explicit goal setting system to improve performance?
14. How do you pay employees for performance? (more salary, rewards)
15. How do you increase motivation? Is there intrinsic motivation (ambition, ownership) and external (money) motivation?

Slack time
16. Do you give employees time to develop or try out a new approach or develop new ideas about products or services, or business processes?
   If yes:
   − What exactly was expected from employees during this time? What kind of activities should employees undertake during this time?
   − Did all the employees get some time or was it restricted to a specific group; and if so, which group?
   − Why did this establishment give employees this time? What was the goal/idea behind it?
   If no:
   Have you ever considered giving employees some time to develop new ideas? If yes, what was the reason for implementing it? If not, why not?

D. FORMAL INSTITUTIONS

How does the owner perceive the opportunities and threats for product/process/technology innovations of the surrounding business, policy and regulatory context in South Africa?

1. Is the owner aware of governmental policies/programmes in South Africa that specifically aim to stimulate product/process/technology innovations in manufacturing SMEs? What is the owner’s idea and perception of these governmental policies (programmes/projects)?

2. Does the company actively participate in, or benefit from, such governmental policies/programmes/regulations? (specify in what ways these stimulate the company’s innovativeness)

3. What role do intellectual property rights and patent laws play in your innovation activities? Does the owner aim to patent innovations? If so, which patent office is used? Does the owner find intellectual property rights and patent laws helpful for innovation activities? Does the owner respect the intellectual property rights of others when innovating? If not, why not?

4. Are other generic governmental policies/programmes (not explicitly aimed at promoting innovation, stimulating education or providing access to finance) supporting the company’s innovativeness in an effective way?

5. Do certain governmental policies or regulations prevent the owner from introducing and investing in innovation? What threats in terms of policy and government regulations emerged in the innovation process?

6. Does the company participate in, or benefit from, programmes or projects stimulating innovativeness run by NGOs and/or international development agencies? (kind of programmes/projects and impact)

7. How does the owner acquire knowledge and technology for product/process/technology innovations? When conducting innovative activities, does the company collaborate with formal bodies, such as universities, R&D centres, research institutes and so on? Why (not)? Which kind of organisation? Does the owner
encounter any difficulties in collaborating with such organisations? If so, of what kind? Are these collaborations ultimately beneficial for innovativeness? If not, why not?

E. BUSINESS SYSTEM, SPILLOVERS, EXPORTS

To what extent (and how) are contacts and interactions with other businesses - local, national and international - important for stimulating product/process/technology innovations within the company? Examples?

Business systems interaction
1. Has the company ever introduced a new product/process/technology to suit the needs of a local client/buyer? If yes, did the client/buyer help in any way to make these changes?

2. Has the company ever followed the advice of a supplier in introducing a new product/process/technology?

3. Does the company have active business cooperation (subcontracts)? What is the nature of the cooperation and what is the benefit? Did that involve a new product/process/technology?

4. Does the company buy from or sell to any multinational firms located in South Africa? If yes, has the company ever benefitted in any way from cooperation with these firms to develop a product or improve production techniques?

5. Where does the company typically recruit employees? Has the company ever recruited employees from a client, supplier or competitor? Were these employees particularly helpful in improving products or production techniques? Has the company recruited employees with the explicit aim of improving products or production techniques? Where did they work before?

Location
6. How long has the company been located at the present address? Did the company move to this address or was it created at this address? What were the main reasons why the company was moved to/founded at the present address?

7. How does the presence in the location/region affect the company’s performance, innovation, growth? What is the owners’ perception of the dynamics of the present location/region with regard to the businesses around (micro, SMEs, large, multinational)? What is the size of the region to which the owner refers?

8. Are the other businesses in the region similar or different in terms of size, production, sector and type? To what extent do firms produce comparable goods in the region?

9. Alternatively, to what extent are these other businesses hindering and competing? Does the owner see them mostly as competitors? Does that imply a need for innovation?

10. Does the company buy inputs (what, quantity) from firms located in the region? What is the quality of local inputs? Did the owners ever ask a local supplier to change a product to suit certain needs? If yes, did the company help the supplier make these changes in any way?

