SME export performance, capabilities and emerging markets: the impact of institutional voids

Yusaf H. Akbar*
CEU Business School,
Central European University,
Frankel Leo út 30-32, 1023 Budapest, Hungary
Email: akbary@business.ceu.edu
*Corresponding author

Bernardo Balboni, Guido Bortoluzzi and Andrea Tracogna
DEAMS ‘Bruno de Finetti’,
University of Trieste,
Via Valerio 4/1, 34127 Trieste, Italy
Email: bernardo.balboni@deams.units.it
Email: guido.bortoluzzi@deams.units.it
Email: andrea.tracogna@deams.units.it

Abstract: In this paper we address the theme of the export performance of the SME in the context of emerging markets. Surveying a sample of 200 exporting SMEs, we test specific hypotheses concerning the role of Institutional Voids (IVs) both in directly affecting the export performance of the SME and in moderating the positive impact of the SME’s resources and capabilities. Our results show that while directly hampering the export performance of the SME, IVs also have a negative moderating role on the firm’s marketing capabilities.

Keywords: SME; export performance; emerging markets; resources; capabilities; institutional voids; marketing capabilities; internationalisation knowledge.


Biographical notes: Yusaf H. Akbar is an Associate Professor in Management and Faculty Director of the EMBA program at Central European University.

Bernardo Balboni is an Assistant Professor in the Department of Economics ‘Marco Biagi’, University of Modena and Reggio Emilia, Modena, Italy.

Guido Bortoluzzi is an Assistant Professor in Management at the University of Trieste, Italy.

Andrea Tracogna is a Professor of Strategy at the University of Trieste, Italy. He is also Deputy Dean at the MIB School of Management of Trieste.
1 Introduction

Numerous studies have addressed the drivers of the export performance of the firm (Wolff and Pett, 2000; Dean et al., 2000; Cicic et al., 2002; Sousa and Bradley 2008; Cadogan et al., 2009; Freeman and Styles, 2014, just to name a few). Given the heterogeneity of theoretical perspectives, methodologies, as well as choice of variables employed by scholars, these studies have produced a range of empirical outcomes and offered a broad set of strategy and policy recommendations.

This study aims to advance both our theoretical and empirical understanding of the interplay between internal and external drivers of the export performance of SMEs from advanced economies exporting to emerging markets (EMs), highlighting the key influence exerted by institutional voids (IVs) in this process. We draw on two core theoretical elements in our paper. First, the institutional view of internationalisation when we consider IVs and their moderating impact on export performance. Second, we consider the resource-based view of strategy (RBV) when we examine the role played by capabilities and resources in the export success of the SME.

The paper addresses two research gaps. The first gap relates to the export performance of SMEs based in advanced economies in the context of EMs. While there is little doubt concerning the importance of EMs in today’s world economy, until recently, the literature has traditionally considered such markets as the stamping ground of large corporations only (Hitt et al., 2002; Peng et al., 2008). However, the more recent literature suggests that an increasing number of SMEs are exporting to such markets (Kalinic and Forza, 2012; Bortoluzzi et al., 2014) yet empirical evidence remains limited on the nature of their activity and their performance which we address in this paper.

The second gap concerns the specificities of EMs as targets for firms. It is becoming clear to many that the specific environmental conditions that characterise such markets cannot simply be treated as ‘background’ conditions because of their effects on the entering firms’ performance (Khanna et al., 2005; Meyer, 2007; Peng et al., 2008). In fact, these specificities are better characterised as being “Institutional Voids” (Khanna and Palepu, 2010). Moreover, our understanding about the impact of such IVs on the export performance of the firm remains still partial. Only with a few notable exceptions does the literature on export performance fully take into account such institutional variation between advanced and EMs when studying the export performance of the SME (Campa and Guillen, 1999; He et al., 2013). Our claim is that IVs impact the export performance of the SME in two ways. One is a direct impact on the export performance of the SME that occurs when the particular conditions that characterise a market hamper a firm from getting satisfactory results there. While studies have identified conceptual explanations and empirical evidence for this in the context of large MNEs, there is still a paucity of empirical evidence concerning SMEs (Chiarvesio et al., 2015). The second, and less studied, is the indirect impact that those specific conditions can have on a firm’s resources and capabilities by moderating their supporting effect on a firm’s market performance (Meyer et al., 2009). In this case, there is also a lack of empirical evidence in the extant literature exploring this phenomenon. Since institutional conditions may affect the export performance of the SME to a greater extent than larger MNEs (as they can more effectively internalise transactions within the corporate space), an empirical understanding of this will have important implications for SME strategies and public policy which we explore at the end of our paper.
With these research goals in mind, data were collected from a population of Italian exporting SMEs belonging to four major sectors in the Italian economy: Food, Furniture, Mechanics/Machinery, and Textile/Clothing. All exporting firms in the sample were active both in developed and EMs. Presence in both groups of markets ensured that the exporters possessed a more objective recognition of the characteristics of each of these markets thus enabling them to recognise the differences between them.

Our paper is organised as follows: in Section 2 we identify the background to our research and present our research hypotheses. In Section 3, we describe our empirical methodology. Section 4 presents the empirical results of our research and in Section 5 we discuss our contributions to the current state of research, our paper’s limitations and its possible extensions. It also provides managerial and public policy implications and avenues for future research. Section 6 provides a brief conclusion.

2 Theoretical considerations and research hypotheses

When considering the drivers of export performance of SMEs, we are referring to several vectors of influence. The first is the bundle of internal resources and capabilities possessed and leveraged by SMEs in their export activities. The resource-based view (RBV) of the firm posits that the generation and the preservation of a competitive advantage is related to the firm’s ability to develop and control specific assets that are valuable, rare, difficult for competitors to imitate, and difficult if not impossible to replace with other resources and capabilities (Barney, 1991; Teece et al., 1997). As a consequence, a difference in the endowment of resources and capabilities explains why firms operating in the same sector – thus subject to the same competitive dynamics operating at the industry level – exhibit different performance levels in a market (Grant, 1991). The same logic has been applied to the process of firms’ expansion in international markets. Since the pioneering work done by Johanson and Vahlne’s (1977) on the role exerted by the accumulation of market knowledge in reducing the psychic distance of firms from foreign markets, the RBV has drawn increasing attention in the international business literature (Ruzzier et al., 2006) and has been successfully applied also to the case of SMEs entering EMs (i.e., Bortoluzzi et al., 2014).

More specifically, given the internal constraints in terms of financial resource endowments that characterise smaller firms, the application of the RBV to the international expansion of the SME has mainly focused on the role played by intangible resources, and especially international experience and knowledge-based capabilities (Dhanaraj and Beamish, 2003; Ruzzier et al., 2006; Kalinic and Forza, 2012). In particular, in our study we consider two knowledge-based resources and capabilities of SMEs: internationalisation knowledge, and marketing capabilities.

