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Institutional influences on SME exporters under divergent transition paths: Comparative insights from Tajikistan and Kyrgyzstan

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ABSTRACT

This paper compares the influence of national institutional environments on the internationalisation of SME exporters from two countries, Tajikistan and Kyrgyzstan, which followed divergent paths in the transition process. It contributes in several ways, notably by extending scholarly debate on divergent paths of transition to the IB literature, and enriching the institution-based view of IB with perspectives from the new institutional economics and comparative institutionalism and offering fresh evidence of how formal and informal institutions and the enforcement mechanism interact to create specific incentives and barriers for internationalising SMEs. The study, one of the first to examine SME exporters from the former Soviet Republics of Central Asia, cautions against the tendency to attribute countries in the transitional periphery with homogenous institutional environments. Analysis of case study evidence suggests appreciable differences in the institutional environments facing SME exporters in the comparator countries. More specifically, SME exporters in Tajikistan seem to experience tougher institutional constraints relative to their Kyrgyzstan counterparts, and this divergence in institutional environments appears to affect the internationalisation prospects and competitiveness of Tajikistan and Kyrgyzstan SME exporters adversely and favourably respectively. The above findings are richly illustrated in the paper, which also discusses implications for theory, managerial and policy decision making and future research.

1. Introduction

Over the last two decades, research in international business (IB) has extended its empirical and conceptual reach beyond its traditional 'core Triad' roots, yet certain parts of the world are still largely 'off the radar'. Here, we join efforts to extend the geographic scope of the IB discipline into the hitherto neglected 'transitional periphery' of post-Soviet Central Asia. Transition economies are characterised by distinctive and dynamic institutional environments, which can fundamentally influence business strategy (Peng, Wang, & Jiang, 2008) and are argued to present an important testing ground for IB theory (Meyer & Peng, 2005). Further, recent contributions from other social science disciplines have drawn attention to widening institutional divergence among the group of transition economies (e.g. Havrylyshyn, 2006; Lane & Myant, 2007; Myant & Drahokoupil, 2010). Building on these contributions, our paper aims to: (1) explore and illustrate how home country institutional environments influence the internationalisation prospects and competitiveness of indigenous SMEs from transition economies; and (2) examine if and how this institutional influence manifests itself differently in countries that have experienced divergent transition paths. We pursue these aims via a comparative, 'matched-pair' case study research design that focuses on SME exporters in the cotton and textile industries of Tajikistan and Kyrgyzstan.[1] In adopting this approach, we are responding to Jackson and Deeg's (2008) plea for a more comparative approach to the analysis of institutions and a greater

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[1] We use 'Tajikistan' and 'Kyrgyzstan' throughout as shorthand for the Republic of Tajikistan and the Kyrgyz Republic, two of the five Central Asian countries that were part of the Soviet Union until its dissolution in 1991. We chose to focus on the cotton and textile industry because it is a key sector for privately-owned, export-oriented SMEs in both countries (IFC, 2009, 2010) and because our comparative, 'matched-pair' case study design required us to focus on SMEs operating in the same industry context in both countries (see further discussion in methodology).

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understanding of the implications of institutional diversity for IB performance.

Our paper makes a number of empirical and conceptual contributions to the literature. Firstly, we add to the small number of existing studies on exporting and outward internationalisation by SMEs *from* transition economies (Filatotchev, Dyomina, Wright, & Buck, 2001; Glas, Hisrich, Vahcic, & Antoncic, 1999; Kent, Baughn, & Dao, 2006; Shirokova & McDougall-Covin, 2012; Thai & Turkina, 2014). Although the transition economies of Central and Eastern Europe, the former Soviet Union and China have now received significant attention from business and management scholars, many studies in the IB field have focused on inward internationalisation to these countries, typically from the point-of-view of Western firms (e.g. Bevan, Estrin, & Meyer, 2004; Gelbuda, Meyer, & Delios, 2008; Meyer, 2001; Meyer & Estrin, 2001; Meyer & Peng, 2005). Also, studies of entrepreneurship and SME development in transition countries have typically adopted a purely domestic focus (e.g. Aidis, 2005; Estrin, Meyer, & Bytchkova, 2008; Manev & Manolova, 2010; Smallbone & Welter, 2012). Our study adds a new empirical context to the modest literature on outward internationalisation from transition economies by focusing on two countries not previously investigated by IB scholars.