Export
11. Has the company ever exported some of its products to foreign countries? If yes, when was the first export? Has the company exported some of its output abroad in the last year? To which countries?

12. What was the main driver of the company’s decision to export? Did the company actively look for foreign clients? Did foreign clients or a wholesaler contact the company (if yes how: website, fair, etc.)? How did the company hear about export opportunities or has the company ever been recommended to foreign clients? If the company was contacted or recommended, why was this the case?

13. Has the company ever improved an existing product or created a new product with the explicit aim of exporting it? If yes, was it at the direct request of foreign clients or to find new foreign clients? Did the company make improvements to comply with standards and regulations?
F. INFORMAL INSTITUTIONS

1. Family and friends (overseas)
2. Cultural perception of innovation. Is innovation something good? Or should we strive for stability and harmony in society?
3. Informal think tanks, informal knowledge through contacts with university experts
4. Rent seeking individuals, corruption
5. Hindering culture, traditions or customs
6. Social learning, collective learning
7. Community solidarity, craft traditions
Appendix B | Interview statements

This appendix contains additional quotes on each separate subject. The research contains 17 interviews, which has led to a long list of quotes on different subjects. To maintain the readability of the thesis itself, the decision was made not to incorporate every quote in the main chapters. What now follows are all quotes that were extracted from the data that were related to the coding scheme.

| Interview statements on innovation in emerging markets | Incremental innovation |

“We made a couple of colour adjustments. We changed the colour options as we went from black and white to actual colours. We increased the quality of the product and we went from low technology to high technology products.”
- CEO of SME R

See initially, when we launched this pack of sweets, we were used to selling both packs as loose sweets. But then, when we observed customer behaviour we saw what they actually bought. They didn’t buy packs, they bought loose sweets. We then talked to customers to find out more about their preferences and decided to change our product offering to only loose sweets.”
- CEO of SME C

“Although it is easy for our competitors to copy our products, it’s hard for them to actually catch up. We always improve our quality and design in order to stay ahead.”
- CEO of SME L

“Therefore, we have to keep thinking on how we can improve things, which new methods we can use to produce more effectively, and like I mentioned, we have finished incorporating 5S thinking and are now in the process of adapting Kaizen and Lean in our way of doing business.”
- CEO of SME Q

“I always want to optimize the process. We define the process for every department and review this each quarter. One of our key objectives is for each department to come up with at least on innovative idea on how to improve things. So we review our processes quite frequently and try to optimize them.”
- CEO of SME F

“In my opinion, there’s not much innovation in our sector. If you look at the IT and E-Commerce sector, there you’ll find plenty of innovation. The manufacturing sector is run by old management using traditional strategies.”
- CEO of SME A

In order to meet environmental requirements, we changed to reverse osmosis dyes. This new production method enables us to produce less chemical waste. We went from 10% waste production to 2%.
- CEO of SME B

We changed our production methods. We started using different materials and therefore we changed to a much easier process.
- CEO of SME D
No sir, I need to innovate. You can't progress unless and until you improve your products.
- CEO of SME E

Yes, we did some product innovation, however the machines and employees remained the same.
- CEO of SME F

As ceramics products are highly innovative products, we made daily efforts to cut down production costs.
- CEO of SME G

As I didn't have an over, just like many other women, I made up a recipe that can be used in a pressure cooker. It took me 3 years to get the perfect cake from the pressure cooker.
- CEO of SME H

We all use this technology, but we also have to invent new things and adapt our processes to survive under these circumstances.
- CEO of SME K

For example, I've invested a little in how we sell our products. Now we're also able to sell our products through an online channel, instead of only relying on wholesalers.
- CEO of SME M

---

**Interview statements on institutional voids | Capital market**

**Capital market | Firms lack sufficient documents to apply for capital**

“At the time, I didn’t have any papers of documents to file for a loan at the bank, so I was forced to turn to a private financier.”
- CEO of SME E

“Getting a loan took me nearly 3 months. It is difficult in the way that they asked me for a lot of papers. I had to go through different government departments and they always told me get me this get me that. It just requires so much paperwork.”
- CEO of SME H