Internationalisation knowledge is the outcome of a learning process taking place through and after the entry in foreign markets (Cavusgil et al., 2012; Dean et al., 2000; Cavusgil 1980; Johanson and Vahlne 1977). According to Eriksson et al. (1997), such knowledge informs a firm’s entry decision into a foreign market. It includes, for instance, the specific rules and customs of the market, the attitudes and preferences of local consumers, and the specific information about local suppliers and distributors. Internationalisation knowledge accumulates over time, as long as the firm continues to operate in foreign markets (Blomstermo et al., 2004; Autio et al., 2000). Equally, should a firm exit foreign markets, its accumulated knowledge obsolesces with time. The
gradual accumulation of internationalisation knowledge supports the further internationalisation of firms, encouraging them to enter into new, distant markets, and to escalate their existing commitments in already served markets (Francis and Collins-Dodd, 2004; Prasad et al., 2001). This knowledge allows managers to better understand foreign markets (Axinn, 1989) and to better detect additional international opportunities there (White et al., 1998). This is especially relevant for SMEs whose expansion processes are typically more gradual than those of MNEs (Hilmersson and Jansson, 2012). Thus, we can expect that internationalisation knowledge positively impacts a firm’s international market performance (Akbar et al., 2014). Furthermore, SMEs endowed with greater amounts of internationalisation knowledge will be better positioned to expand their business and to succeed also in the context of EMs.

Marketing capabilities refer to a firm’s general ability to manage product offerings, business partners and distribution systems, as well as advertising and communication activities and pricing (Zhou et al., 2012; O’Cass and Julian, 2003). It is broadly accepted that marketing capabilities are a primary driver of a firm’s competitiveness (Merrilees et al., 2011; Vorhies and Morgan, 2005; Weerawardena, 2003), while a wide literature recognises the relevance of such capabilities also when firms enter foreign markets (Morgan et al., 2012). Earlier research provides empirical evidence in this regard. While not being specifically linked to the RBV perspective, Cavusgil and Nevin’s (1981) path-breaking study demonstrated that the export propensity of a firm is strongly linked to its marketing planning capabilities. Later studies, that explicitly adopted the RBV approach, confirmed this finding. Notable among such studies, Haar and Ortiz-Buonafina (1995) found that marketing capabilities positively impact the export development of Brazilian firms. After surveying data from 381 exporters, Prasad et al. (2001) found that the higher the marketing competencies of the firm, the better its export performance. With specific reference to SMEs, an empirical study by Doole et al. (2006) identified 17 key activities that are closely associated with their export performance. Those activities primarily relate to the marketing strategy and marketing capabilities. Along the same lines, Lu et al. (2009) found that SMEs in possession of more adaptive marketing capabilities perform better in foreign markets. We thus assume that those SMEs that are better equipped with marketing capabilities will also better perform in the context of EMs.

A second set of influencing factors of export performance relates to the specificities of the external context in which SMEs conduct business. When applied to emerging market contexts, this set has been identified in the literature as Institutional Voids (IVs). Khanna and Palepu (1997) first introduced the concept of IVs to summarise the structural weaknesses that distinguish EMs from developed markets (discussed in 2.1 in more detail).

As a general proposition, the idea that an economy becomes an emerging market is closely tied to structural changes in macroeconomic and regulatory environments in the economy in question, itself related to a process of broad and far-reaching economic liberalisation. EMs typically move along a dynamic path from relatively closed economies with significant government control of economic policy and ownership of productive assets to an economy with heavier reliance on foreign capital, ownership and an open import/export sector. This dynamic path has the effect of strengthening EMs’ integration with the global economy, leading to trade, finance, and resource transfers from advanced economies to the EMs (Akbar and Samii, 2005). Clearly, the dynamic path is a heterogeneous one for EMs with some countries embracing complete liberalisation (such as the economies of Central and Eastern Europe who have joined the
European Union) while others, such as China, India and Russia, are pursuing conditional or more cautious liberalisation. While causality may be disputed, the process of liberalisation in emerging countries has also been accompanied by a higher than average GDP growth rate relative to advanced economies which has made them attractive propositions for firms from developed economies. Moreover, the opening of these economies to foreign investment has not only created market serving opportunities, but has also lead to significant potential for sourcing of both natural resources and human capital.

Today, there are a range of EM groups including BRIC (Brazil, Russia, India and China) (Wilson and Purushothaman, 2003), the Next-11 (O’Neill and Stupnytska, 2009) and the EaGLEs (Emerging and Growth-Leading Economies) (Garcia-Herrero, 2011). Yet, while significant changes have occurred in the economic, regulatory and governance development of EMs, institutional differences still persist between such markets and the advanced economies. Managers and firms from advanced economies rely upon institutional foundations e.g. enforceable intellectual property laws, antitrust authorities that allow them to execute their strategies by building on their unique, hard-to-copy resources and capabilities. These institutional guarantees are not given in EMs. In section 2.1 below, we examine in detail how these institutional differences impact the success of strategies of SMEs from advanced economies in their attempts to export to EMs.

Given resources and capabilities, on the one hand, and institutional factors on the other, the extant literature offers further insights. In an early theoretical contribution, Oliver (1997) posited that the value of a firm’s resources and capabilities varies across different institutional contexts. In later research, Peng (2001) showed this to be of a particular validity in the context of EMs. While MNEs entering an emerging market can choose to adapt, deploy, and upgrade their resources and capabilities to the specificities of such markets (for example, by hiring local sales personnel or internalising the distribution activities), by contrast, SMEs are prevented from doing the same owing to inherent resource limitations (Filatotchev et al., 2009; Jansson and Sanberg, 2008; Wright et al., 2007).

Based on the above theoretical considerations we have derived a set of hypotheses. Our paper tests, in particular, three IV-based hypotheses in sections 2.1 and 2.2 below. First, we explore the direct impact of IVs on SME performance in EMs (2.1). Second, we examine the moderating impact of IVs on the value of internationalisation knowledge and marketing capabilities on SME export performance in EMs (2.2). Given the well established resources and capabilities/export performance direct relationship developed previously in the extant literature we didn’t formally test it.

