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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.

Keywords: transition economies; Tajikistan; Kyrgyzstan; institutional divergence; formal institutions; informal institutions.

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 et al., 2008) and are argued to present an important testing ground for IB theory (Meyer and 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 and Myant, 2007; Myant and 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*. 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 understanding of the implications of institutional diversity for IB performance.

* 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).

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 et al., 2001; Glas et al., 1999; Kent et al., 2006; Shirokova and McDougall-Covin, 2012; Thai and 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 et al., 2004; Gelbuda et al. 2008; Meyer, 2001; Meyer and Estrin, 2001; Meyer and Peng, 2005). Also, studies of entrepreneurship and SME development in transition countries have typically adopted a purely domestic focus (e.g. Aidis, 2005; Estrin et al., 2008; Manev and Manolova, 2010; Smallbone and 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 and Slater, 1989; Chetty and Hamilton, 1993; Kaleka and Katsikeas, 1995; Leonidou, 2004; Sousa et al., 2008; Wheeler, Ibeh and Dimitratos, 2008; Zou and Stan, 1998). However, relatively few studies have so far adopted an institutional lens (LiPuma, Newbert and Doh, 2011; Lu, Xu and Liu, 2009; Shirokova and Tsukanova, 2013), which is surprising given the growing popularity of institutional approaches in the IB field (e.g. Mudambi and Navarra, 2002; Peng et al., 2008; Wood and 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 et al., 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[†]. While IB research acknowledges contrasting models of transition among larger emerging economies, notably rapidly transitioning Russia versus more gradual China (Buck et al. 2000; Hitt et al. 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

[†] 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.

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 summarizing 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 et al. 2009; Peng et al., 2008) and from institutional perspectives on entrepreneurship and small firm development in transition economies (e.g. Aidis, et al. 2008; Smallbone and 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, p3), 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 and 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 and 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 and Peng, 2005; North, 1990).

2.2 The Institution-based View in International Business Research

In recent years, institutions have become a major focus of IB and strategic management research (Dunning, 2004; Mudambi and Navarra, 2002; Peng et al., 2009; Wood and Demirbag, 2012). Thus, Peng et al. (2008) have proposed that an 'institution-based view' be incorporated as the third leg of a 'strategy tripod' alongside the more established industry-based and resource-based views of (international) strategy. Of particular interest to our paper is the suggestion that the strategic choices made by firms,

including their export behavior, are at least in part a reflection of the formal and informal constraints that managers face within a particular national institutional environment (Peng et al., 2009).

However, despite the growing scholarly interest in institutions and institutional approaches within this field, we observe that existing institution-based IB studies have, until recently, focused mainly on *inward* internationalisation to transition (and emerging) economies – addressing topics such as FDI location decisions, entry mode choice and challenges faced by Western firms in operating in the transitional environments (Bevan et al., 2004; Meyer and Estrin, 2001; Meyer et al., 2009). Research on the outward internationalisation of transition economy firms is in its infancy (Thai and Turkina, 2014). However, a handful of existing studies have supported the proposition that certain dimensions of the domestic institutional environment – including tax regulations and tax administration, the quality of the legal system and incidence of corruption - do indeed affect the export behaviour and degree of internationalisation of firms from transition economies (Gao et al. 2010; LiPuma et al., 2011; Lu et al., 2009; Shirokova and Tsukanova, 2013; Volchek et al., 2013). These few existing studies have a number of limitations, which our study begins to address. First, they have either analysed patterns across a large basket of countries (LiPuma et al., 2011; Shirokova and McDougall-Covin, 2012) or focused on a Chinese (Gao et al. 2010; Lu et al., 2009) or Russian empirical context (Shirokova and Tsukanova, 2013; Volchek et al., 2013). Thus, there is a clear need to broaden the evidence base to different and diverse transition contexts. Second, they have mainly adopted a quantitative modeling approach (exceptions are Shirokova and Tsukanova, 2013, and Volchek et al., 2013); there is a case for more intensive, qualitative studies that give ‘voice’ to entrepreneurs and SME owner-managers. Third, they have been mainly concerned with formal institutions; closer attention to the operation and effects of informal institutions is

required given their noted significance in transition contexts. Fourth, we believe ours is the first study to adopt a country-comparative approach of the type exhorted by Jackson and Deeg (2008).

2.3 Institutional Perspectives on Entrepreneurship and SME Development in Transition Economies

Another body of research providing both theoretical and empirical inspiration for this paper, as noted earlier, is the burgeoning literature on entrepreneurship and SME development in transition economies (e.g. Aidis et al., 2008; Estrin et al., 2008; Manev and Manolova, 2010; Welter and Smallbone, 2003). This work also draws heavily on North's (1990) institutional framework, although it is somewhat less concerned with transaction costs analysis. These studies have shown how various aspects of the formal and informal institutional environment— such as high tax rates, frequently amended or ambiguous tax rules, inadequate and unpredictable legislation, deficiencies in the implementation of business regulations, high levels of bureaucracy, and corrupt behavior on the part of government officials – obstruct, constrain and structure entrepreneurship and SME development in transition countries such as Ukraine, Belarus, Moldova, Bulgaria and Lithuania (Aidis, 2005; Manolova and Yan, 2002; Smallbone and Welter, 2001; 2012). This literature has inspired and influenced our study in a number of respects, including persuading us of the importance of adopting an institution-based view in studying SMEs in transition economies and informing our selection of specific themes and dimensions to explore in our field research. Our study adds to this prior work by introducing a new empirical context. More importantly, we extend its scope by looking at SME internationalisation issues in challenging transition environments; most prior work in this area has adopted a purely domestic focus.

2.4 Comparative Capitalism, Varieties of Post-Socialism and Divergent Paths of Transition

In addition to the NIE and recent business/management applications of institution-based thinking, our paper also draws upon, and seeks to integrate insights from, a different body of work, namely the ‘comparative capitalism’ (CC) literature. The ‘varieties of capitalism’ (VOC) debate, originated by political economists (Amable, 2003; Hall and Soskice, 2001), is perhaps the most dominant approach to CC utilised in business and management literature today. This approach is instrumental not only in understanding differences in institutional structures across countries with capitalist economies (Hall and Soskice, 2001), but also the internal diversity within national contexts (Lane and Wood, 2009). A key feature of this literature is the notion of institutional complementarity. Hall and Soskice (2001, p17) state that “two institutions can be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other”. Lane and Wood (2009) further highlight that complementarity concerns not only formal structures, but also how these are enacted. The presence or absence of institutional complementarities highlights diversity in institutional frameworks between the different forms of market economies (Hall and Soskice, 2001). Notably, this work has delineated distinct and different national models of capitalisms among developed economies – e.g. Hall and Soskice’s (2001) division of liberal versus coordinated market capitalism. Thus, the CC literature usefully draws the attention of IB researchers to the complex and diverse “topography of institutional landscapes” (Jackson and Deeg, 2008, p541) and suggests the need to incorporate a more sophisticated and contextually-rich characterization of national institutional environments into IB studies (Michailova, 2011; Redding, 2005).