“It’s hard for us to borrow from the bank without the proper documentation, premises, machinery or any mortgage at that time.”
- CEO of SME J

“To receive a loan from a bank we need certain documents. Documents we cannot provide, but we also cannot receive from the government without going through a lot of trouble.”
- CEO of SME G

---

**Capital market | Applying for funding is a bureaucratic process**

“Getting a loan took me nearly 3 months. It is difficult in the way that they asked me for a lot of papers. I had to go through different government departments and they always told me get me this get me that. It just requires so much paperwork.”
- CEO of SME H

“We usually don’t go to banks to get funding, but to our families. Banks put a lot of pressure on you, and require you to go through many different offices and practices.”
- CEO of SME K
“Applying for a loan takes a very long time.”
- CEO of SME P

“Speaking of banks, I’ve been to Australia and the US, and they have policies that support entrepreneurs, such as low interest rates. However, in Vietnam there’s nothing like that. Everything is too complicated.”
- CEO of SME P

Capital market | Interest rates are often very high

“If we borrow money from the bank, it will cost large extra fees, and they even require us to hire a third party company to supervise our materials for example. These costs are a burden and could potentially become higher than our profit.”
- Employee at SME J

“I have applied for bank funds, I got the funds and they charged me 11% interest per years. This is very high.”
- CEO of SME E

Borrowing from the bank puts a lot of pressure on small firms such as me. Therefore, I often turn to family instead of banks for money.”
- CEO of SME M

Interview statements on institutional voids | Product market

Product market | Difficult for firms to get the right materials

“There are two ways. One way is with some special material that I cannot find here in Vietnam, we have to import it from Korea and Japan and my clients will give me the material and the design, and I will make the products and take the fees for that.”
- CEO of SME I

“We have to buy raw materials from Korea to produce the padding here and then sell to garments companies and shoes companies like Nike, CAN and more.”
- CEO of SME N

“It’s hard for us to find the right materials.”
- CEO of SME D

Product market | Advanced technologies not available in home country

“Increasing our productivity is very important. We try to do it, but is very difficult. It’s hard for us to compete on productivity because they (China) have more advanced technologies and better machines.”
- CEO of SME P

“The obstacle is technology. Now, we have to import machines from China, which makes it more expensive and subsequently, prices will be higher as well.”
- CEO of SME Q
“We had to import machinery from Japan to be able to compete”
- CEO of SME C

### Interview statements on institutional voids | Labour market

**Labour market | Few highly skilled employees available**

“Sir, there’s an unavailability of skilled workers. You can’t find skilled workers anywhere.”
- CEO of SME E

“When firms start growing, there are definitely some limitations in terms of resources. It’s hard to gain more capital resources, to find skilled people and to find proper managers.”
- CEO of SME F

“There’s no school for this, we can’t find good workers. The current workers learned from the former boss. At that time the former boss showed how to make it and I was the one to translate to the workers.”
- CEO of SME I

“I have to learn from my friends on how everything is done, especially in terms of management. I don’t have any expertise in this field of management. I haven’t learned in this field before, so I have to ask from my friends and also join some associations and I learn from them.”
- CEO of SME L

**Labour market | Employees often have theoretical knowledge but lack practical expertise**

“Many of my friends who are actually teaching at different institutes in Ha Noi (Vietnam) lack practical backgrounds, so when I show them an actual component they have no idea what they’re holding in their hands.”
- CEO of SME J

Honestly, I don’t trust people from Vietnamese universities. They just know their theories, but have no clue how to put their knowledge in practice. I also went to a university, but I learned most of my skills on my first job at a security company.”
- CEO of SME N

“University students cannot do. We have them here like intern student and then we’d have to train them for 3-6 months. They’ll do internal projects to develop their skills. Later on we’ll decide whether they’re good enough for the real deal and then we’ll put them on real client projects.”
- CEO of SME O

“I have to accept that students lack practical skills. I have to accept that and then train new workers separately.”
- CEO of SME Q

### Interview statements on institutional voids | Political system

**Political system | High number of cases of bribery**
“We had to bribe 22 departments to get things started. It took over one year, and there was no clarity at all about any progression.”
- CEO of SME P