2.1 The impact of IVs on the performance of the SME in EMs

Currently, a limited group of European SMEs export to EMs (approximately seven to 10% of SMEs according to the EU Commission (2011)). Some scholars studying developed country firms entering EMs have drawn attention to the peculiarity and idiosyncratic nature of EM contexts and to the degree of (under)-development of their institutions. Arnold and Quelch (1998, p.8) stated that EMs are characterised by “unfamiliar conditions and problems”, which include poorly functioning or non-existent logistical infrastructure (highways, railways, harbours, airports, ICT networks), weak market systems and channels (i.e. sales and distribution networks) and important differences in buyer behaviour that developed country companies may find difficult to understand and adapt to.
Khanna and Palepu (1997) introduced the concept of “Institutional Voids” to summarise the structural weaknesses that distinguish EMs from developed markets, thus supporting the idea that, when competing in EMs, entering firms need to adapt their strategies and reconfigure their existing set of resources and capabilities. Khanna et al. (2005) developed an exhaustive taxonomy of potential IVs that they gathered into five categories. The first group is the “political and social system” that includes political stability of the country, the degree of protection of private property and intellectual rights and the efficacy of the judiciary system. The second group, called “openness”, considers the existence of discriminatory legal restrictions and constraints facing foreign investors. The third, describes IVs in “product markets” and relates to the ease of access to valuable information on consumers and market trends, the existence of an adequate distribution system and the extent of product-related environmental and safety regulations. The fourth group is concerned with the conditions and flexibility of the “labour market” and also deals with the availability and quality of human capital in a specific institutional setting. The fifth and last category represents the “capital market” and examines the extent and quality of financial intermediaries, venture capital investors, stock markets and regulatory systems (Welter and Smallbone, 2011; Gao et al., 2010; Meyer et al., 2009).

Past research has primarily addressed the theme of IVs to investments made by multinationals thus perpetuating a simplified view of the reality in which only firms entering a market through “heavy” modes, like FDI and JV, make direct investments, while firms, and especially SMEs, entering a market through export-based modes do not make any investment. The reality shows us that the boundary between the two types of entry is considerably more blurred – that even exporters can or must invest, sometimes even consistently, to get established in a market to obtain satisfactory performance. In this paper we assert that even exporters must deal with the institutional voids that characterise EMs. Sousa and Bradley (2008) found that the institutional environment, expressed in terms of communication and marketing infrastructure, technical requirements, legal regulations and economic/industrial development, exerts a significant impact on the export performance of the firm. In a later study comparing the internationalisation processes of SMEs in EU, China and Russia, Hilmersson and Jansson (2012) found the institutional setting of emerging markets to limit the positive effect provided by the internationalisation knowledge on the internationalisation process of the firm. Finally, in a recent qualitative study analysing in depth three European firms, Bortoluzzi et al (2015) found institutional voids to severely affect the way entering firms set their distribution channels in emerging markets and the decision to invest in the use of more resource-demanding modes of presence in such markets. Further research also confirmed the role of institutional heterogeneity (and dysfunction) relative to developing country contexts and their impact on a firm’s entry decisions and the effectiveness of subsequent steps in such markets (Khanna and Palepu, 2010; Ferreira et al., 2009; Henisz, 2004; Xu and Shenkar, 2002; Kostova and Zaheer, 1999). The outcomes of this research stream have led to a broad based acceptance that institutions that support markets play a greater role in firm performance (Oliver, 1997). They “directly determine what arrows a firm has in its quiver” (Ingram and Silverman, 2002, p.20), and represent “one leg that helps sustaining a [firm’s] strategy tripod” along with the firm’s resources and capabilities and industry conditions (Peng et al., 2008, p.921).
IVs are believed to create both barriers for firms entering EMs and to impose limitations on their commitment even if they decide to enter. In particular, a weak institutional environment, in terms of high IVs, may dissuade firms from committing time and resources in the market, as noted both by Broadman et al. (2004) and Welter and Smallbone (2011).

While the extant literature has made significant contributions to our conceptual understanding of the role of institutions in EMs (Bruton et al., 2010; Peng, 2006; Ahlstrom and Bruton, 2001; Luo, 2001; Luo, 2004; Hoskisson et al., 2000), there is a paucity of empirical studies related specifically to SMEs examining these conceptual contributions. Given this paucity and building on the conceptual contributions of earlier studies discussed above, we posit that IVs will negatively affect the export performance of the SME in EMs. More formally stated:

**Hypothesis 1.** The greater the institutional voids, the weaker an SME’s export performance.

### 2.2 The moderating effect of institutional voids on resources and capabilities

Research at the intersection between resources/capabilities of the firm and the institutional perspective is developing rapidly. Currently, the extant literature suggests that IVs have not only a direct influence on performance but also an indirect one, generated by their negative impact on the value of a firm’s resources and capabilities committed to the internationalisation process (Kostova and Zaheer, 1999). Meyer et al. (2009) provided an example of such convergence with the aim of explaining large multinational firm entry strategies in EMs. Along this same line of research, He et al. (2013) argue that, in the context of EMs, the relationship between the resource/capability base of the firm and its performance is directly impacted by the institutional context and, in particular, institutions determine the value that firms can generate from their resources and capabilities, independent of the entry mode they chose and their size (Luo, 2004; Hoskisson et al., 2000). Brouthers and Hennart (2007, p.413) state: “even superior resource-based advantages may not provide competitive advantage in institutionally disparate markets. Institutional differences may create a ‘liability of foreignness’ for firms, even those with resource-based advantages”. This should hold true when applied to both the internationalisation knowledge and the marketing capabilities of the SME. While internationalisation knowledge cannot be considered as wholly context-specific, unquestionably the processes, routines and tactics developed by firms in their most important foreign markets, typically other Western markets for European SMEs, may require adaptation, when applied to EMs and weak institutional contexts (Eriksson et al., 2000). By leveraging on such argumentations we derive our second hypothesis:

**Hypothesis 2.** The positive impact of internationalisation knowledge of an SME on its export performance is negatively moderated by institutional voids.

In a seminal study, Burgess and Steenkamp (2006, p.341) claim for the need of a contingency theory of marketing whereby institutional factors are explicitly incorporated in a theoretical framework. More precisely, they claim EMs to be “natural laboratories that allow [researchers] to assess the generalisability of marketing theories and the extent to which they are bounded by the institutional context of High Income Countries, most notably the US”.

7
Similarly, Sheth (2011) asserts that EMs characteristics render them totally different from advanced markets and that such elements of uniqueness require scholars to rethink the core assumptions of marketing and require firms to significantly adjust their marketing strategies. Zhou et al. (2012) advance a similar argumentation and provide empirical support to the claim that the characteristics of the target market (developed vs. emerging) will affect the contribution that marketing capabilities can give to the international growth of the firm. Given this development in the literature, we argue that IVs can weaken the contribution of marketing capabilities on export performance of the SME in the context of EMs. This leads to our third hypothesis:

Hypothesis 3. The positive impact of marketing capabilities of an SME on its export performance is negatively moderated by institutional voids.