However, when it comes to considering the institutional environments of transition economies, the dominant CC literature is largely silent; there has been no empirical coverage of such countries. Also, critics have questioned the relevance and applicability of the established CC frameworks to transition economies (Myant and Drahokoupil, 2012). These authors observe that the CC literature tends to assume that institutional configurations are permanent or subject to only gradual change, whereas transition economies are, by definition, subject to institutional flux and uncertainty (*ibid*). Crucially, in the case of the former Soviet Union and especially the ‘transitional periphery’, it is observed that the transition process has not followed the once-anticipated linear progression towards Western models of capitalism; in fact, it remains unclear what type of capitalism these countries are moving towards (Havrylyshyn, 2006; Myant and Drahokoupil, 2012). Thus, as an off-shoot of, or alternative to, the mainstream CC literature discussed above, we can identify a distinct and emergent strand of work, dominated to date by political scientists and economic sociologists, that seeks to identify, classify and comprehend *varieties of capitalism in post-communist/transition countries* (Feldmann, 2006; Lane and Myant, 2007). A key argument of this literature is that the unprecedented process of transforming planned economies into well-functioning market economies has taken a distinct trajectory in each country, and one that is characterised by path dependence. Consequently, these *divergent paths of transition* (Havrylyshyn, 2006; Blackmon, 2007) have resulted in a, perhaps unanticipated, institutional diversity among the group of transition countries. Thus, borrowing from the CC approach, including its notion of institutional complementarity, authors in the ‘varieties of post-socialism’ strand have identified a number of different *emerging models of capitalism* in transition economies, including Lane’s (2007) three-fold typology comprising ‘state-led capitalism’ (Slovenia, Czech Republic, Poland, Hungary, Slovakia, Estonia, Lithuania, Latvia, Croatia, Romania and Bulgaria), ‘hybrid (state/uncoordinated) capitalism’ (Russia, Ukraine, Kazakhstan,

Georgia and Moldova), and the 'transition laggards' characterised by statist economies (Turkmenistan, Uzbekistan and Belarus). Similarly, Havrylyshyn (2006) identifies four *types of transition* currently prevailing in post-communist states - based on a wide range of political, economic and social indicators, such as degrees of democratization, privatization, openness of competition and centralisation of power – namely: 'liberal societies' (including all of the EU New Member States of the 2004 accession); 'intermediate regimes' (comprising Albania, Bosnia-Herzegovina, Macedonia, Serbia, Bulgaria and Romania); 'lagging reformers' (Belarus, Turkmenistan and Uzbekistan); and 'captured states' (Russia, Kazakhstan, Azerbaijan, Moldova, Armenia, Tajikistan, Georgia, Ukraine and Kyrgyzstan). The last three countries are said to have undergone significant evolution and are moving in the direction of intermediate regimes.

Though many of these countries continue to be collectively labeled as transition economies, and may be deemed to have similar political economies, the aforementioned literature usefully highlights to IB scholars the significant divergence that has taken place in the nature and direction of transition among the group. Further, we note that this diversity of transitions shapes the process of institutional development, and influences the specific type of market economic system that is being constructed, in particular countries (Myant and Drahokoupil, 2012). Whilst the IB research community has paid considerable attention to understanding the effects of institutional environments on IB activity in transition economies, it has not yet accommodated insights from the political science and sociological literatures in its analysis or explored the implications of the varieties of transition for IB activity. This observation is particularly noteworthy, given that comparative institutionalism was recently identified as one of the three main institutional approaches to IB (Hotho and Pedersen, 2012), alongside NIE (North, 1990; Williamson, 2000) and new organisational institutionalism

(DiMaggio and Powell, 1983; Scott, 1995). Hence, we seek to break new ground in our study by infusing insights from this divergent transition paths literature into our study.

3. Methodology

Our study adopts a qualitative case study approach to collect data from exporting SMEs in the cotton and textile industry of Tajikistan and Kyrgyzstan. The following paragraphs explain and justify the key methodological decisions made.

3.1 Case Study Design and Study Context

Our study adopts a qualitative case study approach, a well-established research strategy in the IB field (Ghauri, 2004), in view of the need to address 'how' and 'why' questions (Yin, 2003) and understand a contemporary phenomenon (SME internationalisation) within its real-life context (the national institutional environments). Contextual factors, which are often neglected in IB research (Michailova, 2011), were of central importance to our study and the case study approach allowed us to gain an in-depth understanding of complex institutional environments and expose various specific details that might have been overlooked using other research strategies (Sarantakos, 1998).

As indicated in the earlier literature discussion, any investigation of institutional environments in post-socialist countries – especially in the transitional periphery - requires due consideration of potentially complex and ambiguous informal constraints, as well as traditional formal rules (Meyer and Peng, 2005; North, 1997). The relevant stream of empirical research on informal institutions in transition economy contexts identifies a wide range of informal rules and practices that prevail across these

countries. They include relationship-based business (Bevan, et al., 2004); personal networks and connections (Aidis et al., 2008; Smallbone and Welter, 2001); familial networks (Estrin and Prevezer, 2010); traditions of 'blat', bribery and gift-giving (Ledeneva, 1998); clan ties and clan networks (Collins, 2006); and informal patronage (Collins, 2009; Estrin and Prevezer, 2010). Collins (2006; 2009) argues that the prevalence of informal connections and relationships, more commonly known as 'blat' and denoting informal exchange of favours often among clan members and networks of friends (Ledeneva, 1998), is particularly widespread in Central Asian countries, including Tajikistan and Kyrgyzstan. From a theoretical standpoint, these types of informal institutions are often highly important in governing economic activities in countries undergoing a comprehensive structural and institutional transformation of the formal sphere (Peng and Heath, 1996; Peng et. al. 2009). This suggests that informal institutions, which attract comparatively less attention in the business/management literature, are likely to have a profound effect on firm behaviour and performance (North, 1987; 1990).

We chose a comparative, qualitative, 'matched-pair' case study design, comprising two country institutional contexts with multiple embedded units of analysis (Yin, 2003), namely exporting SMEs (employing under 500 employees) in the cotton and textile industry of both countries (as depicted in Figure 1). The choice of cotton and textile industry reflects its status as a major sector for privately-owned, export-oriented SMEs in both countries (IFC, 2009; 2010). This comparative case design provided a supportive platform for cross-country analysis (Eisenhardt, 1989). The choice of Tajikistan and Kyrgyzstan as our two country (institutional) contexts reflects both our interest in extending IB research into the 'transitional periphery' and the need to examine countries that have experienced divergent transition paths. A key factor in the Tajik case was the civil war that afflicted the country in the earlier years following independence

(Heathershaw, 2009); this effectively delayed, and perhaps derailed, the start of the transition process. Additionally, Tajikistan has been traditionally included in the category of 'slow reformers' along with the likes of Belarus, Turkmenistan and Uzbekistan, and has been characterised by weak democratic institutions and high levels of centralisation (EBRD, 2002). Unlike Tajikistan, and its other Central Asian neighbours, Kyrgyzstan has followed a more liberal and more democratic path to transition (EBRD, 2013). The unprecedented political changes that followed the 'Tulip Revolution' of 2005 (Tudoroiu, 2007) strengthened commitment to further market reforms and engendered a more pluralist political culture. Thus, we observe clearly divergent paths of transition and apparently contrasting institutional environments in the two countries, which justified their selection as comparative cases. Even though both countries have been characterised as 'captured states' in some recent varieties of transition studies (Havrylyshyn, 2006), the foregoing account shows that they have actually experienced divergent transition paths since their independence in 1991. Various international organizations, indeed, rate Kyrgyzstan much more favourably than its neighbour in terms of business environment[‡].

< insert Figure 1 about here >

The need to focus our investigation on the home country institutional dimension also influenced our selection of a pair of countries that could be 'matched' on various other potentially significant dimensions. In Yin's (2003) terms, this amounts to a 'theoretical replication logic', and our country cases were chosen based on a theoretically-derived proposition that predicted contrasting results for anticipated reasons (i.e. because of institutional divergence under distinct transition paths). Hence, to 'hold many factors

[‡] For example, Kyrgyzstan's country rankings in the World Bank's 2013 overall "Ease of Doing Business" report was 70th (up from 90th in 2007) compared to Tajikistan's 141st (down from 133rd in 2007).

constant' (Buck et al., 2000, p286) and 'control' for possible industry effects we chose to study SMEs operating in the same industry in a pair of countries that were similar on a number of other dimensions: predominantly agricultural economies; significant cotton and textile sector - historically so for Tajikistan and more recently in Kyrgyzstan; similar geographical territories, population size, standards of living and levels of economic development. Above all, both were part of the Soviet Union for over 70 years and, following its dissolution, embarked on transition from quite similar starting points. The countries are similarly disadvantaged in several respects in terms of export potential: both are mountainous, landlocked and geographically remote from key international markets with poor internal infrastructure and international connectivity. The selective timeline of key events presented in Table 1, below, provides further background information on both countries, but also illustrates their divergent transition paths; see also Figure 2, on ERBD's transition indicators, which suggest a delayed, more gradual and less complete transition toward industrialized market economy standards in Tajikistan than in Kyrgyzstan.