“It’s very common to give some money to make things go smooth and move faster.”
- CEO of SME E

“Sometimes, local police and fire department come in and demand money. It’s not making doing business impossible, it’s just twice a year and small amounts.”
- CEO of SME Q

“We are trying to get some benefits, there are a lot of schemes and benefits the government provides, but as I told you, bribery is required. If you get in the system for three years of subsidy, it’ll take three years to get it, bribery speeds this process up.”
- CEO of SME C

“Many times when we come close, the industry and we are being told to pay under the table bribes to get a certain permission.”
- CEO of SME F

“There are many cases of corruption. We need some sort of irregularity in the government and government employees.”
- CEO of SME G

“Well I had some issues, it took me a long time to get that licence. I was asked to pay a lot of money, but to be honest, I could not afford that so I have to go with irregular processors which also took a very long time and still stocked the process.”
- CEO of SME H

“It’s a long and tiring process, we have to bribe to shorten the waiting time so we could take the materials out before we have approval.”
- CEO of SME J

---

**Political system | Inadequate patent system**

“I haven’t patented our products, let me tell you why. We do not have a very strong patent market in India. If I wanted to, I can apply for a patent but I’ll never do that. Even though I should product 40 years of research, we want to avoid patenting because if I would patent our products and research, it’ll be publically available and it’ll take only some time, but someone will eventually find out. And even if anyone would actually copy it, it’ll take at least 10 years and a lot of money to prosecute and to get some results.”
- CEO of SME D

“We can actually register a design, but before registering we need to know whether the product will be in demand, otherwise it’ll be a waste time as it takes many time to register.”
- CEO of SME P

It’s hard to register for the design because they (competitors) can change the dimensions by just half of an inch, and with that, copy the product anyway.”
- CEO of SME Q

“Sir, two things are broken about the patent system. First, the patent system in India is too bureaucratic and second, not much advantage will be made out of it.”
- CEO of SME A
Political system | Policies change frequently and unexpectedly

“The situation remains highly unpredictable. They announce new policies through television of newspapers and introduce it the next day.”
- CEO of SME Q

“Policies and laws change all the time, without any notifications.”
- CEO of SME D

“Yes, and they change policy very quickly without informing us. They change after one day.”
- CEO of SME N

Political system | High levels of bureaucracy in different governmental departments

“It was not easy to get a licence. At some point, my friends were counting the times that I travelled to government officials.. 761” time, 762” time.. I have visited Ahmedabad, Baroda and other places so many times.”
- CEO of SME D

“Sir, two things are broken about the patent system. First, the patent system in India is too bureaucratic and second, not much advantage will be made out of it.”
- CEO of SME A

“You can protect yourself, in case if you know the right people and know your ways around bureaucracy.”
- CEO of SME B

“The problem is bureaucracy. Instead of working with each other, the government is interfering with our businesses.”
- CEO of SME C

Political system | Beneficial policies often don’t reach small companies

“I know nothing about any innovation policies or receive anything at all. This kind of policy is not for small businesses and often not reach people like me.”
- CEO of SME Q

“We are trying to get some benefits, there are a lot of schemes and benefits the government provides, but as I told you, bribery is required. If you get in the system for three years of subsidy, it’ll take three years to get it, bribery speeds this process up.”
- CEO of SME C

“Yes, there are in fact subsidies. But it is very difficult to get the subsidy.”
- CEO of SME F

“We have never received any help from the government. It’s a very sensitive and tough process. We have to rent from a third party.”
- CEO of SME J
Interview statements on the utilization of resources | Physical capital resources

Physical capital resources | Firms invest in new technologies

“It changed a lot, we use more robots for our production. We’ve also enhanced the process as we improved our quality standards. We’ve introduced 5S, Lean and Kaizen thinking to our production and management processes”.
- CEO of SME M

“Nutraceuticals, you know Spirulina? It is used for curbing malnutrition. We’ve made huge investments for the use of Micro Algae as a bio fuel production.”
- CEO of SME A

“I told you, we have an R&D department. Mainly to re-engineer, not really to innovate.”
- CEO of SME B