3 Research methodology

3.1 Data collection

A survey was conducted to test the above research hypotheses. Data were collected from a population of Italian SMEs belonging to four major sectors in the Italian economy: Food, Furniture, Mechanics/Machinery, and Textile/Clothing. All firms in the sample were active both in developed and emerging markets. Such varied presence should offer the firms a more objective and grounded understanding of the characteristics of the different markets, thus guaranteeing a minimum level of internationalisation knowledge. The variety of industries, in turn, allows for the control of results by the type of activity/product offered and to avoid potential confusion caused by the differences in internationalisation strategies involved in selling goods versus providing services (Cicic et al., 2002). Last but not least, by considering that IVs tend to be measured at the firm level in terms of perceived “distance” of the EMs institution from domestic ones, we decided to keep fixed the domestic country (Italy) so as to offer a common benchmark for our sample population.

A sampling frame was generated from the Aida database provided by Bureau van Dijk. Aida is the Italian version of the Amadeus database and it focuses on Italian firms only. We first identified a random sample of 1225 manufacturing SMEs using a random samples generator tool embedded in Microsoft Excel® Software package. Our selection was based on the definitions provided by the European Union that defines an SME as a firm employing less than 250 persons, having an annual turnover not exceeding fifty million euros and/or total assets not exceeding forty-three million euros. After a first phone contact, 560 companies were dropped from the sample because they didn’t export in significant volumes to EMs. Among the remaining 665 eligible firms, 202 firms decided to participate in our study. Two of them were eventually excluded owing to incomplete data. In the end, the sample comprised two hundred firms, corresponding to a return rate of 30.1%.

All questionnaires were completed by telephone, with the support of trained interviewers. Data collection was conducted between March 2013 and May 2013. To identify key informants for data collection, we used two criteria: (a) possession of knowledge about a firm’s international activities and (b) high level of involvement in the firm’s activities in international markets (both developed and emerging). Of the
respondents, 61% were either the CEO or a member of the Board of Directors; the remaining 39% were senior executives in specific positions related to international management, such as sales directors, foreign sales directors, and marketing directors.

Several checks were made in order to verify the profile of key informants and thus ensuring data validity (Kumar et al., 1993): (1) how long the informant had been working for the firm (years), (2) how knowledgeable she/he deemed her/himself regarding the firm’s international activity in general and (3) regarding the firm’s expansion in EMs. Items 2 and 3 were measured on a seven-point Likert scale, anchored by ‘very low knowledge’ and ‘very high knowledge’. The average working experience of respondents in their current firm was about 11 years (8 years in their current position). The mean responses for the second and third items were 6.05 (SD = 0.71) and 5.97 (SD = 0.86), respectively. All respondents indicated that they had knowledge about their firm’s activities within EMs equal or greater than four on a seven-point Likert scale. Given these characteristics, we consider that the respondents provided reliable information.

Addressing the potential for common method bias, we followed recommendations for both ex ante survey design choices as well as performing ex post analyses (Conway and Lance, 2010; Podsakoff et al., 2003). As regards ex ante research design, we followed Conway and Lance (2010)’s recommendations on what reviewers and researcher should expect regarding common method bias: an argument for why self-reports are appropriate; construct validity evidence; lack of overlap in items for different constructs. First, since our model is focused on the moderating role of perceived IVs, self-reporting has been considered a relevant measurement method. We decided to address the questionnaire to a single respondent in each firm, rather than to multiple respondents, in view of the fact that our study concerns mainly small and medium-sized firms where typically only one person fits key informant criteria. Second, construct validity of the measures has been provided in order to eliminate the potential for substantial method effects. Third, we verified the absence of conceptual overlap for items used to measure different constructs.

As regards ex-post research design (Podsakoff et al., 2003), the potential for non-response bias was checked by comparing the characteristics of the respondents with those of the original population sample: t-statistics for the number of employees, sales volume, exports as a percentage of total sales, and age of the company were all statistically insignificant, suggesting that there are no significant differences between the respondent and non-respondent groups. Furthermore, as all measures were collected in the same questionnaire, we used Harman’s one-factor in order to check the possibility for common method bias (Scott and Bruce, 1994). The single factor accounts only for the 21% of the variance.

3.2 Sample profile

Table 1 provides information on the industry distribution of the sample as well as the distribution of sample firms on annual sales turnover. In annual sales turnover terms, the average size is above seventeen million euros while, in terms of employment, it is around seventy-two employees. The ratio of foreign turnover to total turnover averages 55%. A broad range of foreign markets is covered: sampled firms export on average to fifteen developed markets and to more than ten EMs.
Table 1  Composition of the sample population

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>16.7</td>
</tr>
<tr>
<td>Apparel, textile and other finished products</td>
<td>22.6</td>
</tr>
<tr>
<td>Mechanical and electronics</td>
<td>26.4</td>
</tr>
<tr>
<td>Wood and furniture</td>
<td>34.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company Size (# of employees)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;=20</td>
<td>12.4</td>
</tr>
<tr>
<td>20–50</td>
<td>36.9</td>
</tr>
<tr>
<td>51–100</td>
<td>31.3</td>
</tr>
<tr>
<td>101–250</td>
<td>19.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company Sales Revenue (Million Euro)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;=5</td>
<td>2.9</td>
</tr>
<tr>
<td>5–10</td>
<td>36.8</td>
</tr>
<tr>
<td>10–25</td>
<td>41.2</td>
</tr>
<tr>
<td>&gt;25</td>
<td>19.1</td>
</tr>
</tbody>
</table>

3.3 Measurements

Our questionnaire was developed primarily on the basis of existing measures taken from the extant literature and adapted to the current study. A complete listing of all the independent and dependent variables is provided in Table 2. We rely on perceptual measures that have been widely employed in prior studies on export performance and its determinants (Sousa et al., 2008; Narver and Slater, 1990). Although the use of managerial perceptions can introduce a potential bias, it is worth noting that several studies have observed a strong correlation between managerial perceptions of performance and objective measures of performance (e.g., Dess and Robinson, 1984; Sousa, 2004). Furthermore, considerable attention has been paid in several studies to the determinants of export performance (for a review, see Leonidou et al., 2002; Sousa et al., 2008; Zou and Stan, 1988), such as firm capabilities and resources and environmental characteristics, approximated through perceptual multi-items scales (Cadogan et al., 2003; Morgan et al., 2004).

