

How Institutional Asymmetry Trigger SMEs' Transformational Resilience to Overcome the Internationalisation Barriers in Emerging Market Context

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Abstract

This study analyses the impact of procedural complications as part of formal institutions and how informal institutions trigger transformational resilience. The main objective is to discover how SMEs' transformational resilience could effectively face institutional asymmetry during internationalisation. This research examines three potential areas of institutional asymmetry. First, there is consistency in government rules and regulations among government organisations at the same levels. Second, the implementation of government regulations at the national and regional levels. Third, the role of informal institutions in supporting or not supporting government regulations. We find that some aspects of government support do not have the impact expected by SMEs. Conversely, informal institutions generally support SME internationalisation and help them form resiliency. We believe the insights of this study shed light on how both formal and informal institutions create asymmetry, which creates barriers to SME internationalisation at the national and sub-national levels, thus transforming SMEs' resilience.

Word Count: 1,522

Background

The purpose of this developmental paper is to make a contribution to the literature on entrepreneurship study in the context of SME resilience when facing institutional asymmetry. Specifically, this research examines the resiliency of SME owner-managers and entrepreneurs in overcoming the barriers of institutional asymmetry in their internationalisation activities. Organisations have changed in the last several years from responding to opportunities and uncertainties largely in a passive manner to responding in a proactive and dynamic business environment (Baptista et al., 2020; Lessem & Schieffer, 2016). Various cultures, societies, policies, and organisations will, nevertheless, experience transition in multiple ways, giving rise to a range of incentives and impediments to the implementation of change. SMEs are no exception to this, especially those who are dealing with internationalisation activities, which are affected by various cultures and policies.

In comparison with the activities of MNEs, SME-internationalisation activity is generally more dynamic and less deterministic. Compared with the more complex forms of internationalisation, such as foreign direct investment (FDI), SME internationalisation is also more likely to involve a variety of export activities (Hollenstein, 2005; Ruzzier et al., 2006; Young et al., 1989). Therefore, this study uses the original and simple definition of internationalisation proposed by Nehrt, Truitt, and Wright (1970), namely ‘a firm-level business activity that crosses national boundaries or is conducted in a location other than the firm’s home country’.

One of the six priorities for organisations to manage proactively is resilience (McKinsey, 2022). According to Bhamra *et al.* (2011), the extant literature on entrepreneurial resilience theory lacks empirical evidence, particularly in the context of SMEs. Additionally, Dominguez and Mayrhofer (2017) suggest that more research is needed to clarify the negative experiences of SMEs while conducting internationalisation activities and to show how their resilience enables them to overcome barriers. This research has taken up these challenges, showing how SMEs adjust their internationalisation strategies to overcome institutional barriers. In the context of this study, we require a resilience that is more appropriate for these challenging times: transformational resilience, which is the capacity to convert stress, upheaval, change, and shocks into opportunities, innovation, fresh capacities, and inventiveness (Marston, 2019).

The resiliency in facing those challenges is embodied in the transformation roadmap, which needs to handle change on several levels and over an extended period of time while also being sustainable, effective, and efficient. Therefore, this developmental paper focuses on entrepreneurial resilience theory (Bhamra et al., 2011) to examine its implications for SME internationalisation (Dominguez & Mayrhofer, 2017). Previous studies paid attention to the effect of formal and informal institutions on either national or sub-national level (Holmes et al., 2013; Khoury & Hitt, 2019; Salimath & Cullen, 2010; Schwens et al., 2011; Tonoyan et al., 2010; Williams & Vorley, 2015). More precisely, they have yet to consider formal and informal institutions in the context of both national and sub-national levels despite the two being closely related and mutually influential (Ma *et al.*, 2016; Chan *et al.*, 2010). At the same time, that could be the case in a decentralised country where the regional government might have regulations that are different from those of the central government (Tambunan, 2008). Hence, there is a need to explore the institutional asymmetry between formal and informal institutions, between the national and sub-national levels of the institutions, and within a single formal institution on the same or different levels.

This study analyses the impact of procedural complications as part of the formal institutions on SMEs' internationalisation barriers and how informal institutions trigger transformational resilience. The main objective is to find out how SMEs' transformational resilience could effectively face institutional asymmetry during the internationalisation process, hence making another cutting-edge empirical research contribution to knowledge. Figure 1 shows that institutional asymmetry can occur in a business environment ruled by formal and informal institutional arrangements at national and sub-national levels, which influence one another. Thus, institutions and entrepreneurship practices influence one another to shape the appropriate business environment (Amoako & Lyon, 2013; Ervits & Żmuda, 2016; Harbi & Anderson, 2010). In this case, SMEs are triggered to do transformational resilience to cope with institutional asymmetry caused by the formal and informal institutional arrangements that create barriers to internationalisation.