“First we took only Carbon Dioxide type fire extinguisher because, we were having CO2 plant and it was easy to start Carbon Dioxide type, we took licence from Bureau of Indian Standard (BIS) in 2001 that is called ISI. First license we took for Carbon Dioxide and thought of getting the marketing done post which we would acquire other licenses. So, in total post that we took 9 licenses different CO2, ABC type fire extinguisher, Dry Chemical, Mechanical foam, water, etc”
- CEO of SME D

“We’re using the latest and best technology. Nobody has this technology which we are using.”
- CEO of SME G

“At first, I only provide the engine for the door. Later on, when I have enough seeding money and the market is potential at the time, I changed into producing automatic door.”
- CEO of SME J

“I haven’t invested much but I invest a little on online sale and now it started doing good because I got some contracts from online, like the wholesale, online customers.”
- CEO of SME J

“As for the machines, we have to buy new ones, one printer may cost half a million dollars so it’s very expensive. We have invested quite often from the beginning till now. This is because the quality of printing and productivity of the machine. This company also has to change the designs of the products often. Sometimes, one design of notebook was already produced but the market cannot sell so they have to cancel the whole thing and find another way and change the design.”
- CEO of SME L

Physical capital resources | Firms often buy new technologies and equipment from foreign suppliers

“We cannot buy machines in Vietnam. I buy them from Iran, Sri Lanka and from China. Vietnam can’t make those machines.”
- CEO of SME N

“The obstacle here is about technology, now we have to import machines from China.”
- CEO of SME Q

“China some machine from Italy different different machine comes from different, actually what happen this is market due to some experience we know that pace is good for this company we have to choose this price this price from which company we have to go that is dependent.”
- CEO of SME G
“It’s a very small company, 10 employees. However, because we use Japanese machines, the productivity is not like Chinese one, they can produce up to 2000 products per day with only 10 employees.”
- CEO of SME I

“We mainly use German and Australian technology.”
- CEO of SME J

“They are from France, from Thailand. Sometimes we need to talk with the European because We like European style so sometimes we need advice from them. My idea, we talk with her and then make it.”
- CEO of SME N

Physical capital resources | Firms locate near other similar and complementary firms

“We’re operating in a business that creates its own demand as we’re part of a cluster.”
- CEO of SME B

“We even share resources with other companies if needed. That’s the main benefit of being part of this cluster. We’re basically one big community.”
- CEO of SME F

“Although there are a lot of competitors, we don’t really see them as competition to be honest. Each manufacturer produces his own kind of dye, and because our customers need them all, competition was replaced by synergy amongst competitors.”
- CEO of SME E

Interview statements on the utilization of resources | Human capital resources

Human capital resources | Firms have developed their own internal training programs

“Frankly speaking, the requirements we have are difficult to find. We use two ways to deal with this. First, we identify potential people from the ‘scythe hole’, and then we train them through our training and certification system, which we developed by ourselves. Second, we focus on retention of good workers, because it is hard to find new people. It’s difficult to find such people, so we try to retain them by making sure they’re happy.”
- CEO of SME F

“So how I was started was that I started with couple of women, we started giving demo how is this cake is made at various places like flats, Bungalow India’s and everywhere. Gather a group of 20-25 women (minimum) give the demo that how the cake is made, what are the qualities, because it made from wheat. The floor is nice which these people like they want & I show them how it is made in 40-45 min. me& my mother goes to that places and give demo of the same.”
- CEO of SME H

“There’s no school for this, we can’t find good workers. The the current workers learned from the former boss. At that time the former boss showed how to make it and I was the one to translate to the workers.”
- CEO of SME I

“People holding key position in our firm are all highly skilled labour. Other workers are all trained by our highly skilled workers and these normal workers do not hold high qualification. We have 7 – 8 workers that hold undergraduate degree.”
- CEO of SME J
“They have trainings for staffs every month, they have courses for employees and farmers, they have team leader of the farmer who keeps contact with company, they call any time the weather changes, is it too cold? if anything happens, they share the info how to take care bees and update every day.”
- CEO of SME K

“It depends but if they are very good skilled so it takes 1-2 months. This job looks easy but not like that, The production site trains them.”
- CEO of SME N