< insert Table 1 and Figure 2 about here >

3.2 Data Collection Techniques and Sources of Evidence

Taking advantage of the flexibility of the case approach, we used data from multiple sources (Yin, 2003). We used secondary data from various reports and statistical series (published by international institutions like EBRD and the World Bank), as well as national government reports and legal documents (e.g. laws, presidential decrees) – particularly to inform our understanding of the institutional environments and chosen industry. However, we employed qualitative face-to-face interviews as our primary data collection technique (Yeung, 1995), since we sought to develop “a genuine

understanding of the world views of members of a social setting” (Bryman and Bell, 2007, p477). Specifically, as our primary embedded units of analysis were indigenous SME exporters, we interviewed owners/managers of such firms (16 in Tajikistan and 18 in Kyrgyzstan) to find out how they perceived and experienced their national formal and informal institutional environments and to explore how this impacted on their internationalisation prospects and competitiveness (Figure 1). In addition, reflecting Eisenhardt and Graebner’s (2007, p28) advice on “using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives”, we conducted a range of interviews with expert informants in each country (14 in Tajikistan and 10 in Kyrgyzstan), including industry specialists, legal experts, academics, consultants, senior government officials, and representatives of various national and international NGOs. Expert interviews, which are commonly used in social research, target individuals with a high degree of knowledge or insight in a certain domain, with the aim being to capture and reconstruct the expert’s understanding of a phenomenon (Bogner et al., 2009). Our expert interviews provided an informed, non-firm perspective on the institutional environment in both countries, an independent assessment of potential institutional constraints on SMEs and their internationalisation activities, and a further understanding of the cotton and textile industry. These additional insights complemented the assessments provided by SME owners/managers and secondary sources, allowing for triangulation of data (Yin, 2003), in order to minimize respondent bias and, in turn, increase the validity and reliability of our evidence (Ghauri and Gronhaug, 2002).

Cognisant of Ghauri and Gronhaug’s advice on the importance of giving adequate attention to sampling issues prior to field research in order to identify “the most relevant respondents”, we used purposive sampling (Ghauri and Gronhaug, 2002, p121) to select firms from several geographical regions and different stages of the cotton and

textile value chain, plus the aforementioned experts, in each country. Given our interest in IB activity, the key, theoretically-informed eligibility criteria for the former group were that firms be indigenous, export-oriented, privately-owned SMEs. Suitable firms were initially identified through official databases of registered firms held by the Ministries of Agriculture and Economy of both countries, with snowball sampling based on word-of-mouth and recommendations being used to expand the pool of respondents. A summary profile of the SME exporters in our sample is provided in Table 2. Following Eisenhardt's (1989, p454) "theoretical saturation" strategy, we identified the appropriate number of interviews as the point in data collection where new interviews added little or no new knowledge. This point was reached after 30 interviews in Tajikistan and 28 in Kyrgyzstan. Thus, 58 in-depth face-to-face interviews were conducted in all; these lasted 60 minutes on average.

< insert Table 2 about here >

Interviews were based around a topic guide informed by the literature, with specific questions relating to (a) formal institutions, (b) informal institutions, and (c) enforcement issues (after North, 1990) (see Appendix 1 for a selection of interview questions). Our qualitative approach sought to shed light on the ways in which firms experience or perceive specific aspects of their home country institutional environments and how these shape their behavior and impact their export performance. Interviews with SMEs also included introductory questions in order to obtain background information on companies and their key export destinations. Most interviews were conducted by one of the authors in the native languages of interviewees, which were mainly Russian and Tajik. On three occasions where interviews were conducted in the Kyrgyz language, an interpreter was required to translate conversations into Russian.

All interviews were digitally recorded and the recordings were later transcribed and translated into English by this author, who has proficiency in all three languages.

Conducting interviews in different languages is not uncommon in the field of IB. It is argued that conducting interviews in the native languages of interviewees helps establish rapport and can lead to “more authentic answers” (Welch and Piekkari, 2006, p425). However, a key challenge is that original meanings may be distorted during the translation process. Thus, important measures were taken to address translation issues. Firstly, nine pilot interviews were conducted to test the interview guide and enhance the formulation of research questions in the native languages of interviewees. Thus, elements of local terminology were incorporated, as for instance it was suggested to use Russian words of “blat” (refers to informal exchange of favours) and “krysha” (translates as roof or backer) if interviewees had difficulty in understanding the direct translation of informal connections and relationships. Secondly, we followed a two-stage process of analysing and comparing the transcripts in their original languages as well as in translation, as suggested by Welch and Piekkari (2006). To achieve this, interview recordings were first transcribed into their original languages and later translated into English transcripts with considerable care. This process was undertaken by the author who conducted the interviews to ensure consistency in the approach. Thirdly, four samples of English interview transcripts from each case study country were back-translated (Brislin, 1986) into their original languages by two professional interpreters. Discrepancies between the original and translated transcripts were examined.

3.3 Data Analysis

The analysis of data was conducted in two stages. First, to enhance the trustworthiness of research findings, transcribed interviews were organised and categorised in relevant

themes and topics, and coded using NVivo 9, as recommended by Sinkovics, Penz and Ghauri (2008). In line with our stated aims, the key sub-themes concerned the nature of the formal and informal institutions and the enforcement mechanism, and how and why certain aspects of the institutional environments influenced SME exporters; some coding nodes were based around themes from prior literature and theory, whereas others emerged from the data, following the inductive theory building approach advocated by Strauss and Corbin (1990) and Eisenhardt and Graebner (2007). The second stage of data analysis involved both within-case and cross-case analysis (Eisenhardt, 1989). These involved careful examination of key emerging sub-themes in order to understand similarities and differences in the institutional environments of the two countries and variations in how these impacted exporters in both countries. In keeping with the comparative case study design, cross-case analysis was deemed particularly important.

4. Analysis of findings

The comparative analysis undertaken in this section is based on data from interviews with SME exporters in Tajikistan and Kyrgyzstan, complemented with insights from targeted experts from both countries. As discussed earlier, North (1990) defines national institutional environments as comprising of three key components: (a) formal institutions; (b) the enforcement mechanism; (c) and informal institutions. Thus, to address our aims of exploring and illustrating how home country institutional environments influence SME exporters and examining if, and how, this influence differs between countries that have experienced divergent transition paths, we collected data relating to these three components. Here, we present our analysis of pertinent interview data in regard to these three main themes in turn:

- (a) perceptions of formal institutions, specifically the taxation system;
- (b) perceptions of enforcement of formal institutions;

(c) perceptions of informal institutions, specifically the prevalence and role of informal connections and relationships ('blat').

Table 3 summarizes the key findings from our comparative analysis of the two countries, under each of the three themes. Below we present and analyse a selection of the empirical evidence that underpins these headline findings.

< insert Table 3 about here >

4.1 The Perceptions of Formal Institutions (Specifically the Taxation System) in Tajikistan and Kyrgyzstan

Interview data from SME exporters credit Kyrgyzstan with a more conducive set of tax policies than Tajikistan. In particular, Kyrgyz firms in this industry typically incurred lower costs of compliance with tax legislation than their Tajik counterparts, with most of the latter reporting regular unannounced visits by apparently corrupt tax officials, intent on identifying errors and extracting unofficial payments:

“The tax inspector comes for an inspection, he sits and drinks tea with us, takes his share, and goes. He doesn't really inspect anything, because we know that if he does, he will most likely find something ... and fine us. So we have to give him his share for him to leave us alone. (Firm 16, Tajikistan).