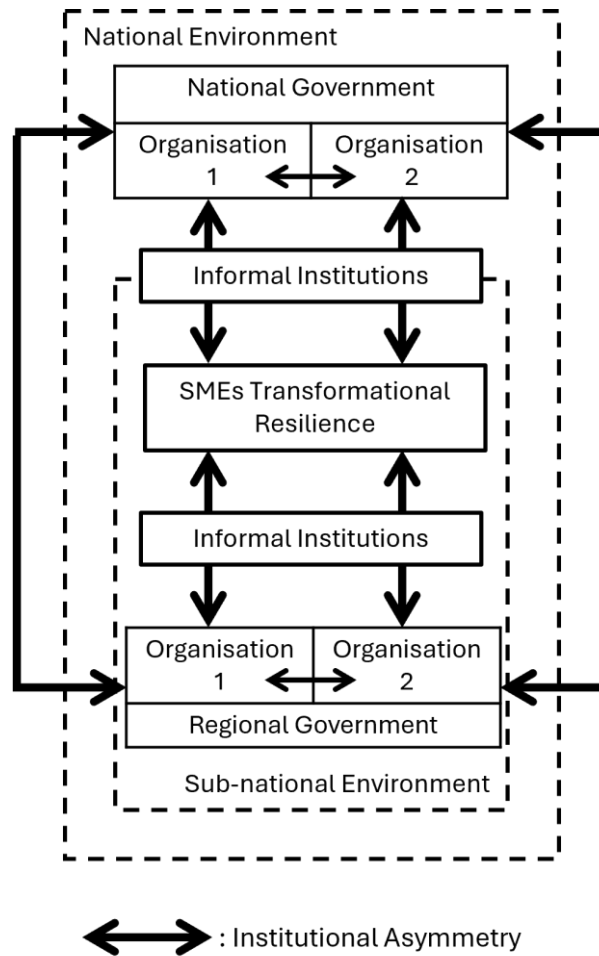


Figure 1: Conceptual framework for the institutional asymmetry during internationalisation activities in the context of SMEs' transformational resilience at national and sub-national levels

In particular, this research examines three potential areas of institutional asymmetry. First, the consistency in the government rules and regulations among government organisations at the same levels (Charoensukmongkol, 2016; Turner *et al.*, 2016; Tambunan, 2008). Second, the implementation of government rules and regulations at the national and regional levels (Hashim, 2012; Minniti, 2008; Tambunan, 2008). Third, the role of informal institutions in supporting or not supporting the government rules and regulations (Khoury & Hitt, 2019; Williams & Vorley, 2015). We suspect some aspects of government support do not have the impact expected by the SMEs. In contrast, informal institutions generally support SME internationalisation activities and help them form resiliency. We expect the insights of this study to shed light on how both formal and informal institutions create asymmetry, which creates barriers to SME internationalisation activities at the national and sub-national levels, thus transforming SMEs' resilience.

Methodology

This investigation was conducted in Indonesia, an emerging market country in Southeast Asia. As an archipelago country, Indonesia has a rich institutional environment – both formal and informal and at the national and sub-national levels. The empirical focus was Bali and the Special Region of Yogyakarta. To fully capture the details of the phenomenon, the research focused on the handicraft sector.

This study uses qualitative investigation to obtain a better understanding of the complex relationship between SME internationalisation activities and institutional asymmetry. In-depth, semi-structured interviews were conducted with 44 SME owner-managers and entrepreneurs, eight policymakers and government officials, and ten business intermediaries and entrepreneur associations. This research focused on three categories of owner-managers and entrepreneurs as respondents. These are (1) those with no intention of going international, (2) those who would like to go international but are facing difficulties in doing so, and (3) others who have successfully expanded their business overseas. These three categories were chosen to further illuminate the phenomenon under study, revealing the effects of different institutional factors. The interviews revealed the SME transformational resilience phenomenon from different angles, collectively offering an empirically rich understanding of how participants perceive the formal and informal institutions that affect their internationalisation activities at the national and sub-national levels. The interview data underwent thematic analysis, following the guidelines of (Gioia et al., 2013). From a total of 62 transcriptions, a data structure was configured to produce 24 first-order concepts, nine second-order themes and three aggregate dimensions.

Research Design

Methodology Stages	Details		
Stage 1: Qualitative approach with owners of small and medium-sized enterprises (SMEs) or entrepreneurs	In-depth, semi-structured interviews with the SME owner-managers and entrepreneurs		
	Five interviews with SME owner-managers and entrepreneurs who have no intention of going international	Eight interviews with SME owner-managers and entrepreneurs who want to go international but are facing difficulties doing so	31 interviews with SME owner-managers and entrepreneurs who have successfully expanded their business overseas
	Thematic analysis		
Stage 2: Qualitative approach with policymakers and business intermediaries	In-depth, semi-structured interviews with eight policymakers and ten business intermediaries		
	Thematic analysis		
Results interpretation	Interpreting the results from both stages, evaluating the interactions, and discussing the implications of SME internationalisation from an institutional theory perspective		

Initial Findings

The preliminary findings present novel and surprising evidence. First, some participants argue that not all government support is helpful to SMEs, as some agencies lack the required knowledge. In fact, some SMEs believe that this ‘support’ actually becomes a barrier to their international business. Second, institutional asymmetry can occur among government agencies and even between the same government agency at the national and sub-national levels. Third, institutional asymmetry can give unofficial benefits to SMEs. Informal institutions support SMEs by enabling them to seek alternative solutions that avoid convoluted government

regulations. Another surprising finding of this paper that enriches the entrepreneurship literature is that formal institutions are considered largely unsupportive of SME internationalisation, while informal institutions are generally supportive. This contradicts previous research on this topic (Dunning & Lundan, 2008; Williams & Vorley, 2015). The SME representatives perceive government support to be a distraction from internationalisation activity, while the intermediary organisations are seen as professional agencies that provide valuable assistance. Those initial findings enabled the SMEs' transformational resilience in overcoming the barriers to internationalisation.

Conclusion

Based on the initial findings, this developmental paper is expected to show that SMEs are highly creative in transforming their resiliency to overcome institutional asymmetry. These findings are intended to contribute to the extant literature on entrepreneurial resilience theory (Bhamra et al., 2011) and its implications for SME internationalisation (Dominguez & Mayrhofer, 2017). The findings of this study could demonstrate that both formal and informal institutions strongly encourage SMEs' creativity in transforming their resiliency as firms seek to avoid procedural complications and find loopholes in government regulation. Likewise, this study could highlight the importance of informal institutions for supporting transformational resilience in SMEs rather than condemning it as illegal or inappropriate (Dunning & Lundan, 2008; Williams & Vorley, 2015).

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