

## Networking responses to different levels of institutional void

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**Networking responses to different levels of institutional void:  
A comparison of internationalizing SMEs in Egypt and the UK**

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**ABSTRACT**

This paper reports a comparative qualitative study of how decision-makers in internationalizing SMEs respond to relevant institutions in their domestic environment through networking activity. Twenty SMEs are compared respectively from a developing economy (Egypt) and a developed economy (UK). The two countries contrast both in the effectiveness of their institutional support for SMEs and in their cultural norms towards network relationships. Substantial differences are found between the two national samples in SME decision makers' networking behaviour in response to specific institutional conditions. The links between institutional conditions, national cultural norms and SME networking responses are explicated in a new theoretical model.

**Keywords:** Institutional voids, level of economic development, networks, SME internationalisation, emerging economies.

## INTRODUCTION

Although it is recognized that there are interdependencies between institutions and networks, the links between them remain under theorized (Owen-Smith & Powell, 2008). One link is manifest in the non-market strategies of firms by which they endeavour to secure the support of institutions, and even shape their policies, through networking processes such as lobbying, co-optation and relationship management (Mellahi, Frynas, Sun & Siegel, 2016). However, the examples studied have focused on large firms that have the resources and influence to engage the attention of institutional bodies and their officials (e.g. Frynas, Pigman & Mellahi, 2006; Hadjikhani, Elg & Ghauri, 2012; Child, Tse & Rodrigues, 2013). Smaller firms are likely to experience much greater power asymmetry vis-à-vis institutions and may therefore need to depend more heavily on the help of intermediaries, particularly in contexts where their rights to institutional access and support are limited (Child & Rodrigues, 2011).

Smaller firms tend to rely on external parties in order to secure information, resources and other support for strategic initiatives such as entering new foreign markets (Harris, Rae & Misner, 2012). The significance in this respect of institutions for internationalizing small firms has come to be recognized in recent years (Cheng & Yu, 2008). Government institutions promoting SME business development and foreign trade can offer critical assistance in furthering such initiatives (Wilkinson & Brouthers, 2006; Descotes, Walliser, Holzmuller & Guo, 2011; Makhmadshoev, Ibeh & Crone, 2015; Oparaocha, 2015). While there is a general need for more comparative investigation of how domestic institutional conditions affect the internationalization of firms (He & Cui, 2012), this applies particularly to the case of SMEs. Comparative research on the relation of institutions to SMEs, and on how SMEs respond to institutional conditions, promises to provide a fruitful basis for further theorizing.

Comparisons across countries suggest that their institutions can affect small firms in different ways and to varying degrees (Ciravegna, Lopez & Kundu, 2014; Kiss and Danis, 2010). In some countries they offer them financial and informational resources, while in others they provide little such support and even erect barriers in the way of business initiatives (Global Entrepreneurship Monitor 2014; World Bank, 2015). This distinction is reflected in two perspectives: the institutional support perspective and the institutional void perspective (Stephan, Uhlander & Stride, 2015). The institutional support perspective assumes that

governments and their agencies can effectively promote small business entrepreneurship through providing necessary resources, especially when these are made accessible under the terms of clear universalistic rules. The institutional void perspective by contrast implies that not only can there be a lack of institutional support for entrepreneurship, but that inadequate institutional rules and their weak enforcement can generate uncertainty, inhibit participation in markets and limit growth (Mair & Marti, 2009; Khanna & Palepu, 2010). Institutional voids often manifest as ‘gaps between formal rules and norms, and their enforcement in daily practice’ (Rodrigues, 2013, p. 14).

SMEs seeking to internationalize may depend on domestic institutions to provide financial assistance and/or market information, or for securing relevant business licenses. The literature has to date generally focused on the institutional context as a given external factor and hardly examined the use by SMEs of initiatives to overcome deficiencies inherent in that external context (Tracey & Phillips, 2011). Also, there has been relatively little research on *how* SMEs try to cope with specific institutional voids, especially in developing countries (Bruton, Ahlstrom & Obloj, 2008). Coping behaviour includes ways in which SMEs may seek to adapt to, or compensate for, institutional voids by seeking support through networking (Ellis, 2011; Musteen, Datta & Butts, 2014; Su, Xie & Wang, 2015).

The primary aim of this paper is to develop a theoretical model of networking by internationalizing SMEs in the light of domestic institutional conditions and cultures. The model is informed both by extant literature and by an exploratory empirical investigation that compares SMEs located in a developing country context (Egypt) and a developed one (UK). These two countries contrast in their general level of institutional development and specifically with regarding agencies officially promoting SME internationalization. Two forms of institutional void among such agencies will be apparent, especially in Egypt. These respectively concern the quality of formal support schemes and the ease of access to them. We adopt an agentic view of the relations between SMEs and domestic institutions. In institutional theory, this view maintains that while institutions establish certain conditions for organizations, decision-makers in those organizations have the ability to adapt purposively to such conditions (Boxenbaum & Jonsson, 2008). The accounts and interpretations of SME decision-makers themselves are therefore used as sources which offer insights into how their networking is both a response to institutional voids and is also culturally-influenced. It is important to stress that the empirical evidence offered by the paper is exploratory and

qualitative, and intended to inform a process of theory development rather than to be used for theory-testing. Its concentration on SMEs promises to provide a well-defined ground for the study of how institutional characteristics relate to firm behaviour. As already noted, a common attribute of SMEs is that they are likely to be dependent on, or at least highly welcoming of, institutional support. Secondly, the focus on internationalization serves to identify a specific set of public institutions that have the formal mission of promoting exporting.

In addition to advancing a theoretical framework, the paper adds to knowledge in other more specific ways. It elaborates the concept of institutional void by taking account of deficiencies both in terms of technical inadequacies and of dysfunctional social behaviour. It shows that this distinction is significant for understanding the responses of SME entrepreneurs as institutional clients. Second, it reports one of the few studies to demonstrate that the networking of small business entrepreneurs is influenced by their experiences of the institutions established to assist their international business objectives. This extends our understanding of SME networking behaviour. Third, its empirical investigation includes Egypt which is a relatively under-researched economy in the international business and entrepreneurship literature. Fourth, the paper illustrates that differences in national development and cultures are associated with contrasts in institutional behaviour as well as in the responses of SME decision-makers. This illuminates the need to incorporate both cultural and economic perspectives in international business research as well as multiple (country context and firm) levels of analysis.