Kyrgyzstan's taxation system was perceived by most of the firms and expert informants to be more predictable and less volatile than Tajikistan's, which translates into lower transaction costs for firms. The new patent law introduced in Kyrgyzstan in 2006 to reduce tax barriers for SME exporters in the cotton and textile industry, which has no equivalent in Tajikistan, exempts Kyrgyz SMEs from tax reporting and allows simplified tax payments. It was indicated that before the introduction of this law, 'indiscretions' (i.e. corrupt behaviour) were commonplace, similar to current reports from Tajikistan.

However, the introduction of the law reportedly reduced the number of visits by tax inspectors, as well as the level and frequency of unofficial payments made to them:

“Before it was different; a tax official would come and bluntly ask us to make official tax payments, as well as unofficial payments to him and to his superiors. But after they have introduced this patent system, it became much simpler and easier for us to work.” (Firm 12, Kyrgyzstan)

“Five-ten years ago the taxation system was a mess; informal costs were particularly high... But look around now, there are so many textile exporters like us in Bishkek alone, and this is because from a regulatory point of view it is no longer difficult to enter this industry...” (Firm 13, Kyrgyzstan)

In addition to reducing the level of informal payments made to tax officials, the above statements indicate that the patent law is considered by firms as a significant improvement in the regulatory environment that reduced tax-related barriers for entering the industry and had a positive influence on competition. To put this into perspective, while lack of competition and low level of competitiveness of firms in the industry, resulting partly from the uncondusive nature of tax legislation, was a recurrent finding in Tajikistan’s context, the opposite was true in the case of Kyrgyzstan. It is important to emphasise that these findings were corroborated and reinforced by similar views about the taxation system from expert informants in both countries:

“Our taxation system is an intimidation tool. It is disastrous for firms. It changes every year ... this all adds up to the price of products produced and exported by our firms.” (Senior Agribusiness Expert, Ministry of Agriculture; Expert 10, Tajikistan)

“Before the tax burden for such firms was significant... they were exposed to various inspections, whereas now they are not. The patent system made life considerably easier for exporters...” (Senior Advisor on Trade and Customs Issues, Ministry of Economic Regulations; Expert 2, Kyrgyzstan).

The presented evidence suggest that removing the powers of officials to conduct regular checks contributed significantly to downsizing the formerly excessive levels of bureaucracy. Further changes made to Kyrgyzstan’s tax legislation, which also included reducing the total number of taxes from 16 to 8 and the VAT rate from 20% to 12 %, clearly indicate the transition toward a more liberalised taxation policy that fosters

competition, encourages internationalisation, and features low level of state intervention in market activities of firms. Thus, informants in Kyrgyzstan regarded tax legislation as one of the better-reformed and relatively unproblematic formal institutions in the national context. In contrast, Tajikistan's tax legislation appears to be one of the most problematic components of the institutional environment, with informants characterizing its nature as "unsupportive" (Firm 7) and "excessively bureaucratic" (Firm 2) and its impact on SME exporters as "detrimental" (Firm 11) and "totally disastrous" (Firm 14). Evidence clearly points to a high level of state intervention and bureaucracy that result in high transaction costs for firms. This shows that Tajikistan's tax legislation is a relatively under-reformed formal institution.

4.2 The Perceptions of Enforcement of Formal Institutions in Tajikistan and Kyrgyzstan

While formal institutions constitute a key component of the national institutional environment, their enforcement is similarly critical. Our findings point to different enforcement regimes between the two countries, which also appear to result in different institutional constraints for SMEs. Interview data strongly suggests a lack of effective enforcement of certain formal rules in Tajikistan, which creates obstacles for exporters. In contrast, evidence from Kyrgyzstan suggests that institutions are generally more effectively enforced there. In particular, export procedures were found to be complex, inefficient and unreasonably costly in Tajikistan, with most of the interviewed exporters attributing difficulties they encountered not necessarily to laws themselves, but to their inappropriate implementation and administration:

"Obtaining export certificates is supposed to be easy... but in reality it is not that easy. And that's because our law enforcement is weak. Laws have been updated and improved many times, but things on the ground haven't really changed much..." (Firm 9, Tajikistan)

The above informant states that ineffective law enforcement results in certain difficulties in obtaining export-related certificates, which in turn leads to loss of time and increased costs of exporting. It is further indicated that despite some formal improvements in export regulations, ineffective enforcement of laws means that there is little progress made in properly implementing these regulations in practice. In contrast to Tajikistan, evidence from Kyrgyzstan did not suggest obtaining export-related documentation to be burdensome. Kyrgyz firms not only incur lower export-related costs, but also face fewer practical and regulatory barriers to exporting:

“...to some retailers we export ourselves, without intermediaries and it is not a big deal; as long as we have all the relevant export documents, there is no problem with exporting. To the contrary, our export conditions have really improved...” (Firm 14, Kyrgyzstan)

“The process of obtaining export certificates is not difficult at all; it has been simplified and we obtain them without any difficulties.... Before we used to wait up to a week for certificate of origin; now we get it in a day” (Firm 7, Kyrgyzstan)

Our analysis of some key reforms in the area of trade policy and customs administration together with the evidence from SME exporters and expert informants suggest that both countries adopted broadly similar regulations, yet appear to perform differently in relation to the actual implementation of these reforms. The most relevant example is the adoption of the so-called ‘Single Window’ reform, which is aimed at facilitating foreign trade by simplifying customs procedures and reducing inefficiencies and additional costs associated with exporting and importing. The reform was initiated in both countries in 2008 and is technically and financially supported by several international NGOs (Hornbrook and Kiseleva, 2011). However, while the project is well into its implementation phase in Kyrgyzstan, its progression is notably slower in Tajikistan, where it is still in formalisation phase. According to an international expert who works for one of the international NGOs which is involved in the implementation of this project in both countries, it is unlikely that the ‘Single Window’ reform in Tajikistan will be implemented at the same pace and with the same intensity as in Kyrgyzstan:

“This reform will not only be a significant money saver, but it will also cut corruption... Implementing the Single Window in Tajikistan however is more difficult because first there is a strong resistance from certain people in the government, and second there is a big lack of understanding and intellectual capacity to implement this idea.” (International Consultant on Trade Facilitation Issues, International NGO; Expert 4, Kyrgyzstan).

The following statement from an expert informant in Tajikistan, who heads a think-tank promoting free-market reforms, similarly confirms perception of many SME exporters on the variation between formal rules on paper and their implementation in practice:

“...one of the fundamental reasons our reforms produce little impact is because the mechanism of implementing new policies doesn’t really exist... these policies continue to remain on paper... our administration is not as reformist as it declares itself to be...” (Chairman, International Non-Profit Think-Tank; Expert 1, Tajikistan)

This evidence sheds important light on possible reasons for the poor implementation and administration of formal institutions in the context of Tajikistan. While the first informant points to the apparent existence of opposition from within the government to accelerate the implementation of the ‘Single Window’ reform, the second informant claims that the government altogether lacks a strong enforcement mechanism, as a result of which new laws and policies on paper produce little tangible progress in practice. This implies that while in Kyrgyzstan the institutional environment continues to advance, leading to enhanced market conditions for SME exporters, in Tajikistan such firms continue to operate and compete in an under-developed and somewhat stagnant environment with limited market conditions. The foregoing analysis reinforces the emerging argument that Tajikistan’s formal institutional framework is considerably less liberalised and under-reformed compared to Kyrgyzstan.

4.3 The Perceptions of Informal Institutions (Specifically the Prevalence and Role of Informal Connections and Relationships) in Tajikistan and Kyrgyzstan

Field evidence from the present study also points to markedly different perceptions of informal institutions between the interviewed SME exporters from the two study countries. Specifically, it emerged that personalised informal connections and relationships, commonly known in post-Soviet societies as 'blat' (Ledeneva, 1998), tend to have more decisive effect on local SMEs' export prospects and access to key resources in Tajikistan compared to Kyrgyzstan.