Secondly, we add to the small number of existing studies that take an explicit *institutional perspective* on exporting and SME internationalisation issues. There is now an extensive literature examining the influence of both internal, firm-specific factors and external, environmental factors on export propensity and performance (Aaby & Slater, 1989; Chetty & Hamilton, 1993; Kaleka & Katsikeas, 1995; Leonidou, 2004; Sousa, Martinez-Lopez, & Coelho, 2008; Wheeler, Ibeh, & Dimitratos, 2008; Zou & Stan, 1998). However, relatively few studies have so far adopted an institutional lens (LiPuma, Newbert, & Doh, 2011; Lu, Xu, & Liu, 2009; Shirokova & Tsukanova, 2013), which is surprising given the growing popularity of institutional approaches in the IB field (e.g. Mudambi & Navarra, 2002; Peng et al., 2008; Wood & Demirbag, 2012). Indeed, some authors have recently argued that this lack of attention to institutional environments in exporting research has significantly curtailed our understanding of the phenomenon (Gao, Murray, Kotabe, & Lu, 2010). Our paper also complements the above-mentioned quantitative, institution-based studies by adopting a more in-depth, qualitative, case study approach.

Thirdly, and distinctively, we seek to advance research on SME exporting by bringing insights from the embryonic 'divergent paths of transition' literature (e.g. Blackmon, 2007; Havrylyshyn, 2006; Lane, 2014), which is stimulated by the works of varieties of capitalism theorists, into the mainstream of IB research. We believe ours is among the first studies to make this conceptual link and we suggest that this particular strand of the comparative institutionalism literature, which has hitherto been dominated by political economists and economic sociologists, can bring new insights to the analysis of SME internationalisation from transition economies.[2] While IB research acknowledges contrasting models of transition among larger emerging economies, notably rapidly transitioning Russia versus more gradual China (Buck, Filatotchev, Nolan, & Wright, 2000; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004), no corresponding attention has been paid to smaller peripheral post-Soviet economies. This suggests that countries on the transitional periphery may have been viewed by much of IB research community as a homogenous category with respect to their institutional environments. Thus, a particular contribution of our paper is to draw IB scholars' attention to the divergent paths of transition experienced in parts of the transitional periphery and to explore and illustrate the implications of this *institutional divergence* on IB activity. Empirically, our study shows that two superficially similar and geographically contiguous countries have in fact evolved notably different institutional environments as a consequence of their distinctive transition paths over the last two decades, and that this divergence has had markedly different consequences for the nascent, privately-owned SME export sector in the two countries. Our original fieldwork evidence illustrates various ways in which SME exporters in these two countries experience their home country institutional environments and uncovers the consequences of this key environmental influence for their internationalisation prospects and competitiveness.

The rest of the paper is structured as follows: following a critical review of pertinent theoretical perspectives and literature strands, our study's main methodological decisions, including choice of research context and comparative case approach, are presented, elaborated, and justified. The research findings are next presented. We conclude by discussing and summarising implications for theory, managerial and policy practice, and outlining areas for further research.

2. Relevant literature

2.1. The new institutional economics

This paper derives theoretical inspiration from the recently-articulated institution-based view of international business strategy (Meyer, Estrin, Bhaumik, & Peng, 2009; Peng et al., 2008) and from institutional perspectives on entrepreneurship and small firm development in transition economies (e.g. Aidis, Estrin, & Mickiewicz, 2008; Smallbone & Welter, 2012). Both of these literature streams draw heavily upon Douglass North's (1990, 1991) work on New Institutional Economics (NIE), including his delineation of formal and informal institutions, and we follow this lead in our paper. Institutions, according to North (1990, p. 3), are "the rules of the game in a society". They are forms of constraints created by humans to shape, structure, and guide individual and organisational interactions and reduce uncertainties in everyday exchanges (North, 1991). Institutions can be formal and informal. While formal institutions include official laws, regulations and contracts, informal institutions relate to informal arrangements, unwritten rules and norms of behaviour (North, 1990). To understand how institutional environments function and influence economic performance, North (1991) also draws attention to the 'enforcement mechanism', which relates to the effectiveness of enforcement of formal institutions.

The key premise of this institutional approach is that institutions matter for economic performance (Furubotn & Richter, 2000). They set the context and the boundaries for doing business (North, 1990). As a result, institutional environments of countries can create conditions that either facilitate or hinder economic behaviour of firms (Meyer, 2001). The notion of transaction costs is central to the institutional approach advocated by North (1990, 1991). Well-functioning institutions reduce the costs of transacting for firms, while weak institutions increase such costs. If transaction costs remain low, they facilitate trade and as a result allow firms (and countries) to expand and capture more gains (Peng & Heath, 1996). The application of this institutional approach therefore helps to understand how the lack of well-developed and appropriately enforced institutions of a market economy may lead to increased uncertainty, ambiguous informal barriers to market entry, and high transaction costs for firms (Gelbuda et al., 2008; Meyer & Peng, 2005; North, 1990).

[2] Here we acknowledge that Buck et al.'s (2000) comparative study of China and Russia includes the focal concept of "divergent reform paths". However, that study did not tap into the comparative capitalism stream, which was far less developed at that time, or set out to explore the influence of formal and informal institutions on SME exporters.