The following section draws from the literature and documented sources to identify the relevance of domestic institutions for internationalizing SMEs and how they contrast between Egypt and the UK. The question of culturally-informed networking responses to institutional conditions is then considered. This is followed by an explanation of the methodology of the empirical investigation. While the national comparisons rely on secondary data, evidence on networking by SME decision-makers and how they account for it, draws upon primary data provided by the actors themselves. The discussion analyses the findings leading to the development of a theoretical model. We conclude with implications, limitations and lines of further research.

## **INSTITUTIONS AND SMEs**

### **Significance of institutions for SMEs**

SMEs seeking to engage in international business can benefit from domestic institutional resource-provision in terms of furnishing information on foreign markets and the conditions for doing business in them, as well as providing financial support for participating in trade missions, for making contacts in foreign markets, and for underwriting payment risks (Francis & Collins-Dodd, 2004; Wilkinson & Brouthers, 2006). Information on foreign markets and financial aid for new market entry are among the most significant of such resources to support foreign transactions (Liesch & Knight, 1999; Brouthers, Nakos, Hadjimarcou & Brouthers, 2009). Unless SMEs can secure alternative sources of these resources, through for example forming partnerships with MNEs (Das, 2015), they are liable to be dependent on institutions for key resources assisting their internationalization. Additionally, in some countries institutional approval is required for firms to engage in certain categories of foreign business. This means that they have a critical resource dependency on particular institutions (Pfeffer & Salancik, 1978; Casciaro & Piskorski, 2005). Certification by international standards authorities can also assist exporting, especially by developing economy firms (Goedhuys & Sleuwaegen, 2016). If institutional support is deficient in quality, or is withheld, SMEs seeking to export may be disadvantaged. Furthermore, institutions may act dysfunctionally for internationalizing SMEs by, for instance, operating corruptly or imposing restrictions on access to their services. Voids in this institutional sector can therefore arise from two factors: institutions' technical inadequacies and the imposition of negative informal conditions on their support.

The extent of such voids is expected to vary as between developed and developing economies. A relationship between levels of institutional and economic development has been noted for some time (Acemoglu, 2010; Chang, 2011; Castellacci, 2015). SMEs located in developing economies tend to suffer from relatively weak institutional contexts, in which the enactment of laws and regulations is inefficient, corruption and bureaucracy tend to be prevalent, and supporting educational systems and infrastructures are limited (Mesquita & Lazzarini, 2008). The institutional environment of less-developed countries is likely to be problematic for firms, because its immaturity creates uncertainty and adds to transaction costs (Farashahi & Hafsi, 2009; Chrysostome & Molz, 2014; Silvestre, 2015). Even emerging

economies, so-called because they combine high rates of growth with moves to reform their market and other institutions (Hoskisson, Eden, Lau & Wright, 2000), offer lower levels of institutional support to firms than is typical of developed economies, and have business environments that are less stabilized by universalistic rules (Peng, Wang & Jiang, 2008; Meyer, Estrin, Bhaumik & Peng, 2009).

The contrast between developed and developing economies suggests that the former are characterized to a greater degree by ‘hard institutions’, whereas in the latter ‘soft institutions’ are more salient. Hard institutions are manifest in legal and other formal rules, akin to what have been called ‘formal’ institutions. By contrast, soft institutions manifest themselves in social and cultural norms, and traditional customary practices – akin to so-called ‘informal’ institutions (North, 1990; Thelen & Steinmo, 1992; Helmke & Levitsky, 2004). Soft institutions are culturally informed and may serve up to a point to compensate for gaps in, or failure to apply, hard institutional provisions (Tully, 1995; Xin & Pearce, 1996; Wiener, 2006).

A comparison between Egypt and the UK serves to illustrate the developing/developed economy contrast in institutional provisions to facilitate SME internationalization. According to the World Bank (2013) country classification, Egypt is a low-middle income developing economy, while the UK is a high income developed economy. A FTSE report in 2010 classified Egypt as a secondary emerging economy, and the UK as a developed economy. Egypt’s per capital income in 2010 was US\$ 2,804 while that of the UK was US\$ 36,573 (World Bank, 2014). There is a clear contrast in the two countries’ levels of development, and this is accompanied by a parallel contrast in the extent to which they exhibit institutional voids.<sup>1</sup>

The indicators set out in Table 1 consistently show Egypt having significantly more institutional voids relevant to business than the UK. The first two indicators adopt the criteria of institutional voids suggested by Rodrigues (2013), namely the extent of open government and regulatory enforcement. Scores from the World Justice Project’s Rule of Law Index (Agrast, Botero, Martinez, Ponce & Pratt, 2013), indicate that Egypt was considerably lower on both criteria than the UK. Egypt also scored much lower for absence of corruption

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<sup>1</sup> Where possible data refer to 2010, the year immediately preceding the 2011 revolution in Egypt, which matches the timing of the first round of our data collection.



according to Transparency International’s comparative index. Data from the World Economic Forum’s Executive Opinion Survey rated Egypt as a consistently less favourable business environment than the UK regarding diversion of public funds, irregular payments and bribes, favouritism in decisions of government officials, and transparency of government policymaking. Finally, Egypt scored low on the presence of government programmes at national and regional level to support new and growing firms. Coping with government bureaucracy and regulations are obstacles facing SMEs in Egypt, while difficulties are also reported with obtaining permits and licences. In 2010 Egypt occupied the 41<sup>st</sup> rank in terms of the efficiency of government support programmes compared to the 20<sup>th</sup> rank occupied by the UK (GEM, 2010). After the recent revolution, Egypt was ranked 52<sup>nd</sup> in terms of the efficiency of government support and relevance compared to the 19<sup>th</sup> rank held by the UK (GEM, 2015). Overall, Egypt has had a greater incidence of institutional voids both in terms of technical competence and in terms of negative informal practices.

**Table 1. Contrasts in Institutional Voids between Egypt and the UK**

Indicator and source	Egypt	UK
Open government <sup>2</sup> <i>World Justice Project’s Rule of Law Index</i> (Agrast et al., 2013)	0.48	0.78
Regulatory enforcement <sup>2</sup> (Agrast et al., 2013)	0.42	0.79
International Corruption Index 2010: Score for absence of corruption (range 10 to 0) among 178 countries (Transparency International 2010, <a href="http://www.transparency.org/cpi2010/results#CountryResults">http://www.transparency.org/cpi2010/results#CountryResults</a> )	3.1	7.6
World Economic Forum Executive Opinion Survey 2011. ( <i>World Economic Forum 2011, Global Competitiveness Report 2011-2012</i> Indicators derived from the Executive Opinion Survey are expressed as scores on a 1–7 scale, with 7 being the most desirable outcome: Diversion of public funds Irregular payments and bribes Favouritism in decisions of government officials Transparency of government policymaking	2.8 3.8 2.6 3.8	5.7 5.9 4.3 5.2
The contribution of government programmes to entrepreneurship support: rank out of 53 countries 2010. From National Experts Survey ( <i>Global Entrepreneurship Monitor, 2010</i> ).	41 <sup>st</sup>	20 <sup>th</sup>

<sup>2</sup> Data are for 2012. Earlier information was not available for Egypt. The index is constructed so that 1=the highest possible score and 0=the lowest. ‘Open government’ is assessed by three indicators reflecting whether laws are publicised, stable and accessible. ‘Regulatory enforcement’ is assessed by three indicators indicating whether regulations are enforced effectively, without improper influence and unreasonable delay.