Cotton is considered the most important raw material for production and export of fibre, yarn, textiles and garments, and the cotton and textile industries in Tajikistan and Kyrgyzstan contain a growing number of export-oriented producers and suppliers. Internationalisation opportunities for these firms depend to a certain extent on securing access to key resources required to enter the industry and to export. Our interview evidence indicates that informal connections play an important role in securing access to raw cotton, circumventing bureaucratic hurdles to exporting, and protecting private property from racketeers and illegal raiders in Tajikistan, but less so in Kyrgyzstan:

"Competition is formally free. But informally this sector is controlled by a few powerful players, and unless you have connections to these players, it is simply not realistic to enter and become successful." (Firm 14, Tajikistan).

"Of course, the fact that my relative was at that position [senior government official] at the time helped us to start the business, to establish the supply of cotton and get some support... do you think we could survive for more than a decade without connections?..." (Firm 13, Tajikistan).

"If we were in Europe, perhaps this factory would have been established several years ago... It is sometimes the matter of who you know... So, of course these informal connections and relationships are important." (Firm 15, Tajikistan).

Tajik informants claimed that the various branches of the state continue to have an overwhelming influence on the production and distribution of cotton. In addition, it appears that a limited number of powerful established players, to whom the designation of "cotton barons" provided by Collins (2009, p269) seems to be appropriate, exercise a high degree of control on key decisions concerning the market entry, which suggests

certain oligarchic tendencies in the industry. Thus, according to the second informant, having strong informal ties to these established and influential players is essential for securing access to cotton and engaging in export-related activities. The third informant sheds further light on the role of informal connections by implying that the lack of such connections has possibly delayed the entry of the firm into the industry. In contrast, evidence from Kyrgyzstan suggests that informal connections played a similar major role in the past, but their importance has apparently diminished in recent years:

“...you don’t need informal connections... All you need is money. You need money to acquire equipment, to hire specialists and engineers, and to secure supply of raw cotton by providing incentives to cotton producers to cultivate cotton....” (Firm 8, Kyrgyzstan).

“I don’t think informal connections are important for entering and working in the textile sector. I know it from my own experience, because I have strong informal connections, but I didn’t need any connections to open my business...” (Firm 15, Kyrgyzstan).

Again, our findings were corroborated and reinforced by similar perceptions about informal connections from expert informants in both countries. Especially revealing is the statement by the Kyrgyz expert, who highlights the presence of oligarchic tendencies in the industry in the past, which resembles the current situation in Tajikistan:

“Local governments exert a lot of informal pressure on cotton producers, and unless you have strong connections who can influence local governments, you won’t be able to source the raw material you need... And without the raw material, you can’t export anything. It is a very simple mechanism!” (Cotton Industry Expert, International NGO; Expert 8, Tajikistan).

“Informal connections were very important a few years ago... especially during the Bakiev [former president] time when his relatives controlled the sector. But it has changed... What is important now is not your connections, but whether you can offer cotton producers the best price. Competition is relatively free now.” (Senior Agribusiness Expert, International NGO; Expert 8, Kyrgyzstan)

It appears that the informal institution of ‘blat’ is notably more prevalent in Tajikistan, while its prevalence appears to be diminishing in Kyrgyzstan. This means that firms with strong informal connections in Tajikistan, amongst many advantages, enjoy a privileged access to resources and a better protection of their property, while those

without such connections are disadvantaged and face tougher market conditions. This prevalence of informal arrangements fosters an uneven competitive environment and creates imperfections in the market mechanism, which can translate into adverse outcomes for local SMEs' export prospects and competitiveness. Informal institutions in Kyrgyzstan, however, seem less constraining. This stark difference appears to stem, at least partly, from the superior quality of formal institutions and the mechanism of their enforcement, and the more progressive and liberal nature of transition in Kyrgyzstan that creates a pro-market regulatory environment, encourages competition and discourages state intervention. As suggested by our interview data, this is also associated with recent political regime changes in Kyrgyzstan, which have led to greater transparency in the industry and the diminishing role of informal connections in accessing resources. This underlines how divergence in the political transformation translates into contrasting institutional barriers for SME exporters in the two countries.

5. Discussion, Conclusions and Implications

5.1 Formal Institutions and Divergent Transition Paths

Our analysis of formal institutions provide evidence of Kyrgyzstan's more advanced reforms in the area of tax legislation, which relative to Tajikistan's lack of corresponding reforms, indicates a divergence in the development of formal institutions and concomitant differing impact on SME exporters from both countries (Furubotn and Richter, 2000). This reflects North and Weingast's (1989) proposition that incentives constitute an important institutional mechanism through which governments influence the behaviour and performance of firms. In Kyrgyzstan's case, specific tax incentives seem to have not only reduced various inefficient transactions, but also increased opportunities for firms to enter the cotton and textile industry and engage in exporting.

In contrast, the Tajik evidence illustrates how a relatively weak and under-developed tax legislation, characterised by high tax rates, increased informal costs and unpredictable regulations, makes Tajik exporters less competitive and potentially less attractive in export markets (North, 1987; Peng and Heath, 1996).

The varied impact of formal institutions can be linked to differences in liberalisation policies. The literature on divergent transition paths emphasises that ‘intermediate states’ are characterised by greater liberalisation of formal institutions and the wider economic activity, which appears to fit the case of Kyrgyzstan, whereas ‘captured states’ demonstrate stagnancy in the process of liberalisation, often due to “self-interest of the political leadership” (Havrylyshyn, 2006, p62). Indeed, the case of Tajikistan appears to fit this well. This finding also highlights divergence between the two countries in the speed of institutional reform, with Kyrgyzstan demonstrating greater urgency in implementing market reforms compared to Tajikistan (as shown in Table 1). Our analysis, therefore, finds support for the argument that the extent and pace of the transition process matters for SME internationalisation. This evidence corroborates the literature on entrepreneurship and SME development in transition economies (Smallbone and Welter, 2001), which suggests that institutional environments in countries in early stages of transition tend to have a more constraining influence on entrepreneurship, whereas those in countries in later stages of transition tend to have a more supportive or enabling influence.

5.2 Enforcement of Formal Institutions and Institutional Complementarity

The new institutionalism emphasises that institutions facilitate fruitful economic exchanges and reduce transaction costs only when they are effectively implemented

(Furubotn and Richter, 2000). The observed divergence in the implementation of market reforms highlighted by our findings, not surprisingly, results in contrasting levels of institutional constraints for firms (North, 1990) from our focal countries. Contrary to Tajikistan's, the institutional environment in Kyrgyzstan exerts a more positive influence on SME exporters, by reducing transaction costs, removing certain regulatory barriers for cross border trade and providing incentives for indigenous firms to engage in exporting. Thus, our findings support Gao et al.'s (2010, p383) observation that "an improved institutional environment can foster a better overall business environment and facilitate firms' export behaviour", as well as Meyer's (2001) argument that well-designed and effectively implemented formal institutions not only reduce transaction costs for firms, but also signal an important progress in the process of institution building toward a market-based system.

Importantly, our findings on the enforcement of formal institutions resonate with the notion of institutional complementarity, which is widely discussed in the comparative capitalism literature. Institutions are considered complementary when the efficiency of one leads to increased returns of another (Hall and Soskice, 2001; Lane and Wood, 2009). Taking formal institutions and their enforcement mechanism as two complementary institutions, Kyrgyzstan would appear to show a higher degree of institutional complementarity in view of its notably stronger enforcement of formal institutions. Tajikistan, on the other hand, demonstrates lower degree of institutional complementarity given its distinctly weaker enforcement mechanism. This divergence in institutional complementarity has differing impact on the internationalisation activities of SMEs from the two study countries.