“University students cannot do. We have them here like intern student and then we’d have to train them for 3-6 months. They’ll do internal projects to develop their skills. Later on we’ll decide whether they’re good enough for the real deal and then we’ll put them on real client projects.”
- CEO of SME O

“I have to accept that students lack practical skills. I have to accept that and then train new workers separately.”
- CEO of SME Q

Human capital resources | Managers often have experience from working in other companies

“No, same company but that people are looking at export and domestic market. All the companies have corporate office in Mumbai, like company Reliance is Jamnagar however, Head office is in Mumbai. So, our people are tapping people there for purchase and all. Every big and metro city we have office like in Ahmedabad, Delhi, Hyderabad, Kolkata in different parts of India. In near future we are going to take UL Listed. That is an approval by which we can step overseas, and we can sell easily because UL is trustful certification and post that people can take easily abroad like Australia, U.S., U.A.E, everywhere and that approval we are going to take. But the process of that approval is about 1-year process.”
- CEO of SME D

“I am more in to strategic, I was in Mahindra group I am working with Mahindra’s, I was strategic head there and this place Rajkot is my native so some where we met and you know the spirit of this organization and this people that is inspire me to come back to my roots.”
- CEO of SME F

“Before this company we have another one company that company we start on 2003 now we stop that company and that company we manufacturing wall tiles, small size now we close that company and start this company and here we making vitrified tiles and big size floor tiles.”
- CEO of SME G

“Yes, I got my funding from my parents. I used to work previously for a year or two. So the saving I had from the work experience put together everything & got the things started. Setup a small unit at my home itself.”
- CEO of SME H

“I studied overseas and before when I came back I just worked for the government and then I’ve just worked here for 5 years so I don’t know. But I guess we work very hard, we design and we always try to make the good products, we don’t do much marketing, we just want to product good product with good price and sell to Vietnamese customers. That’s our objective.”
- CEO of SME N
“I studied computer science in Sydney. I got my bachelor degree over there. After I came back to Vietnam, I worked for a research institute and I found out that there was a lot of work to do. I think that by studying in Australia for four years, it gives me a more open mind.”
- CEO of SME O

“I studied overseas and before when I came back I just worked for the government and then I’ve just worked here for 5 years so I don’t know. But I guess we work very hard, we design and we always try to make the good products, we don’t do much marketing, we just want to product good product with good price and sell to Vietnamese customers. That’s our objective.”
- CEO of SME N

“I studied in China in 5 years, I learned many things. They have things that we haven’t applied here in both technology and producing methods.”
- CEO of SME Q

“No I go to training, sometimes even I attained IIM (Indian Institute of Management) courses, learning courses.”
- CEO of SME B

“See when I was in school, it was my vision to start in a food industry only so not from after passing out my 12th standard however, it was from 1st only as I wanted to study food technology. You would be amazed that I scored 85% in 12th science and dairy science was a niche subject and I did not have an admission as I failed to fill the form”
- CEO of SME C

“I’ve got a BSC in Chemistry.”
- CEO of SME G

“In the morning, I go to college and in afternoon or evening whenever I get free I come home and work till 2-3 in night until then my mother helps me with that and my father keeps a tap over finance and everything he left his job and left his business to get in my business basically it is more over a family business to me if today I am not available then my father and mother can handle the same if there is any issue.”
- CEO of SME H

“I graduated from the Foreign Language University and I studied Japanese. At that time Japanese translator earned a lot of money. One day I can earn 200 to 300 USD a day.”
- CEO of SME I

“Yes, I went to University of Science and Technology in Hanoi. My major is Electronic Controlling.”
- CEO of SME J

Interview statements on the utilization of resources | Organizational capital resources

Organizational capital resources | Managers often have implemented advanced management policies like Kaizen or Lean
“We use more robots for the production of goods, and in terms of process management, we improved it by following quality standards and incorporating LEAN Thinking and KAIZEN production systems.”
- CEO of SME M

“I’d like to learn a lot so I usually take short courses from VCCI but it’s mostly about management, KAIZEN, not about technology.”
- CEO of SME I