In Egypt there were three government agencies that officially offered support for SME internationalization (GEM, 2010). The Social Fund for Development [SFD] had helped SMEs in the late 1990s, when it offered loans to firms with simple requirements, sponsored them to attend foreign and domestic trade fairs and even provided incubator services for software companies. However, the SFD management changed and began to impose conditions that made it difficult for companies to obtain loans. It also became a legal requirement that if an SME were to get support from the SFD, it had to apply for a loan first. After the revolution, the Egyptian economy depended to a great extent on foreign aid, subsidies and loans from the European Bank, World Bank and grants from rich Arabic countries. Those grants especially from the World Bank and European Bank focused mainly on offering support to SMEs in the form of services rather than loans and they also met the salaries of the SFD staff. The other two agencies were the Industrial Marketing Centre [IMC] and Expo-link. The IMC and Expo-link differed from the SFD in that they were sponsored by foreign aid sources such as the EU and Japan. However, the majority of their managers were Egyptian, with a few foreign donor representatives. They targeted certain sectors and industries, and offered financial assistance towards the cost of international certifications, foreign trade fairs, and the like. In principle, Egyptian embassies abroad could also assist internationalizing SMEs, but none of those studied reported that they had received any help from this source.

In the UK, UK Trade and Investment [UKTI]<sup>3</sup> was the government funded agency with the mission to promote foreign trade and inward investment. It supported various schemes which were typically run by local chambers of commerce (UKTI, 2011). The UKTI also had responsibility for commercial staff in UK embassies abroad who often provided considerable assistance to SMEs seeking to enter the local foreign market. The UKTI provided SMEs with access to information, advice from international trade advisors and other staff based both in the UK and in foreign consulates and embassies, help in identifying business leads in foreign markets, sources of funding available for SMEs to participate in trade fairs, and other financial assistance programmes. UKTI advice was mainly directed at new exporters but some was also given to established and experienced exporters.

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<sup>3</sup> Since July 2016, UKTI has been replaced by Department for International Trade [DIT].

### **Networking, institutional contexts and cultural effects**

The presence of institutional voids can lead to the marginalization, even exclusion, of relatively powerless actors such as SMEs (Mair, Martí & Ventresca, 2012). Small firms are likely to have to rely on the mediation of local partners and other network contacts to cope with this situation (Child & Rodrigues, 2011). Networking is expected to be particularly critical for smaller firms in developing economies that have high external dependency on problematic institutions (Senik, Scott-Ladd & Entekin, 2011). The network perspective has come to be emphasized in analyses of the internationalization process. Johanson & Vahlne (2009) argue that 'insidership' in relevant networks is a prerequisite for successful internationalization. In view of their vulnerabilities and/or newness, networking benefits are likely to be especially significant to internationalizing SMEs (Bell, Crick & Young, 2004; Wincent, 2005; Coviello, 2006).

There is evidence suggesting that when institutional voids are present in a country, forms of networking and other adaptive behaviour are more likely to reflect national cultural norms (Chakrabarty, 2009). In developing countries with immature formal institutions, SMEs need to rely on strong particularistic ties to facilitate their internationalization (Kiss & Danis, 2008). Many developing economies are characterized by collectivist and particularistic cultures in which strong cohesive relationships are valued and favoured (Hofstede, 2001; Nardon & Steers, 2009). These strong ties are characterised by a high frequency of social interaction, and are sources of resources that help SME leaders to solve problems (Granovetter, 1973; Woolcock, 1998; Hansen, 1995; Jack, 2005). They link SME leaders to 'other social circles' that provide them with important resources and information (Jack, 2005: 1247). This implies that entrepreneurs from such countries will tend to compensate for institutional voids by relying on their personal relationships (strong social ties) in dense networks to access resources, information and necessary help (Uzzi, 1997; Miller et al., 2009; Kiss and Danis, 2010). The greater incidence of institutional voids in Egypt, particularly a lack of transparency in formal institutional procedures, is expected to encourage SME decision-makers in that country to resort to informal networking as a means of securing institutional support and reducing business uncertainties (Miller, Lee, Chang & Le Breton-Miller, 2009).

By contrast, the securing of institutional support in developed economies does not need to rely so much on establishing special connections or informal practices, and indeed such

behaviours may not be regarded as legitimate in cultures characterized by norms of universalism and individualism (Hofstede, 2001; Nardon & Steers, 2009; Ronen & Shenkar, 2013). These norms emphasize adherence to general rules and place limited value on particularistic socially-supportive relationships (Dodd & Patra, 2002; House et al, 2004). SMEs from developed economies such as the UK are embedded in contexts well-endowed with the physical and information resources that are crucial for doing business in foreign markets. They generally have a relative abundance of the resources that their decision-makers need to undertake successful internationalization (Covin & Miller, 2013). These economies not only have institutional provisions for supporting SME internationalization, but formalized and transparent procedures are in place for accessing such provisions. Such procedures are consistent with their more universalistic cultural norms. Their SME decision-makers are also able to sign up to, and rely on, formal means of transaction governance – especially contractual agreements – when dealing with external parties in their home environment where the legal enforcement of contracts is generally more reliable. Consequently, they are less likely to have to rely on informal networking with officials, either directly or through the agency of ‘brokers’, in order to secure the support they require for internationalization (Peng, 2003). Moreover, in developed economies, more information is likely to be publicly available or accessible through weaker external links. These external links are usually weak ties characterised by a low frequency of focused interaction, and they provide an opportunity to access a diverse set of resources and information (Burt, 1992; 2005). They are mainly contractually-based with the parties meeting only to discuss business-related matters (Granovetter, 1973; Woolcock, 1998).