3.3.1 Dependent variable

Despite significant attention paid to the measurement of export performance (EM_PERF), scholars have yet to agree on a single definition and operationalisation of performance (Lages and Lages, 2004). In particular, the focus on financial performance, that characterises many conceptualisations and measurements (Autio et al., 2000), tends to neglect other non-financial performance aspects of internationalisation (Brouthers 2013; Julian, 2003). Given this on-going discussion, Lages and Lages (2004) suggest that perceptual measures may also be used to capture the degree to which performance outcomes matched initial goals set by the firms. Drawing on this approach, we used multiple perceptual indicators of international financial and non-financial performance of SMEs (Jantunen et al., 2005). Survey respondents were asked to indicate their degree of satisfaction (1 = very dissatisfied, 5 = very satisfied) with their export performance in
EMs during the previous 3 years based on five dimensions: sales volume, market share, profitability, sales growth, and achievement of strategic objectives. The average of the purified multi-items scale was used as an overall indicator. Table 2 provide details on the constructs used in our study.

**Table 2** Variable constructs

<table>
<thead>
<tr>
<th>Items’ description and measurement (Likert scale from 1= strongly agree to 5= strongly disagree)</th>
<th>Source(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internationalization knowledge (INT_KN)</strong></td>
<td>Our managers have international business experience</td>
</tr>
<tr>
<td></td>
<td>Our managers have experience in determining foreign business opportunities</td>
</tr>
<tr>
<td></td>
<td>Our managers have experience in dealing with foreign business contacts*</td>
</tr>
<tr>
<td></td>
<td>Our managers have experience in managing international operations</td>
</tr>
<tr>
<td><strong>Marketing Capabilities (MKTG_CAP)</strong></td>
<td>In our firm, we are capable to undertake key marketing activities and to use marketing tools to reach our target market, with respect to</td>
</tr>
<tr>
<td></td>
<td>Sales management*</td>
</tr>
<tr>
<td></td>
<td>Distribution</td>
</tr>
<tr>
<td></td>
<td>Promotion and advertising*</td>
</tr>
<tr>
<td></td>
<td>Market research</td>
</tr>
<tr>
<td></td>
<td>Product differentiation</td>
</tr>
<tr>
<td></td>
<td>New product introductions</td>
</tr>
<tr>
<td><strong>Institutional Voids (IVs)</strong></td>
<td>In these markets the regulatory institutions that set and enforce rules for business activities are ineffective*</td>
</tr>
<tr>
<td></td>
<td>In these markets the level of protection of foreign firm’s intellectual property rights is relatively poor*</td>
</tr>
<tr>
<td></td>
<td>The restrictions that the government place on import and export don’t facilitate the market expansion of foreign firms in these contexts</td>
</tr>
<tr>
<td></td>
<td>The government’s procedures for the launch of a wholly foreign-owned business are troublesome in these markets</td>
</tr>
<tr>
<td></td>
<td>Foreign investment are inadequately protected by financial institutions and agreements*</td>
</tr>
<tr>
<td></td>
<td>Foreign companies cannot easily obtain reliable data on customer tastes and purchase behaviours</td>
</tr>
<tr>
<td></td>
<td>Labour market’s rules and characteristics don’t facilitate local employee hiring processes for foreign firms</td>
</tr>
</tbody>
</table>
Table 2  Variable constructs (continued)

<table>
<thead>
<tr>
<th>Items’ description and measurement (Likert scale from 1= strongly agree to 5= strongly disagree)</th>
<th>Source(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Performance (EM_PERF)</td>
<td>Degree of satisfaction related to the performance obtained in EMs during the last 3 years about:</td>
</tr>
<tr>
<td></td>
<td>Sales volume</td>
</tr>
<tr>
<td></td>
<td>Market share</td>
</tr>
<tr>
<td></td>
<td>Profitability</td>
</tr>
<tr>
<td></td>
<td>Sales growth</td>
</tr>
<tr>
<td></td>
<td>Achievement of strategic objectives</td>
</tr>
<tr>
<td></td>
<td>Jantunen et al. (2009)</td>
</tr>
</tbody>
</table>

Note: * Items that were dropped on the basis of the CFA.

3.3.2 Independent variables

In developing our independent variables, the following measures were adopted. First, internationalisation knowledge (INT_KN), reflecting the knowledge that SME managers have accumulated from operating in an international environment, was measured by a four item scale, adapted from Eriksson et al. (1997) and Autio et al. (2000). Second, marketing capabilities (MKTG_CAP) were measured with a six item scale, adapted from Weerawardena (2003) and Weerawardena and O’Cass (2004). This perceptual measure reflects both the firm’s capability to undertake key marketing functions and its ability to use marketing tools to reach its target markets (Morgan et al., 2004).

A perceptual measure of IVs (IVs), our moderating variable, has been operationalised through a seven item scale that reflects the perceived conditions of the political and social system, the degree of openness, the level of patent’s protection, and the features of the product market, the labour market, and the capital market of the different institutional contexts (Khanna et al., 2005). Consistently with other studies that deepen the effect of environmental turbulence on export performance (Cadogan et al., 2003; Cadogan et al., 2002), we refer to the voids that managers are facing within several EMs in which their firms operate. The use of perceptual measures instead of available secondary measures is adequately supported in the literature (i.e., Busenitz et al., 2000; Leonidou, 2004) and in the case of IVs even recommended. Stealing the words used by Brouthers (2013, p.16) “creating such measures aligns the measure better with the specific decision being examined or firm action being undertaken, improving our understanding of the impact of institutional environments on firm outcomes”. A five point Likert scale anchored by 1 ‘never/limited’ and 5 ‘extensively/extensive’ has been adopted for the independent variables’ measurement. The average of purified multi-items scales was used as overall indicator for each of the three variables.

3.3.3 Control variables

Although no specific hypotheses were developed for the effects of firm size, firm age, and international experience in EMs in which the firm is present, these variables were incorporated in the analysis as control variables (Contractor et al., 2007; Lu and
Beamish, 2001). Firm size was measured by the natural logarithm of total sales turnover. Age was measured by the natural logarithm of the number of years of a firm’s operations since foundation. We also controlled for international experience accumulated in the EMs, measured by the logarithmic transformation of the number of years of activities in the EMs. Finally, dummy variables for industry sub-sectors were meant to incorporate industry specific factors that could affect export performance. The number of dummy variables is one less than the number of sub-sectors being tested. Thus, we introduced three dummy variables for our four manufacturing sub-sectors. Figure 1 summarises the theoretical model and our research hypotheses.

**Figure 1** Theoretical model and research hypotheses

3.4 Empirical testing procedure

Our hypotheses were tested using multiple regression techniques. To do so, we used the SPSS statistical package (v. 19). We adopted a step-by-step approach: first we regressed export performance against our control variables (Model 1), then added the internationalisation knowledge, marketing capabilities and IVs (Model 2). Finally, in the last two models (3 and 4) we included the interaction terms between the independent and the moderating variables. As regards the definition of “emerging markets” we identified them according to the classification proposed by Cavusgil et al. (2012, pp.292–293).