5.3 The Varying Significance of Informal Institutions

The IB and entrepreneurship literature on transition economies suggest that informal institutions tend to be more influential in countries with weak (i.e. poorly designed and ineffectively implemented) formal institutions (Meyer, 2001; Peng et al., 2009; Smallbone and Welter, 2012). The present study's evidence from Tajikistan's cotton and textile industry reinforces this literature, as informal arrangements play a particularly important role in organising economic activities and regulating transactions associated with the buying and selling of cotton. The resulting adverse impact on local SMEs' export prospects and competitiveness resonates with the new institutionalism view that the prevalence of informal arrangements restricts competition and creates imperfections in the market mechanism (Furubotn and Richter, 2000). National institutional frameworks can be effective where they consist of institutions that encourage competition and promote productivity-raising activities, but they can be constraining where they comprise institutions "that provide barriers to entry, encourage monopolistic restrictions, and impede the low-cost flow of information" (North, 1990, p64). While the first part of this statement seems more applicable to Kyrgyzstan, the second part appears particularly relevant to Tajikistan. The observed difference in the prevalence of informal institutions appears to reflect with the contrasting nature of political transformation in the two countries studied. 'Intermediate regimes' are characterised by a gradual move in the direction of liberal politics, whereas in 'captured states' the polity is effectively 'captured' and the power remains consolidated in the hands of a narrow political elite (Havrylyshyn, 2006). We tentatively suggest that the diminishing prevalence and role of informal practices in Kyrgyzstan can be linked to the constant political evolution (i.e. regime changes) and the gradual decline in economic and political oligarchy in that country. Conversely, the enduring pervasiveness of informal relationships and practices in Tajikistan appears to have been perpetuated by continuity in the political regime and established economic oligarchic systems. This finding aligns with the literature on divergent transition paths, which labels such economies also as

'clientelistic', characterized by patronage-based systems of informal relationships (Myant and Drahokoupil, 2010).

5.4 Conclusions

This paper has sought to (a) explore and illustrate how home country institutional environments influence the internationalisation prospects and competitiveness of indigenous SMEs from peripheral transition economies; and (b) examine if, and how, this institutional influence manifests itself differently in countries with divergent transition paths. Using a comparative, 'matched-pair' case study research design, focused on SME exporters in Tajikistan and Kyrgyzstan's cotton and textile industry, we found appreciable differences in the effects of national institutional environments on the internationalisation prospects and competitiveness of exporting SMEs from the two study countries. The institutional environment in Tajikistan - where the transition process has been slower, more fraught and less complete - is more adverse and constraining for SME exporters, whereas Kyrgyzstan's - where the transition began earlier and has made more progress - appears relatively benign and, in some cases, enabling for exporters. We attribute the observed differential impact, at least partly, to the two countries' divergent paths of institutional transition. This institutional diversity would seem to have resulted in tougher and milder institutional constraints for indigenous SME exporters in Tajikistan and Kyrgyzstan respectively.

5.5 Research Contributions

Our study contributes by extending scholarly debate on divergent paths of transition to the IB literature. Although this theme is emphasised in the varieties of transition literature, it has hitherto been largely unexplored, particularly empirically, in IB

research. Our study evidence, thus, represents an important step in addressing this research gap, and its dual country focus responds to Jackson and Deeg's (2008) recent call for a more comparative approach to the analysis of institutions within the field of IB. By integrating perspectives from new institutional economics and comparative capitalism, the study offers further understanding of the implications of institutional diversity on IB activity. Notably, it cautions against the tendency to attribute countries in the transitional periphery with homogenous institutional environments.

For institutional theory, specifically the Comparative Capitalism literature, our research makes two important contributions. First, it empirically extends the field to countries in the previously neglected transitional periphery. Second, it breaks new ground by demonstrating the particular relevance of the Varieties of Transition approach, as an alternative to the mainstream Varieties of Capitalism tradition, for analysing differences in the institutional environments of transition economies and explicating issues of institutional diversity between them. It further enriches the institution-based view of IB by offering evidence of how formal and informal institutions and the enforcement mechanism interact within national contexts to create specific incentives and barriers for internationalising SMEs.

Ours is also amongst the first studies to examine SME exporters from the former Soviet Republics of Central Asia. Thus, this research offers valuable insights into rarely investigated SME exporters from this region, whilst adding to the scant empirical literature on internationalisation of SMEs from transition economies (Filatotchev et al., 2001; Shirokova and Tsukanova 2013; Thai and Turkina, 2014). Furthermore, our qualitative case study methodology complements the quantitative approach adopted in recent studies examining the influence of formal and informal institutions on SME exporters from transition economies (LiPuma et al., 2011; Lu et al., 2009).

5.6 Managerial and Policy Implications

The contrasting outcomes achieved by SME exporters from the two study countries suggest a number of pertinent steps for leaders of businesses operating in weaker institutional environments such as Tajikistan. First is the need to activate industry or private sector-wide networks, where they do not currently exist, and to transform these into powerful platforms for engaging with and lobbying governments, international development partners and other stakeholders to facilitate improvements in their home country's institutional environments. As recent World Bank's (2013) Doing Business Report indicates, more formal institutional constraints such as the taxation and regulatory systems, and the enforcement thereof, could feasibly be ameliorated through such interventions. Culturally-embedded informal institutional constraints such as the prevalence of informal connections and payments are likely to be more intractable, but as the present study's Kyrgyz evidence and relevant theory (North, 1990) suggest, the strengthening of formal institutions often reduces the need for informal arrangements and vice versa. Second, in addition to collective lobbying and application of legitimate pressures, businesses operating in such challenging transition economies should strive to develop adaptive strategies and coping mechanisms for navigating through the various institutional barriers that might adversely affect their international market entry and success prospects.

Foreign businesses operating or aiming to enter such economies, probably for resource, strategic asset or efficiency seeking reasons, would do well also to adopt a mixture of the transformative and adaptive approaches recommended above. Larger multinational players with considerable bargaining power may be able to exert direct influence on host governments to mitigate formal institutional constraints, while less influential

enterprises may have to do so through the good offices of their home governments or international development partners. Foreign firms of whatever size should note that informal institutions may pose greater challenges to their businesses than formal institutions, and that they are likely to be well served by adaptive strategies, anchored on a sound understanding of the cultural underpinnings of prevalent informal institutions. Such knowledge, which can be facilitated through varying forms of strategic partnerships with local players, may enable the foreign company to develop coping mechanisms to neutralize, side-step or compensate for the more deleterious effects of informal institutional constraints.

In terms of policy implications, our study clearly indicates that governments seeking to encourage and support the emergence and growth of indigenous SME exporters need to give very serious consideration to the impact of prevailing domestic institutions on such firms. In 'institutionally-challenged' transition economies, governments should seek to upgrade and refine their formal rules, regulations and laws so as to minimize the barriers and constraints facing SME exporters and other businesses. In doing so, these governments should avail of the abundant support and expertise available from various international development-promoting organisations and learn from prior successes and failures elsewhere. Where reforms are adopted, governments will need to show demonstrable and sustained commitment to institutional reforms, and to match words and commitments with appropriate implementation. Our study has provided clear evidence that reforms to formal institutions on paper do not always guarantee favourable changes to firms' lived experience of institutional barriers and constraints 'on the ground'. Therefore, governments should give careful consideration to the practicability of any proposed institutional reforms, in terms of implementation and enforcement, during the design and planning stage. Our evidence also suggests the possibility of 'designing out' some opportunities for undesirable manifestations of

informal behavior – such as rent-seeking and corrupt practices on the part of ‘insider firms’ and various state officials – with beneficial effects on the lived experiences and business success of SME owners and managers. The Kyrgyz ‘Patent Law’ and Single Window reforms provide two such examples, where the simplification of regulations and enforcement procedures seems to have led to a reduction in constraints and a notable increase in new firm entry and export activity.