There are specific contrasts in the cultural traditions of Egypt and the UK which may be expected to reinforce differences in the networking behaviour of SMEs in relation to relevant institutions. Whereas cultural scores for the UK tend towards universalism, individualism and low uncertainty avoidance, the cluster of Arab countries to which Egypt belongs tend toward high particularism, collectivism and uncertainty avoidance (Hofstede 2001, Nardon & Steers, 2009).<sup>4</sup> The relatively few studies of Egyptian culture emphasize sensitivity to personal relationships including the duty of friends to perform favours (i.e. particularism) (e.g. Ezzat, 2003; Leila, Yassin & Palmer, 1985; Nydell, 2012, Ralston, Egri, Riddle, Butt, Dalgic & Brock, 2012; Youssef, 1994). In Egypt, the term *wasta* refers to, ‘who I know’, through

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<sup>4</sup> As the study by Ralston et al. (2012) found, there is nevertheless a degree of heterogeneity within the so-called ‘Arab cluster’.

whom ‘I can pull some strings’ and ‘who can I consult’, within my family and friends’ social networks, in order to help me find my way through an issue (Smith, Huang, Harb & Torres, 2012). The higher score for collectivism in Egypt suggests that, compared to their counterparts in the UK, the heads of Egyptian SMEs are more likely to engage with dense networks composed of strong and long-term ties. This, together with their tendency toward particularism, implies that they will draw heavily on friends, family, colleagues and long-term acquaintances to gain access to information and resources and to solve problems encountered as a result of institutional voids. The greater valence given to particularism in Egyptian culture also implies an expectation that institutional rules and procedures will not be applied equally to everyone and that cultivating a special relationship with officials is necessary and normal. This is consistent with the use of *Wasta* in terms of finding someone in a high position to get things done faster and even to obtain approvals (Hutchings & Weir, 2006). The relatively high incidence of uncertainty avoidance in Egypt implies a reluctance to rely on weaker impersonal ties rather than those which have a strong trust basis. By contrast, culture scores for the UK suggest that decision-makers there will rely less on private social networks to reduce uncertainties about expanding abroad, and that in their dealings with institutions they expect to be treated the same as everyone else on a standard and transparent basis (Hofstede 2001, Nardon & Steers, 2009).

The salient features of the Egyptian and UK institutional and cultural contexts are therefore expected to reinforce each other in encouraging contrasting uses of network attachments to assist internationalization (Covin & Miller, 2013). This argument associates both the conduct of institutions and how citizens cope with institutional voids with cultural norms of behaviour. The relationship between national cultures and levels of national institutional development has been subject to considerable debate, and it remains an open question as to how much, and under what circumstances, institutions shape cultures and vice versa (Child, 2000; Alesina & Giuliano, 2013). It has been argued that economic development is associated with both cultural evolution and institutional development (Inglehart & Welzel, 2005). There is, however, general agreement that national institutions and cultures are mutually informative and supportive (Hitt, Franklin & Zhu, 2006). Indeed, the two concepts are elided in the hard-soft institution duality in which cultural norms and orientations can be regarded as equivalent to respectively the normative and cognitive pillars of institutions (Scott, 2014). Cultures are ‘carriers’ of institutional norms and values (Scott, 2008), while institutions are bearers and embodiments of cultures (Leung & Ang, 2009). Culture shapes subjective

expectations regarding habituated behaviour, and institutions embody and reproduce its manifest characteristics (Berger & Luckmann, 1967). This common element is captured by Bourdieu's (1990) concept of 'habitus': a system of durable, transposable dispositions which are both structured and structuring. In other words, although cultures are ultimately subjective and difficult to assess social phenomena, it is reasonable to assume that when comparing different countries both the behaviour of institutional officials and the ways in which citizens interpret and respond to such behaviour will tend to reflect cultural norms. Of present relevance is the possibility that in the presence of institutional voids, especially weak rules and procedures, cultural norms provide points of reference for coping behaviour to fill the gaps.

## **SCOPE AND METHOD**

### **Sample**

The main objective of this paper is to develop an empirically-informed theoretical framework that proposes how institutional characteristics in different national contexts lead to patterns of SME networking. The empirical contribution to developing the framework necessitated a research design that allows for an in-depth and holistic understanding of a complex social phenomenon and 'uncovering of the predominance of actors' experiences' (Yin, 2009; Bluhm, Harman, Lee and Mitchell, 2010:5). We employ a qualitative multiple case study design to provide a contextualised insight into 'how' and 'why' SME leaders respond to institutional voids through networking (Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011). To assist theory-building, we aimed to have a sufficient number of cases to identify recurrent patterns and the contrasting circumstances in which such patterns were evident (Lamb, Sandberg & Liesch, 2011). The research setting involved well-established internationalising SMEs located in two contexts that contrast in their level of economic and institutional development. This setting offers several advantages. It provides a strong basis for comparing the nature of institutional support as well as SME decision-makers' networking responses to institutional voids and dysfunctionalities. Secondly, both countries exhibit cultural differences which may inform the networking behaviours of SMEs.

The study covered 20 Egyptian and 20 UK SMEs, all companies of over ten years standing. Both samples were similarly distributed between manufacturing and service companies.

Fifteen of the Egyptian SMEs were manufacturing and five were service; sixteen of the UK SMEs were manufacturing and four were service. They had all been operating in international markets for at least six years. We conducted two rounds of data collection. The first round involved a visit to each firm for a personal interview with its founder and/or the manager responsible for its international business development (the ‘decision-maker’). These visits took place in each country during the period 2009-2011 and involved 54 interviews. Since this was shortly before the start of the 2011 Egyptian revolution, we also in 2016 conducted a second round of data collection in half (10) of the Egyptian SMEs to assess whether our initial findings for Egypt remained valid in the post-revolution situation.<sup>5</sup> Table 2 provides an overview of the cases at the time of the first round.

**Table 2. Descriptive statistics and overview of the cases**

		Age of the firm (years)	Number of employees	Age at first internationalisation (years)	Percentage of foreign sales	Number of overseas markets
UK cases (N=20)	Mean	38	71	9	58	22
	Standard deviation	28	96	15	35	20
Egyptian cases (N=20)	Mean	17	74	5	51	9
	Standard deviation	4.8	63	4.4	28	2.8

### **Data collection**

We relied primarily on qualitative data from in-depth semi-structured interviews with SME decision makers and representatives from governmental supporting agencies. In addition, emails and phone calls were used to ensure that the selected cases matched the sampling criteria and to clarify inconsistencies, while reference was made to archival data such as company websites, business publications, newspaper clippings, annual reports, project biographies and databases, company’s promotional materials and the publications and reports of support agencies.

<sup>5</sup> The other Egyptian SMEs visited before the revolution had either ceased trading or exporting. It should be noted, however, that it is the contrasts between Egypt and the UK prior to 2011 that provide the empirical basis for subsequent theory-building.