4 Results

Overall, the regression results illustrate three findings (discussed in more detail below). First, there is direct and statistically significant evidence that IVs negatively impact SME export performance in EMs. Second there is a statistically significant negative
moderating impact of IVs on marketing capabilities’ contribution to SME export performance in EMs. Third, moderating impacts of IVs on internationalisation knowledge on SME export performance are not statistically significant.

4.1 Assessment of measures

Before testing the hypotheses, we assessed the psychometric properties of the multi-item scales used to measure our variables. Confirmatory factor analysis was performed to purify the scales and to verify if the indicators are valid measures of the theoretically deduced constructs (Bagozzi and Foxal, 1996; Bollen, 1989). We used the covariance matrix as input and the Maximum Likelihood fitting function as our estimation procedure. The model was progressively improved by the sequential elimination of the least suitable indicators. Indicators whose standardised coefficients (λ) were below 0.4 (Hildebrant, 1987) and whose student t-test statistics were lower than 2.58 were removed from the model. Following these criteria, as indicated in Table 2, we eliminated three items from IVs scale, two items from the marketing capabilities scale, and one item from the internationalisation knowledge construct. We assessed the overall goodness of fit of the purified measurement model with this combination of indices: χ²/df < 2.5; NNFI 0.90; CFI 0.92; IFI 0.92; RMSEA 0.079, SRMR 0.072.

We used the coefficient of reliability, Cronbach’s alpha, to evaluate the internal consistency of the scale (Nunnally and Bernstein, 1994). Additionally, other complementary reliability tests were carried out: composite reliability and extracted variance analysis (Table 3). The purified measurement model displayed good internal consistency, given that Cronbach’s alpha was higher than .714. In the same way, the composite reliability showed good values, all higher than .761. Discriminant validity is evident when the Average Variance Extracted (AVE) for each construct is greater than shared variance between that construct and any other construct in the model (Fornell and Larcker, 1981). Even if AVE is slightly under the threshold (< .500) for marketing capabilities and IVs, we verified that for each construct it was higher than shared variance, measured as the squared correlation between that construct and any other construct (Table 3).

Table 3  Correlation matrix (Phi) for the construct validity test

<table>
<thead>
<tr>
<th>N</th>
<th>Variable</th>
<th>Cronbach’s Alpha</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>INT_KNOW</td>
<td>0.771</td>
<td>0.782</td>
<td>0.545</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>MKTG_CAP</td>
<td>0.744</td>
<td>0.756</td>
<td>0.454</td>
<td>.377</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>IVs</td>
<td>0.717</td>
<td>0.765</td>
<td>0.449</td>
<td>-.150</td>
<td>-.244</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>EM_PERF</td>
<td>0.841</td>
<td>0.833</td>
<td>0.501</td>
<td>.334</td>
<td>.289</td>
<td>-.281</td>
<td>1.000</td>
</tr>
</tbody>
</table>

On the basis of these psychometric properties, the average of the multi-item purified scale was used as overall indicator of each construct within the regression model. Descriptive statistics and correlation between variables are summarised in Table 4.
<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Firm Age</td>
<td>4</td>
<td>133</td>
<td>43.48</td>
<td>23.493</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Firm Size</td>
<td>4</td>
<td>247</td>
<td>68.20</td>
<td>49.422</td>
<td>.243''</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>EM_Experience</td>
<td>2.00</td>
<td>42.00</td>
<td>13.843</td>
<td>8.457</td>
<td>.230''</td>
<td>.159''</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Ind_1(Food)</td>
<td>0</td>
<td>1</td>
<td>.17</td>
<td>.374</td>
<td>.008</td>
<td>-.259''</td>
<td>-.112</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Ind_2(Textile/Clothes)</td>
<td>0</td>
<td>1</td>
<td>.23</td>
<td>.419</td>
<td>-.139''</td>
<td>-.064</td>
<td>.002</td>
<td>-.241''</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Ind_3(Mechanical)</td>
<td>0</td>
<td>1</td>
<td>.26</td>
<td>.442</td>
<td>.125</td>
<td>.081</td>
<td>.197''</td>
<td>-.323''</td>
<td>-.396''</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Ind_4(Furniture)</td>
<td>0</td>
<td>1</td>
<td>.34</td>
<td>.476</td>
<td>-.009</td>
<td>.192''</td>
<td>-.119</td>
<td>-.268''</td>
<td>-.324''</td>
<td>-.434''</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>MKTG_CAP</td>
<td>1.67</td>
<td>5.00</td>
<td>3.69</td>
<td>.652</td>
<td>.099</td>
<td>.127</td>
<td>-.041</td>
<td>.048</td>
<td>.005</td>
<td>-.015</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>INT_KN</td>
<td>1.33</td>
<td>5.00</td>
<td>3.53</td>
<td>.840</td>
<td>.020</td>
<td>-.005</td>
<td>-.098</td>
<td>-.063</td>
<td>.157</td>
<td>-.172''</td>
<td>.108</td>
<td>-.170''</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>IVs</td>
<td>1.00</td>
<td>4.57</td>
<td>2.59</td>
<td>.7061</td>
<td>.095</td>
<td>.182''</td>
<td>.215''</td>
<td>-.112</td>
<td>.063</td>
<td>.041</td>
<td>-.010</td>
<td>-.138''</td>
<td>.364''</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>EM_PERF</td>
<td>1.00</td>
<td>5.00</td>
<td>3.10</td>
<td>.80</td>
<td>-.060</td>
<td>-.083</td>
<td>.071</td>
<td>.128</td>
<td>-.012</td>
<td>-.033</td>
<td>-.061</td>
<td>-.253''</td>
<td>.277''</td>
<td>.257''</td>
</tr>
</tbody>
</table>

Note: *p<0.05; **p<0.01.
4.2 Hypothesis testing

Before creating the interaction terms, we mean-centred the variables, in order to make them comparable (considering the variables’ different underlying scale) and to reduce multi-collinearity (Aiken and West, 1991). The variance inflation factor test underlines that the multi-collinearity between the predictor variables doesn’t represent a problem in our regression model (VIF is less than 2.00). As per Model 1, the control variables account for 5.7% of variation for export performance (Table 5). Observation of the adjusted $R^2$ change from Model 1 to Model 2 reveals an improvement in fit from 5.7% to 18.0% for export performance. From Model 2 to Model 4 the fit improvement is equal to 1.8%. These levels of improvement are consistent with a suggested reasonable range of .02–.05 (Cohen et al., 2003).

Model 1 shows that among the control variables introduced in this study, only the number of EMs where the firms operate appeared to be significantly linked to performance. However, this effect doesn’t persist in other models.