5.7 Limitations and Future Research

Qualitative case study research, such as ours, is often challenged on the issue of generalizability (Yin, 2003). We believe this study has produced some potentially generalizable theoretical contributions but the context-specific nature of our investigation and qualitative approach suggest the need for further research on our focal themes in other transition economies, and in other industry sectors, in order to confirm, refute, refine or extend the findings. There is also a need for more extensive, quantitative studies that examine the impact of various institutional factors on SME internationalisation across a wider basket of countries, and using more sophisticated measures of the institutional context, so as to complement the qualitative insights provided here. One particular issue that requires further examination is the relationship between formal and informal institutions, and how this changes over time and under different transition paths. Peng et al. (2009) have posited that informal constraints play a larger role in situations where formal constraints are unclear or fail, and argued that improvements in formal institutions during the transition towards a market economy – as in the case of China – may, over time, lead to a reduction in the significance of informal ways of doing business. We found some tentative support for this view in our Kyrgyz case but we are unsure if institutional reforms will ultimately see ingrained informal practices such as *blat* and bribery wither away in the Central Asian context.

Longitudinal case study research may offer the best avenue for exploring this question. Finally, the divergent transition paths concept that informed this study presents another avenue for future exploration by IB scholars, who may wish to explore the impact of this divergence on strategic behaviours of MNEs in different contexts. Country comparative studies, such as ours, can provide a suitable approach for these endeavours.

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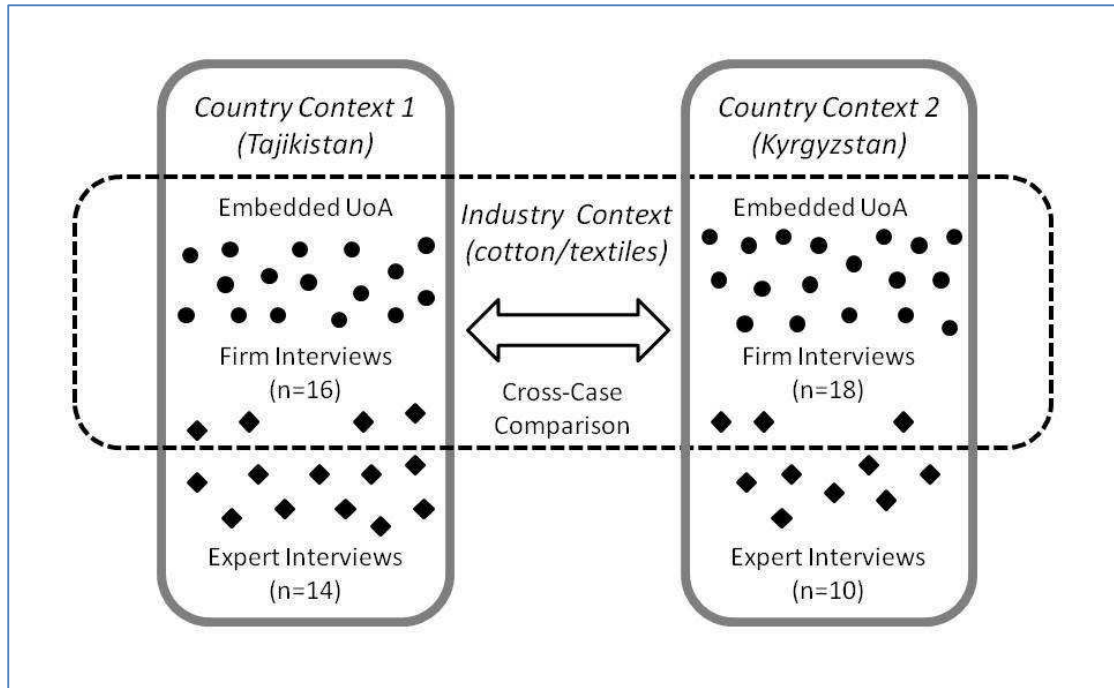
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Figure 1: Illustration of case study research design



Source: authors' own work

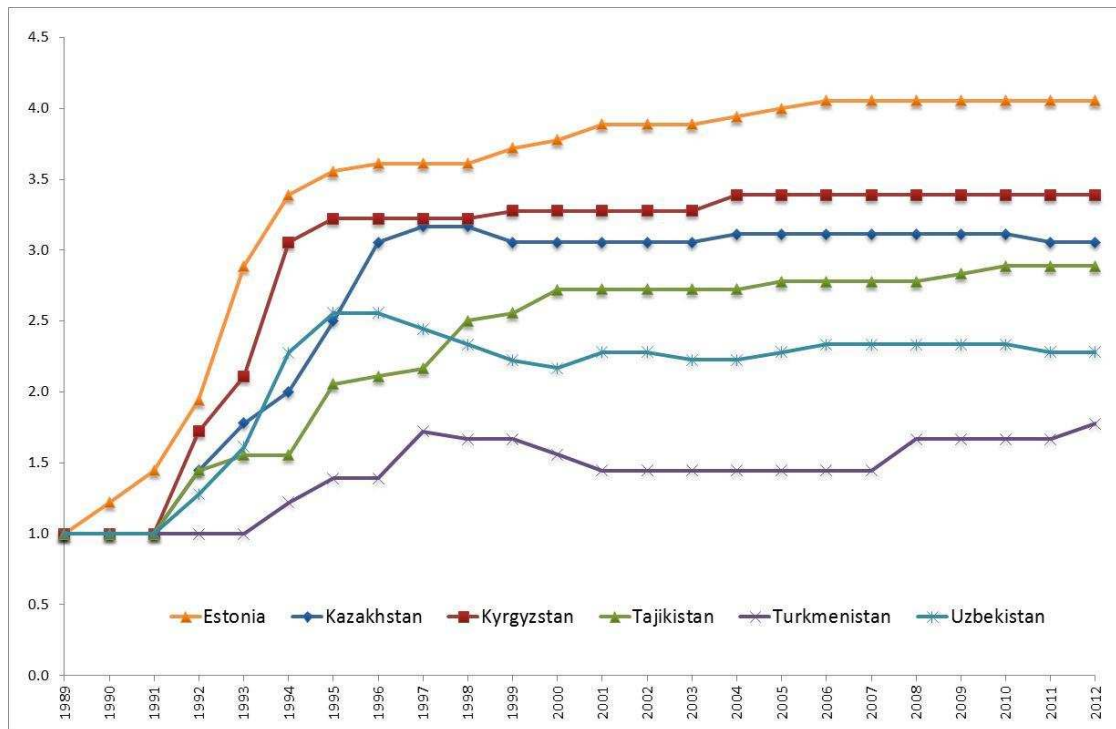
Table 1: Tajikistan’s and Kyrgyzstan’s divergent transition paths – selective timeline of key events in economic and political spheres

Year	Tajikistan	Kyrgyzstan
1991	Gains independence from USSR. Communist leader Rakhmon Nabiev becomes President.	Gains independence from USSR. Askar Akaev elected first president of independent Kyrgyzstan.
1992	Civil war breaks out. Rakhmon Nabiev resigns, replaced by Emomali Rakhmon.	Becomes first in Central Asia (CA) to adopt a comprehensive programme of market-oriented reforms.
1993	Worst years of hostilities. Government establishes control and suppresses opposition.	New constitutions passed. Becomes first CIS country to introduce its own currency.
1994	Emomali Rakhmon elected as first President of independent Tajikistan.	Progress made in liberalising prices and commercial activity, and in privatisation and denationalisation.
1995	War continues. Renewed fighting breaks out on Afghan border.	President Akaev re-elected for another 5 year term.
1997	Peace agreement achieved in Moscow between Government and United Tajik Opposition to end civil war.	Reform programme continues. Important progress made in establishing private property rights.
1998	Among various legislations, a new Tax Code is introduced.	Becomes first CIS country to gain membership of the WTO.
1999/ 2000	President Rakhmon re-elected for the second term.	President Akaev re-elected for the second term.
2002	Country described in EBRD (2002) as a ‘slow reformer’ with low levels of political competition.	Country described in EBRD (2002) as an ‘intermediate reformer’ with partially consolidated democracy.
2003	Referendum allows President Rakhmon to run for further two consecutive terms.	Public discontent toward the regime grows, amid claims of media control and increasing authoritarian rule.
2005	Revised Tax Code put into act, including more than 100 changes and containing 21 types of taxes.	‘Tulip Revolution’ overthrows Akaev regime, replaced by Kurmanbek Bakiev as second President.
2006	President Rakhmon re-elected for the third term.	Anti-government, pro-reform protests take place in the capital Bishkek.
2008	‘Single Window’ reform initiated, backed by several major NGOs .	‘Single Window’ reform initiated. Implementation begins same year.
2009	EBRD (2009) describes the	New Tax Code reduces types of