The interviews were conducted by the first author who is an Arabic native speaker and who is also fluent in English. Egyptian interviews were carried out in Arabic and then translated into English. To check the reliability of the translation, three transcripts were back-translated from English to Arabic by a professional bilingual translator/editor. A total of 64 semi-structured interviews were conducted in the two countries during both rounds of data collection. Since in most of the SMEs, decisions on internationalization and relations with agencies were taken by one person, it was only appropriate to interview additional informants in a few firms. Each interview lasted on average between one and half to two hours, typically producing 20 pages of single-spaced transcript based on structured open-ended questioning. Sixty of the interviews were tape recorded.

The interviews covered the dealings of SME decision makers with domestic institutional agencies relevant to their internationalization, the extent to which they encountered institutional voids, the networking they initiated with those institutions and other parties who played a crucial for their internationalisation, and its perceived benefits and costs. Respondents were encouraged to give reasons for decisions taken on international initiatives and networking, as well as their interpretation of the situation that had informed the decisions. Four additional interviews were also conducted with trade advisors and managers of governmental supporting agencies in the UK and Egypt in order to understand the type of support these supporting agencies offer to SMEs and the criteria through which SMEs become eligible for different types of support.

### **Data preparation and analysis**

After writing up each case individually, material from the transcripts was classified with respect to issues involved in relations with institutions and characteristics of the SME's networking. The classification was replicated independently by another researcher and there was 91 percent overall agreement. Instances of disagreement were resolved through discussion. As a further check, feedback on these findings was provided to three of the Egyptian interviewees and two of the UK ones to confirm that they matched their experiences, and they suggested no changes.

The SMEs' experiences with domestic institutions described in the interviews were classified into the categories shown in Tables 3 to 6 below. We were particularly interested in

the qualitative nature of the network ties that SME decision-makers in the two countries had both with institutional actors and with contacts relevant to their institutional relations. Three tie qualities were assessed – tie strength, tie function, and whether the tie was primarily business or social in nature. Ties were classified as either ‘*weak*’ or ‘*strong*’ (Granovetter, 1973). The strength of tie was measured within the course of the interview through the concentric circles approach commonly employed by sociologists (Borgatti & Everett, 2000). The aim was to identify varying degrees of strength for each group or type of actors. This meant that after asking about the full history of SME from inception until the time of data collection, we grouped key ties mentioned by the interviewee into categories and asked her/him to locate the strongest tie to the SME on the closest circle to the centre (SME) and weakest tie on the farthest circle and any medium strength relationships to be located in middle circle. However, in some cases the interviewee identified the strength of a particular tie(s), within the course of our conversation. This was taken into account as a key representation of the strength of that particular tie. As well as the identity of network ties, the *functions for the SME* attributed to them were also assessed and this enabled us to pinpoint ties directly relevant to the SME’s relations with institutions. Network ties were classified as ‘*social*’ in nature if they involved personal relationships with family, friends, acquaintances and colleagues. They were classified as ‘*business*’ ones if they were arms-length or governed primarily by contract.

## FINDINGS

### **Institutional voids and SME networking – Egypt**

The Egyptian SMEs generally had a greater dependency on institutional agencies than did their UK counterparts. Not only could the Egyptian agencies place restrictions on the SMEs, but the Egyptian firms tended to have fewer non-institutional network ties to rely on as alternative sources of information and support.<sup>6</sup> All but one of the Egyptian decision-makers interviewed related one or more negative experiences of dealing with institutional agencies that had a charter to assist SME internationalization. In the cases where they had received assistance from them, they reported that this was not easy to obtain.

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<sup>6</sup> For this difference between Egyptian and UK SMEs,  $p < .05$  (Mann-Whitney U test).

Their narratives portrayed the problems posed by institutional voids in Egypt. These problems are categorized in Table 3 along with an illustrative quotation from the interviews.

The six first-order categories of Egyptian institutional voids which emerged can be grouped into two second-order categories. The first of these indicates a low level of competence on the part of public agencies, while the second reflects a restriction of institutional support, in some cases unless a bribe is offered. Dysfunctional bureaucratic procedures, ad hoc changes in regulations, a failure to take advantage of trade agreements, and poor institutional performance fall into the first category. Difficulties in obtaining relevant licenses and lack of staff motivation fall into the second category.

The Egyptian decision-makers interviewed in 2016 reported that they faced similar negative experiences as they did before the revolution. The SMEs that survived the upheaval had either to halt activities for almost three years or keep their operations to the minimum. All the SME decision makers reported that, following the 2013 military intervention, they dealt with the same supporting agencies which were still managed in a similar way to before. The following statement by the founder of an engineering consultancy firm is representative of their view:

‘The key problem is that the country suffers from the same institutional problems as it did before the revolution, given that it is the same old governmental institutions and same mentality of the old regime that still moves and controls the economy...The revolution only opened a can of worms and exposed corruption, bribes and misuse of public funds into the open’.

**Table 3. Egypt: Problems posed by institutional voids**

Category of problem	Example
Dysfunctional bureaucratic procedures	<p>‘In Egypt there are numerous obstacles [in the way of SME exporting] such as official documents and letters of credit that are submitted to official authorities concerned with exporting such as banks. The general exporting association asks for loads of papers and supporting documents that take time and are too complicated, and at the same time do not guarantee you will get your money’.</p> <p>‘None of these units or agencies actually offers real support to SMEs. They talk and say what is supposed to be said but in effect they are offering hardly anything to support and promote SMEs domestically and internationally. The institutional system we have sets rules and procedures to help SMEs but these are highly ineffective and useless... we have the 2004 law governing the situation of SMEs</p>