Model 2 isolates the impact of independent variables on performance and it allows us to evaluate the effect of IVs on performance (Hypothesis 1). The results confirmed that IVs significantly and negatively influence export performance ($\beta = -.167; p < .05$). Furthermore, this model shows that specific intangible capabilities, i.e. internationalisation knowledge and marketing capabilities, have a significant direct impact on SME’s performance achieved in EMs.

Finally, in Models 3 and 4, we introduced the moderating role that IVs play on the relationship between our independent variables and export performance in order to test Hypotheses 2 and 3. While not providing support for Hypothesis 2 – the moderating role of IVs on the internationalisation knowledge–performance relationships – the coefficients of the interaction terms were significant and negative for MKTG_CAPxIVs ($p < .05$, $\beta = -.137$), thus providing support to Hypothesis 3.

With reference to control variables, while recalling that no specific hypotheses were developed for their effects on export performance, it is worth noting that their pattern largely corresponded to our expectations. In relation to inter-industry variation, our empirical results showed that firms belonging to the food sector outperform firms belonging to other industries. Before arriving at hasty conclusions, we should exclude the existence of potential self-selection biases that could have affected the sampling procedure. Indeed, food is a product that is more difficult to export in EMs because of its “cultural” content (national culture exercises a profound impact on cuisine) and because of its perishability. So, it could have been that only the most internationally successful food firms agreed to participate in our survey. The other control variables have been company size and age. These variables did not provide any predictive value for the international market performance of firms. Table 5 provides details on the process of hypotheses testing while Table 6 summarises the results of our empirical analysis.

<table>
<thead>
<tr>
<th>Table 5</th>
<th>Multiple regression results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predictors</td>
<td>Model 1</td>
</tr>
<tr>
<td>Constant</td>
<td>1.117</td>
</tr>
<tr>
<td>Control Variables</td>
<td></td>
</tr>
<tr>
<td>Firm Age</td>
<td>–.089</td>
</tr>
<tr>
<td></td>
<td>(–1.222)</td>
</tr>
</tbody>
</table>
### Table 5  Multiple regression results (continued)

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>.081 (1.117)</td>
<td>.090 (1338)</td>
<td>.091 (1.340)</td>
<td>.097 (1.444)</td>
</tr>
<tr>
<td>EM Experience</td>
<td>.165* (2.226)</td>
<td>.076 (970)</td>
<td>.077 (980)</td>
<td>.068 (870)</td>
</tr>
<tr>
<td>Ind1 (Food)</td>
<td>.164 (2.008)</td>
<td>.153* (1.996)</td>
<td>.151 (1.920)</td>
<td>.134 (1.725)</td>
</tr>
<tr>
<td>Ind2 (Fashion)</td>
<td>.016 (.197)</td>
<td>–.021 (–2.257)</td>
<td>–.022 (–2.71)</td>
<td>–.017 (–2.10)</td>
</tr>
<tr>
<td>Ind3 (Mechanical)</td>
<td>.013 (.154)</td>
<td>.028 (.35)</td>
<td>.028 (.395)</td>
<td>.033 (.395)</td>
</tr>
</tbody>
</table>

**Independent Variables**

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>INT_KN</td>
<td>.171* (2.245)</td>
<td>.171* (2.240)</td>
<td>.160* (2.116)</td>
<td></td>
</tr>
<tr>
<td>MKTG_CAP</td>
<td>.197** (2.687)</td>
<td>.197** (2.677)</td>
<td>.217** (2.962)</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>–.167* (–2.489)</td>
<td>–.165* (–2.430)</td>
<td>–.148* (–2.191)</td>
<td></td>
</tr>
</tbody>
</table>

**Interaction effect**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>INT_KNxIV</td>
<td>–</td>
<td>–.017 (.257)</td>
<td></td>
</tr>
<tr>
<td>MKTG_CAPxIV</td>
<td>–</td>
<td>–.137* (–2.280)</td>
<td></td>
</tr>
</tbody>
</table>

|                | .057           | .180           | .180           | .198           |

|                | .123**         | .000           | .018*          |                |

|                | 18.016         | .066           | 4.113          |                |

| No. of observations | 200 | 200 | 200 | 200 |

Note:  *p <0.05; **p <0.01; t-value in parentheses.

### Table 6  Summary of the research hypotheses and their results

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hp.1</td>
<td>IV (–) EM_PERF</td>
<td>Supported</td>
</tr>
<tr>
<td>Hp.2</td>
<td>INT_KN x IV (–) EM_PERF</td>
<td>Not supported</td>
</tr>
<tr>
<td>Hp.3</td>
<td>MKTG_CAP x IV (–) EM_PERF</td>
<td>Supported</td>
</tr>
</tbody>
</table>

### 5  Discussion

#### 5.1 Comments on the results and contributions to the literature

The results of the empirical analysis call for further in-depth consideration. As we have stated in Section 2, given that the capabilities/export performance relationship is a well
established one in the extant literature, we didn’t develop specific hypotheses on this relationship. Nevertheless, in Model 2 of our regression tests, we provide confirmation of the fact that both the independent variables (internationalisation knowledge and marketing capabilities) are significantly and positively correlated with export performance.

At the centre of our analysis is the pervasive influence of IVs on SME export performance in EMs, either directly (hypothesis 1) or through a moderating influence on capabilities believed to be core to strategic success in SME export strategies. Our study shows that IVs directly affect the exporting performance of the SME (hypothesis 1). While that was already clear in relation to the large firms from previous research (i.e., Meyer et al., 2009; Santangelo and Meyer, 2011), evidence was lacking in the case of SMEs. While IVs would be expected to directly affect the investment decisions of firms, we know from past research that SMEs do not normally enter new markets, especially psychically distant ones, through high-commitment entry modes, such as FDI. What our study shows is that IVs also affect the ability of firms to obtain good results through export modes. By revealing the moderating impact of IVs on the marketing capabilities’ role in export performance (Hypothesis 3) we reinforce the view that an absence of well-established and transparent market institutions and functioning intermediaries can impact the effective deployment of a SME marketing capabilities.

As for internationalisation knowledge and IVs (hypothesis 2) we arrived at a different outcome: no clear moderating relationship between IVs and internationalisation knowledge emerged (Hypothesis 2). Such results drive us towards an interpretation of the role played by internationalisation knowledge in the exporting process of the SME. If the extant literature supports the general claim that the possession of replicable and effective internationalisation procedures and routines help the firm in achieving better export performance (Eriksson et al., 2000; Sandberg, 2014), our results showed that the effectiveness of such a key resource is not significantly impacted by the peculiar institutional conditions to which it is exposed and to the specific market context in which it is deployed, contrasting with recent results advanced by Hilmersson and Jansson (2012) and Sanberg (2014).