	implementation of market reforms as a potentially problematic area.	taxes from 16 to 8 and the VAT rate from 20% to 12%, lowest in CA.
2010	Begins the implementation of 'Single Window' reform.	President Bakiev ousted following popular uprising. Roza Otunbayeva, becomes third (interim) President.
2011	Revised Tax Code is proposed to the parliament for approval.	Elections held in accord with the new constitution; Almazbek Atambaev elected as fourth President.
2013	Gains membership of the WTO. President Rakhmon re-elected for the fourth time, until 2020.	Described in EBRD (2013) to have progressed 'faster and further' among CA states in adopting market reforms.

Source: authors' summary, based on various secondary sources.

Figure 2: EBRD transition indicators for 5 Central Asian countries (plus Estonia)



Note: The EBRD assesses progress in transition through a set of transition indicators. The measurement scale for the indicators ranges from 1 to 4+, where 1 represents little or no change from a rigid centrally planned economy and 4+ represents the standards of an industrialised market economy. The scores shown are a computed as a simple average of six EBRD indicators. The case of Estonia is included as a benchmark example, representing the most widely acclaimed and complete transition among former Soviet republics.

Source: authors' calculations based on EBRD transition indicators data <http://www.ebrd.com/pages/research/economics/data> (accessed 02/10/14).

Table 2: Profiles of Interviewed Tajik and Kyrgyz SME Exporters

S/N	Founded	No. of employees	Export markets	Interviewee position
Tajikistan				
Firm 1	2004	32	Russia	Owner
Firm 2	2000	30	Russia, Iran	Owner
Firm 3	1998	54	Russia	Owner
Firm 4	1997	80	Russia, Switzerland	Owner
Firm 5	1998	55	Russia, Iran	Owner
Firm 6	1970s, privatised 1998	121	Russia, Iran, Turkey, China, Germany	General Manager
Firm 7	2002	300	Russia, Switzerland, Iran, China	General Manager
Firm 8	1970s, privatised 1995	200	Russia	General Manager
Firm 9	2010	160	Turkey, Iran, Ukraine, Russia	General Manager
Firm 10	1980s, privatised 1995	180	Latvia, Russia, Switzerland, Iran	General Manager
Firm 11	1950s, privatised 2001	27	Russia, Ukraine, Iran	General Manager
Firm 12	1998	20	Latvia, Estonia, Italy	Owner
Firm 13	1990	15	Switzerland, Italy	Owner
Firm 14	1994	120	Russia, Switzerland	General Manager
Firm 15	2010	100	Russia, Italy, Latvia	General Manager
Firm 16	2009	140	Russia, Germany	General Manager
Kyrgyzstan				
Firm 1	2008	15	Russia	Owner
Firm 2	2007	24	Russia, Switzerland, Kazakhstan	Owner

Firm 3	2007	120	Russia, Kazakhstan	General Manager
Firm 4	1993	25	Russia	Owner
Firm 5	1997	30	Russia, Latvia	Owner
Firm 6	1960s, privatised 1996	240	Romania, Sweden, Russia	General Manager
Firm 7	1970s, privatised 1999	100	Russia, Turkey, China	General Manager
Firm 8	1998	160	Russia	General Manager
Firm 9	2004	190	Turkey, China, Russia, Sweden Iran	Owner
Firm 10	2008	60	Switzerland, Germany, Russia	Owner
Firm 11	2007	25	Turkey, Kazakhstan	Owner
Firm 12	1997	70	Russia, Kazakhstan, Belgium	General Manager
Firm 13	2004	50	Turkey, Germany, Russia	General Manager
Firm 14	2005	40	Russia, Kazakhstan	General Manager
Firm 15	1996	50	Russia, Kazakhstan, Belgium	General Manager
Firm 16	2006	30	Russia, Kazakhstan, Tajikistan	Owner
Firm 17	2000	110	Russia, Lithuania, Estonia, Latvia	General Manager
Firm 18	1996	60	Russia, Kazakhstan, Tajikistan	General Manager

Table 3: Comparative analysis of data highlighting divergences in institutions

Analytical themes	Tajikistan	Kyrgyzstan
Theme (a): Perceptions of formal institutions (as discussed in 4.1)		
Predictability and complexity of tax inspection regime	Tax rules change frequently; compliance is complex and costly	Recent changes have been positive; rules considerably less complex than before
Norms and practices of tax inspection regime	Unannounced visits and checks by inspectors is commonplace; unofficial payments made frequently	Unannounced visits and checks are infrequent; unofficial payments to inspectors are rare
Overall views about the taxation system	Largely negative	Largely positive
Theme (b): Perceptions of enforcement of formal institutions (as discussed in 4.2)		
Overall views about the enforcement mechanism	Enforcement of formal institutions is generally ineffective and sporadic	Enforcement is generally more effective and more consistent
Variation in institutional complementarity	Degree of complementarity between formal institutions and their enforcement mechanism is generally low	Degree of complementarity between formal institutions and their enforcement is notably higher
Theme (c): Perceptions of informal institutions (as discussed in 4.3)		
Role of informal connections for entering the industry	Important in entering cotton and textile sector	Unimportant in entering cotton and textile sector
Role of informal connections in facilitating exporting	Important in reducing bureaucratic hurdles associated with exporting	Unimportant in reducing bureaucratic hurdles associated with exporting
Role of informal connections in gaining privileged access to resources	Very important in obtaining land, state orders, and financial resources/loans	Notably less important in obtaining same resources
Role of informal connections in protecting private property rights	Having <i>krysha</i> (i.e. backer) is very important in protecting private property from racketeers and illegal raids	Having <i>krysha</i> is less important in protecting private property from racketeers and illegal raids

Appendix 1

Selection of interview questions

Formal institutions

- What is your assessment of the business environment in the country?
- Tell me about the main regulatory impediments faced by your firm.
- More specifically, how does the taxation system affect your export competitiveness? Can you elaborate?
- How many official/unofficial visits do you get annually from tax inspectors? How do you handle the pressure and potential disagreements with them?
- How challenging is the process of obtaining export related documentation? Tell me how long it takes to get certificates of origin, conformity, and phytosanitary.
- Have you experienced any tangible improvements in export procedures over the course of recent years?
- Are you satisfied with the nature and direction of reforms, particularly in the areas of taxation and foreign trade? Can you elaborate why?

Enforcement mechanism

- Tell me about the effectiveness of law enforcement in terms of protection of private property. Do you feel assured that your property is protected?
- How do you handle problems related to illegal raids and racketeering?
- How do you assess the effectiveness of business rules and regulations in practice? Do formal rules on paper function effectively in practice?
- How often do you experience problems, for instance delivery delays or informal costs, as a result weak enforcement of specific regulations?
- Do you observe any informal rules and practices that are enforced on exporting SMEs in addition or instead of official rules and regulations?

Informal institutions

- Tell me about the prevalence and role of informal relationships and connections in the business context in the country.
- How important is it to be well-connected, in terms of having *krysha* and *blat*, in order to enter this industry in particular?
- How important is it to have strong informal connections in order to obtain access to resources?
- Can you tell me about your personal experiences of informal connections, in terms of personal ties with influential officials or big industry players?
- Why do you think these informal institutions continue to dominate and influence economic activity/are becoming less dominant and influential in the economy?