	in Egypt and the support for start-ups and export promotion..... it's nice but it's not put into practice. Therefore I am saying its useless'.
<i>Ad hoc</i> changes in regulations	'One day we woke up and found from a newspaper that our export minister had restricted the export of recycled plastics. If you do so, you pay a fine of \$1000 per ton and our profit was only \$200 per ton...We had a contract and we had to fulfil our commitment. We tried to talk to the officials but no use and as you know this is Egypt, and you wake up every day there is always a change. It is a very uncertain business environment, you cannot predict for five years ahead, not even for one year, as tomorrow something dramatic could happen'.
Failure to take advantage of bilateral trade agreements	'Egypt has several trade agreements like COMESA [Common Market for Eastern and Southern Africa], the Arab League and the Quiz Agreement between Egypt, USA and Israel but we never use them...either because the government employees obtain no immediate gain from it or they are simply unaware of them'.
Poor institutional performance and limited monitoring of supporting agencies	'The SFD lacks the necessary market knowledge about, for example, quality standards that are required by European or North American markets needed. Its departments report to some people in senior positions who set targets for them that, let's say, they need to help 5 or 6 SMEs to participate in a trade show. All they care about is these numbers and not necessarily the quality of service they offer or whether people benefit from them or not'.  'We work in a random and non-structured market... there is no monitoring or supervision of supporting agencies who work closely with the key wood importers or exporters...we depend in our hand-made products on imported wood because the local alternative is of poor quality.... We pay the black market price which is very high.... And we have to abide to the rules of the larger manufacturer(s) who we cannot export except through him ... it's a case of monopoly ...believe me when I say it's under the eyes of supporting agencies.... They sponsor if you like those large manufacturers to trade fairs and they get part of the profits these manufacturers get. We are exploited by a set of capitalists [large store owners] and no one stops them or even hold them accountable'
Difficulty of obtaining relevant licences	'It took me believe it or not nearly ten years to get registered..[...].I had to go through the whole process and it did not work, sorry to say, but under the table was one way to get my papers approved I would not call it bribe I would call it a gift to get through to the concerned employee to have a look at the documents I submitted...In order to finish it you have to pay a lot of gifts, you find open drawers, payments under the table'.
Lack of agency staff motivation	The founder of a company producing medical equipment reported that: 'The SFD sponsored me and others to an all-inclusive Egyptian products trade fair in Italy. We were given a very limited space to set up our booth and beside me was a guy who presented clothing and food, and next to him was someone who produces carpets. When I complained about this to the commercial attaché appointed by SFD to organize the fair, his response was 'you should thank God that you got the chance to come to Italy'.

All the Egyptian respondents mentioning these institutional voids stated that personal contacts were necessary in order to address them. In the first place, such contacts were required to obtain information about the services that institutional agencies could potentially offer SMEs. This information was not readily available through formal public channels. As one founder decision-maker said: 'the biggest advantage of good relationships in Egypt is that they introduce you and direct you to where you can get needed information'. The leader

of a software firm said that ‘it was through my parents’ close links with people in the Ministry of Exports who told them about the incubator facility offered by the SFD’. Generally speaking, information about institutional services helpful to SME development and exporting was obtained through personal contacts rather than through publicly accessible media channels.

Personal contacts were also often necessary to activate support from institutions or to overcome bureaucratic obstacles they imposed. The head of a firm producing marble, who was refused help by the IMC to attend a major annual trade fair, commented that ‘unless you know someone in the IMC and/or are one of the big players who control the economy, you will not get such support’. The founder of the manufacturing company who was the source of the second quotation in Table 3 only sorted out his problem through finding a contact who opened the way for a meeting with the export minister:

‘We finally found a contact that exceptionally opened a way for us to meet the minister. You cannot meet the minister on your own...you know how things are in Egypt. So through this contact we met the minister and it was sorted. It took about six months to get it sorted, but eventually we got the problem sorted out. Unfortunately because of this problem I incurred a lot of losses which made me close this line of business and stick to software as a much safer option’.

Knowing the right person in relevant institutions, or having a personal connection who could effect that link, was a theme mentioned by three-quarters of the Egyptian interviewees. Even when access to institutional approval or support was gained through personal networking, gifts and under-the-table payments would often be required to get action taken. While they complained about the system, they accepted that this was ‘the way things are done in Egypt’ and that this was, in effect, an embedded characteristic of the national culture. The heavy reliance on personal links also limited the number and type of foreign markets which the Egyptian SME decision-makers felt able to enter – primarily those in the MENA region. These were markets with which network partners had their own personal links and knowledge, and which, given the uncertainty of institutional support, they felt it more comfortable to enter.

Some Egyptian respondents commented that in the absence of formalized rights of access, smaller firms were at a disadvantage in securing the attention of institutional official

compared to large and leading firms. A senior official in the SFD admitted that due to lack of resources, the agency had to prioritise larger firms that were seen to contribute proportionately more to the Egyptian economy. Five SMEs, whose decision makers were initially unable to access institutional support on their own, created their own informal industry groups to exercise direct pressure to gain personal access to the export minister. Through collective action they were able to offset their liability of smallness and leverage a degree of power vis-à-vis the institution. After the revolution, another SME decision-maker described how he and other SME leaders decided to put up a representative in the parliament or in one of the political parties supporting the current regime to voice their concerns. They thought that working with key decision makers rather than against them would be more fruitful.

It was evident that SME decision makers rely on a range of network attachments to cope with institutional dysfunctions inherent in the Egyptian context. In many cases they sought to access institutions through informal channels; in some other cases they organized among themselves to open up such channels, and in other cases channels to the institutions were established because the SMEs' established reputation as exporters lead government agencies to seek them out as role models. Their description of the network attachments they relied upon fall into the four categories summarized in Table 4. Some interviewees gave related examples that fell into more than one category.

The first category involved a referral from a close friend, family member or a colleague located outside an institutional agency, where this served as a means to gain access to information about available institutional support and accessing overseas networks. The relationships activated here are strong and primarily social ties to dense networks. The second category was concerned with having or finding a connection with a key decision maker within an institutional agency. In both categories, the connection with a key gatekeeper, decision maker or strategic player served as a platform for SMEs to gain access to support. The ties with the intermediaries were strong social ones, though the secondary ties to the institutional agencies were weak and of limited duration. The third category involved the creation of an informal industry group to gain attention and obtain support from the institutional agency. The ties among members of the industry group were strong ones of a primarily business nature that took a long time to develop, although they were less formally