“Therefore, we have to keep thinking on how we can improve things, which new methods we can take to produce more effective. As mentioned, we have finished 5S and now doing LEAN and KAIZEN. We have to think about innovation and innovate ourselves.”
- CEO of SME L

“I learned about Kaizen in my master degree. Now I’m thinking what kind of process, about everything that good for my company, any organizational change. We make case study and then we try to finish at the first quarter and then apply in the second or third quarter of this year. Now my company has many problems like in the production site and other side that’s why I want to do new management style. That’s why I make the project not case study.”
- CEO of SME N

Organizational capital resources | Managers tend to rely on their relationship with other domestic companies

“Dye is a cluster industry. Singly industries don’t survive. We need many things, we need ice, we need steam, we need soda, we need so much. We need at least 15 raw materials for produce only one colour. Without this cluster we wouldn’t be able to operate. Transportation is key and materials should be in the vicinity.”
- CEO of SME B

“Yes, trust me, people are fighting for us, the industrial bodies. In south India, there is a body called SAMCOT, samcot is 2nd largest leather manufacturing hub, there environmental problems are handled by this group called SAMCOT”
- CEO of SME A

“That time i was having 4 people, including Amit. Because that time i was in Carbon Dioxide Unit, and Amit has started this company. I joined in 2003, because for 3 years i was in Carbon dioxide unit, because at that time i was having 2 units, One in Changodar, Ahmedabad and another here in Shihor hence, i was look that two units. However, Amit want to move to Mumbai to scale up the business and Mumbai is Hub for businesses. So i have handed over that business to my cousins and joined this business.”
- CEO of SME D

“Actually we have business that type so as per market we choose these one and this is the cluster so markets develop own self.”
- CEO of SME G

Organizational capital resources | Managers tend to rely on their relationship with other foreign companies

“I also try to look for them through my social network and professional network. Sometimes I join conferences in the United States, so I can meet potential partners. We start to trust each other and become friends. Later, when they have some orders, they’ll think of me and contact me.”
- CEO of SME O
“Sometimes we meet. Customers come here and we meet them at exhibitions and at home and we try to maintain the relationship. Eventually we’ll start to get to know each other and than we’re doing business.”
- CEO of SME G

“We cannot buy machines in Vietnam. I buy them from Iran, Sri Lanka and from China. Vietnam can’t make those machines.”
- CEO of SME N

“Sometimes we meet. Customers come here and we meet them at exhibitions and at home and we try to maintain the relationship. Eventually we’ll start to get to know each other and than we’re doing business.”
- CEO of SME G
Appendix C | Research Integrity Form

<table>
<thead>
<tr>
<th>Name: Dirk Jelle Klein</th>
<th>Student number: 4633431</th>
</tr>
</thead>
<tbody>
<tr>
<td>RU e-mail address: <a href="mailto:d.klein@student.ru.nl">d.klein@student.ru.nl</a></td>
<td>Master specialisation: Strategic Management</td>
</tr>
<tr>
<td>Thesis title: The quest for innovation in emerging markets</td>
<td></td>
</tr>
<tr>
<td>Brief description of the study: A case analysis in which were 17 interviews analysed aimed at exploring innovative capacity of SMEs in emerging countries, and how it is affected by firm-level resources and the institutional environment.</td>
<td></td>
</tr>
</tbody>
</table>

It is my responsibility to follow the university’s code of academic integrity and any relevant academic or professional guidelines in the conduct of my study. This includes:

- providing original work or proper use of references;
- providing appropriate information to all involved in my study;
- requesting informed consent from participants;
- transparency in the way data is processed and represented;
- ensuring confidentiality in the storage and use of data;

If there is any significant change in the question, design or conduct over the course of the research, I will complete another Research Integrity Form.

Breaches of the code of conduct with respect to academic integrity (as described / referred to in the thesis handbook) should and will be forwarded to the examination board. Acting contrary to the code of conduct can result in declaring the thesis invalid.

**Student’s Signature:**

**Date:**

**To be signed by supervisor**

I have instructed the student about ethical issues related to their specific study. I hereby declare that I will challenge him / her on ethical aspects through their investigation and to act on any violations that I may encounter.

**Supervisor’s Signature:**

**Date:**