As regards control variables (age and size), we found no impact on the international market performance of the firm. The effect of size in of particular interest as it has been long debated within the managerial literature (Bonaccorsi, 1992). While evidently, a larger firm possesses more resources per se, there is a distinction between level of resources and appropriateness of resources. SMEs, while being relatively resource-scarce compared to their larger counterparts may still be able to compete with a smaller but more appropriate set of resources. Thus, SMEs should not necessarily consider their size as a discouraging factor when approaching international market expansion in EMs.

5.2 Contributions, limitations and future research

Our study makes two main contributions to the literature. First, it shows that IVs that characterise EMs affect not only the performance of larger multinational firms, but also that of smaller exporting firms (Khanna and Palepu, 1997; Khanna and Palepu, 2010). In particular, it supports the existence of a direct and negative effect exerted by IVs on the export performance of SMEs. This is an important implication for SMEs who recognise that while the potential for future growth and success is likely to be found in EMs they are presented with significantly challenging institutional conditions in these markets.
relative their established export presence in developed countries (discussed in 5.3 below). Second, it sheds new light on how IVs also negatively moderate the effect of resources and capabilities of SMEs on their export performance, when applied to the context of EMs. In doing so, it contributes to clarify the potential disempowering effect of IVs on the resources and the capabilities of the firm (Ruzzier et al., 2006; Bortoluzzi et al., 2014). This institutional-capabilities interaction poses significant implications for the development of SMEs capabilities as a source of competitive advantage (also discussed in 5.3).

While our study derives important and novel empirical findings for our understanding of SME export strategies in EMs, the research in this study has the following limitations. The first limitation is related to our sampling criteria. While there are specific reasons why we have focused on a single country origin of SMEs (namely Italy), operating in four manufacturing industries, our results might be affected by country-related and industry-based effects. This might limit the generalisability of our findings to the entire population of exporting SMEs of other countries. Second, our study treats EMs as a single group and hence we do not consider the heterogeneity of IVs across and within EMs. Other studies, previous to this one, have made similar generalisations – such as grouping together different EMs or generalising the results obtained in one emerging market for the whole category (i.e., Zhou et al., 2012; Schlager and Maas, 2013). This is generally accepted when the aim of the study is to advance our general knowledge about how the market context affects the internationalisation process and the performance of the firm. A final caveat refers to the quality of our proxies, with specific reference to the perceptual measures. To address such limitations, we assessed the psychometric properties of the multi-item scales used to measure our variables. In section 4.1 we have given a complete account of such assessments.

Our study offers several possible avenues for further research. First, in consideration of the fact that internationalisation knowledge shows a significant impact in determining the export performance of the SME, and taking into account its cumulative, learning-based nature, it could be interesting to know how it might affect the establishment chain of the SME in different EMs. Second, our study excludes non-exporters in EMs. However, it is possible that a superior stock of internationalisation knowledge would help SMEs to better “navigate” international markets and hence to avoid entering those markets characterised by larger IVs. This phenomenon is not observed in our study. Third, further studies should also consider the effect played by the domestic environment (such as, the existence of business networks and of specialised infrastructure and supporting services to the internationalisation of firms) in affecting the export performance of the SME, since results obtained so far by the literature are still mixed (Freeman et al., 2012; Freeman and Styles, 2014).

5.3 Implications for managers and public policymakers

As regards managerial implications, SMEs based in advanced economies need to confront the institutional ‘reality’ that their marketing capabilities and knowledge-based resources – honed in developed countries – may need to be supplemented with new ones to cope with institutional weaknesses inherent in EMs. In practice, SMEs that aim to expand their exports towards EMs must be aware of the effect that IVs will have on their resources and capabilities and hence be available to make additional investments to reinforcing them. This implies that SMEs both develop existing resources and
capabilities and also supplement them with new ones (Bortoluzzi et al., 2014). An effective means of resource adjustment and development is through networking specially to accelerate the process of knowledge sharing and transfer between firms (Sandberg, 2014). Thus, marketing and export partnerships should be encouraged between SMEs confronting similar challenges in EMs as well as the building of local marketing networks in specific EMs. This could be further underpinned by inviting marketing experts in the field (such as scholars and consultants from EMs) who could accelerate the process of experience acquisition, providing SMEs with perspectives that may facilitate the absorption and integration of knowledge from others. Further, SMEs should hire more employees from EMs both to act as local marketing managers in the EM and also to staff the senior marketing positions within the company where specific EMs are an important part of the company’s growth strategy. Additionally, where SMEs rely upon intellectual property as a key source of competitive advantage, they should find ways to defend this in EMs.

With reference to public policy implications, if governments wish for SMEs to be able to fully exploit their current array of marketing and knowledge-based resources and capabilities, there is an onus on them to more actively develop resources that can help SMEs thrive in EMs. The lack of specific resources and capabilities and the existence of numerous IVs in EMs, and their possible negative impact on the export performance of SMEs, call for a dedicated set of public policies aimed at supporting the exporting efforts of firms and helping them overcome several liabilities when approaching foreign markets (Cuervo-Cazurra et al., 2007). Effective public policy must address SME marketing weaknesses across numerous dimensions (e.g. attitudinal, experiential, informational and organisational) and provide firms with supplementary assets to compensate for them. In particular, efforts and resources should be made available to SMEs to escalate their presence in EMs. In this regard, policy makers should help SMEs to better comprehend the risks connected with IP rights and how to defend themselves against those risks as they intensify marketing efforts in the market. Developing relationships with trustworthy international export specialists and experts in the field is probably the best way to help SMEs.

6 Conclusions

Our paper addressed two relationships between the institutional context of EMs and the export performance of SMEs based in advanced economies. The first relationship explored how IVs (our context variable) directly impact export performance. We found a statistically significant and negative relationship suggesting that SMEs are unable to replicate their export performance in EMs because of the peculiar institutional nature of such markets. Second, we examined an indirect, moderating impact of IVs on the capabilities and resources deployed by SMEs to achieve export success. Our empirical analysis found statistically significant evidence for the moderating impact of IVs on marketing capabilities while internationalisation knowledge was not negatively moderated in the same way.

We draw three conclusions from these findings. First, the power of the institutional context in affecting the export performance of the SME can be better understood when studied in integration with the effect of a firm’s marketing resources and capabilities (Helm and Gritsch 2014; Griffith et al., 2014). Second, greater empirical research focus
on SMEs should continue alongside research on larger multinational firms in emerging market contexts (Ruzzier et al., 2006; Bortoluzzi et al., 2014). Third, as regards management and public policy, Western SMEs operating in EMs need to network better – among themselves and with local marketing partners (Sandberg, 2014) – and public policymakers should devote more specific resources, such as emerging market databases, and sponsor management and marketing training programs devoted to EMs.

References