**Table 4. Egypt: Use of network ties in response to institutional voids**

Use of network ties to cope with institutional voids	Examples of voids being filled	Type of tie and strength	Illustrative quotation	Cost/negative consequences associated with the use of network attachment to cope with voids	Performance outcomes
A referral from a close friend, family member or a colleague outside the institutional agencies.	To get information about sources of support not elsewhere readily available or to use these network ties to facilitate access to overseas markets.	These were predominately personal relationships (more than 60% of total ties). They were strong ties to highly dense networks. The SME decision maker trusted these ties and relied on them extensively on to enter overseas markets or to learn about available sources of support and finance [in terms of who and where to ask].	‘We got to know about it [SFD] through an outing with friends and business people who mentioned that they heard about something called SFD, even if these people didn’t know much about it. They provided us with a hint and then we chased up the information and started to ask ourselves who we know that might know anything about this. Then I told Mr A one of my distant relatives who works in one of well-known governmental agencies. So I asked him what do you know about SFD what so they offer, where can I find it ...etc. this person gave me the beginning of the thread which was the most important thing for us.’	In order to access support and advice when needed, SME decision makers had to continuously nourish the relationships with their key ties, even when there was no immediate requirement of them. In 7 cases, decision-makers bought gifts and exchanged favours in order not to lose the relationship.  For example: ‘We had to keep in touch with those key relationships. We would call them regularly send gifts and cards on special occasions such as weddings and new births, and sometimes organise dinners in Ramadan and invite all sorts of people even those we haven’t asked for a favour for years, so as to keep the relationship going in case we need to ask them for a favour or advice in the future... I am afraid this is the only way to survive’.	These SMEs operated in only a limited number of overseas markets, principally where they had a family or a friend connected with a market.  ‘Our initial export attempt was to Holland and Germany through my relative who owns a warehouse and through him I managed to furnish houses for some of his friends in Germany...[.].... It’s the same when we exported to Italy or the US – usually a family or a relative... I would not export to overseas markets except through people I trust to help me enter these markets... I have only few of these cases’.
Having or finding a connection with a key decision maker in the institutional agencies.	This is the so-called ‘Wasta’, Decision makers rely on their close friends/family to connect them with strategic intermediaries [such as key government officials and	SME leaders, mainly founders, relied on strong personal relationships to get in touch with intermediaries. The intermediaries	‘To get support from IMC I had to be recommended to them through one of those people at the top ... I asked my cousin-who is well connected- to find me an appropriate contact and to ask him to recommend me to the decision committee to get some support. It is very difficult to survive in Egypt let	Maintaining a relationship with key intermediaries, especially those from whom favours are sought, is costly and time consuming  According to the founder of a company that relied extensively on ties to intermediaries: ‘In case of relationships you devote	These SMEs were mainly slow internationalizers, who operated in a limited number of markets, as it took them several years to establish their company’s domestically and to access needed resources to export.

	facilitators] to overcome bureaucracy, access support and obtain needed licences.	then affect a contact with a key institutional official. Relationships between the SME leader and government official are one-off or of limited duration.	alone to succeed and grow overseas’.	all the sources of power and strength to build them. But not once – you have to do this on A continuous basis and these sources of strength have to be built continuously, otherwise they collapse’.	
Creation of informal industry group to gain attention and get support. Or having a representative in political circles to voice their concerns	These were groups of competitors and suppliers who came together usually as a result of one initiator to pressure the government to change certain laws or to access a particular type of support (such has access to foreign aid money allocated only to certain industries)	These were strong business relationships that took a long time to develop. They were enduring but often dormant, being activated only when needed.	‘I grouped several of the furniture manufacturers here in this industrial zone and I was elected to be the director to speak to the export minister to ask him to make it easier for us to import wood and he listened only because we were a group of companies not simply one or two’.  ‘I am planning to become a member of the parliament in the next round to represent paper manufacturers. I want to have a voice and someone who can defend the rights of small firms. If you cannot play against them, play with them’.	To create such informal industry groups takes time and energy. Especially if the initiator has to convince his competitors to collaborate with each other and that this is for a collective benefit rather than an individual one.	These SMEs where the most successful category of companies in our sample. They operated in a relatively large number of overseas markets.
Securing institutional assistance for exporting on the basis of evident success in the domestic market.	The decision maker(s) relied on friends/family and former colleagues to grow in the domestic market [such as key contacts in state owned department stores, hotel chains and holding companies]. After	These were predominately strong personal relationships.	‘Back then, the SFD did not offer me any support, though the bank gave me a loan because I registered with the SFD. Later when our brand became well known, I found them contacting me and suggesting there is this trade fair and we want you to participate at short notice. I was surprised and said ‘how come?’...It’s again a matter of knowing people ‘.	This is a lengthy process, with no guarantee of a positive response from institutional agencies.  The time it took to gain an established domestic reputation in order to gain support or permission to export delayed the firms’ internationalization.	These SMEs were offered substantial support and resource at a later stage of their development that allowed them to expand internationally.



	which institutional agencies approached these SMEs and offered them support.				
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organized than the ‘business groups’ which in India have been an effective means for securing growth opportunities under conditions of institutional voids (Manikandan & Ramachandran, 2015). Subsequently, some additional furniture SMEs formed a cooperative partly with the intention of securing greater attention from support agencies. The fourth category was different to the others in that it did not involve a proactive initiative by the SME. Institutional access arose from the firm becoming an established player in the domestic market with a good track record of successful exporting. Here reputation and legitimacy led to an approach from the institution, which as a result offered support.

### **Limited institutional voids and SME networking – the UK**

The overwhelmingly critical narrative that was typical of the Egyptian decision-makers’ views on institutions was absent from the accounts of the UK interviewees. Almost half of them mentioned no problems at all in dealing with institutional agencies. While the problems listed in Table 5 did arise, they experienced few institutional voids relating to export support. The majority of the firms (14 out of 20) had used official export promotion services and with two exceptions found them helpful. Some were highly favourable in their comments, such as the founder of a manufacturing SME who said that ‘the UKTI and the local chamber [of commerce] were key domestic relationships that helped me a lot...they were key to our survival’. Support activities such as advice on how to export, partial funding to participate in trade missions, and linking with UK overseas commercial staff who provided introductions to potential customers were valued, especially in the early stages of targeting new foreign markets.

**Table 5. UK: Problems posed by institutional voids**

Category of problem	Example
Inability to provide sufficiently customised niche information	‘Regarding UKTI and other governmental supporting agencies, I find working with them is not very useful because of the nature of our market and it is a very niche one. If we were in agriculture or the medical field where it is a clear cut area or segment of industry, these companies will benefit and find the information they need from these agencies. However, the tobacco industry is a very niche one’.
Insufficient attention to some emerging markets	‘They [UKTI and overseas embassies] were not very helpful in some parts of the world’.
Lack of knowledge of institutional staff and/or their knowledge is inferior	‘We didn’t use them.... Because I think at that time we felt that we were self-sufficient and we had the ability to handle it ourselves...we did not need their services; they would not add much to us that we already don’t have’.

to that of the SME entrepreneur	
Internal institutional inefficiencies	'UKTI don't seem to be one UKTI they seem to be about 300 and I know that's an exaggeration and but it is a problem...I used to get a phone call from somebody saying they are from UKTI and they are different...they seem to be tripping over each other and not everyone knows what others do'.

The institutional voids reported by the UK firms all related to problems of agency competence. There were no instances where access to the institutions was stated to be problematic or conditional on social contacts. Nor was there any claim that the domestic institutional system in the UK could obstruct internationalization. When criticisms were made of institutional support, they normally referred to two sets of issues. As Table 5 illustrates, the first set comprised three first-order categories: an inability to provide sufficiently customized niche information (including criticism of tick-box formalization); insufficient attention to some developing economy markets; and institutional staff having less knowledge than the SME decision-maker. The second set of problems was mentioned in only three cases and these concerned internal inefficiencies such as a lack of coordination within the primary institutional agency.

In the main, the UK companies had developed a range of non-governmental network contacts, such as with customers, chambers of commerce and professional advisors, which they utilized to support their international expansion over a wide range of foreign markets. As Table 6 indicates, they often relied on their own ability to generate network attachments where necessary to compensate for a limitation in institutional knowledge about markets or contacts. In three cases, they had secured helpful advice from professional export promoters in chambers of commerce who provided information on, and introductions to, the various schemes funded by UKTI. Most of the SMEs were members of their local chambers of commerce. In contrast to the case of Egypt, these contacts were primarily of a 'business' (non-social) fee-paying nature and the firms' relations with them had a contractual basis. They normally developed such contacts through their own initiative rather than relying on referral through social ties. Moreover, coming from a stronger institutional context, they could rely more on legally-enforceable contracts and other institutional supports to hedge against internationalization risks. The schemes on offer are formalized, transparent and relatively accessible. Compared to their Egyptian counterparts, UK SMEs have more opportunity to access diverse sources of information and resources, and consequently their internationalization is less constrained.

**Table 6. UK: Use of network ties in response to institutional voids**

Use of network ties to cope with institutional voids	Examples of voids being filled	Type of tie and strength	Illustrative quotation	Cost/negative consequences associated with the use of network attachment to cope with voids	Performance outcomes
Relying on their ability to create their own network attachments to compensate for an institutional void	<p>Lack of knowledge of institutional staff and/or their knowledge is inferior to that of the SME entrepreneur</p> <p>Insufficient attention by agencies to some emerging markets</p> <p>Inability to provide sufficiently customised niche information</p>	<p>These were predominately business/contractual relationships, and mainly involved weak ties. The UK SMEs had large sparse networks.</p> <p>‘My business is straight forward and I refer to rely on private agencies in African markets because they know the rules of the game or my own personal contacts in this market....the UKTI will not provide me with market information that I cannot obtain myself’.</p> <p>‘We find that the information that we gather ourselves either through the internet or through people we know is better; it’s more on the ground information’.</p>	<p>‘The UKTI has been very helpful for us in India...so in the case of India and some emerging economies they are very good...but in other places they are not helpful so we depended on our contacts and intermediaries that we had in these markets or sometimes even established new relationships through the alliance I told you about’.</p> <p>‘Because we had our contacts and knowledge we did not need their [UKTI’s] help other than for funding a costly journey such as going to Brazil’.</p>	<p>This has been mostly a successful strategy. However, five SME decision makers reported instances where these weak business ties became problematic and led to withdrawal from overseas markets. For example:</p> <p>‘We have always relied on agents/distributors to sell our products in almost every market we operate in. However, this strategy was not successful in Middle East. For example, we found out through one of our former clients that our agent in Tunisia was selling our products with his name on it and making a higher profit margin than what he told us ...[.]. We could not take him to court ... it takes ages and I am not sure it would be successful..... We ended up withdrawing from this market’.</p>	<p>These SMEs operated in a large number of overseas markets and in diverse regions.</p>

<p>Help from other professional contacts to learn about institutional support</p>	<p>Limited public information about institutional support schemes.</p>	<p>SME decision-makers relied on their own local connections to gain information or support.</p>	<p>'We hadn't got any idea about how to export...My accountant said I can put you in touch with an organization called the UK trade forum located in Birmingham...I became a member and though that became aware that UKTI had money available to support businesses like mine'.</p>	<p>Relying on existing local networks sometimes shielded the decision-maker from opportunities to expand into other markets or to build relationships in those markets where they did not have a contact</p>	<p>These SMEs operated in a limited number of overseas markets.</p>
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Reference to the experiences related by interviewees therefore indicate that, the contrasts in the networking initiatives of Egyptian and UK SMEs in support of their internationalization do reflect an adjustment to differences in institutional voids. While it is difficult to disentangle the functional rationales informing their networking from behaviour that is culturally-informed, the contrasts that emerged are consistent with differences that scholars have discerned between Egyptian and UK (British) cultures.

## **DISCUSSION**

The aim of this paper is to develop a theoretical model of networking by internationalizing SMEs in the light of domestic institutional conditions and cultures. Findings from a qualitative comparison of Egypt and the UK indicate that both level of economic development and cultural behavioural norms need to be incorporated into such a model. While virtually all the SMEs stood to benefit from support from institutional agencies, those in Egypt tended to be more dependent on such agencies. Moreover, the conditions for obtaining that support were substantially different due to the greater incidence of institutional voids in Egypt. The technical competence of export promoting agencies in Egypt was generally less developed than those in the UK and, significantly, access to their assistance was less governed by clear universalistic rules. In Egypt, the presence of institutional voids was evidenced by a disjuncture between the formal definition of institutions and their actual performance in respect of providing support to SMEs. In the absence of universalistic rules, or adherence to them, SMEs decision-makers in Egypt typically resorted to informal social connections in order to achieve access to institutional officers and their assistance.

The nature of the social mediation toward institutions through networking reported by Egyptian respondents not only reflects institutional conditions but is also consistent with that country's cultural norms ['the way things are done here'], especially concerning particularism, collectivism and uncertainty avoidance. The reliance on strong personalized networks characteristic of Egypt was almost entirely absent from the UK sample. It is likely to be employed far less in countries like the UK where cultures and institutions emphasize universalism, and where individualistic social actors with low uncertainty avoidance are more willing to rely on weak business-like network ties. Overall, the conclusions to be drawn from our study elaborate the observation made by Puffer, McCarthy, Jaeger & Dunlap (2013, p.329) that social ties in developing economies are 'an informal cultural-cognitive institution

that fills the voids created by the weak legitimacy of a country's formal regulative and normative institutions'. We have elaborated on the nature of these ties with reference to their strength, function and nature.

Figure 1 brings together insights from both literature and our exploratory study in a theoretical model. In the model, institutions are assumed to have specific formal purposes and rules. Their practical application is moderated by the national context, particularly its level of economic development and the character of its national culture. Level of economic development has consequences for institutional competences, while culture conveys norms about the role behaviour of institutional officials. Institutional voids results from a gap between formal specifications and their application in practice. These voids in the form of competence limitations and behavioural dysfunctions have consequences for SMEs to the extent that they depend on institutional resources and other support. These two forms of void in turn trigger SME adaptive behaviour. If the voids primarily take the form of limited technical capability and (as in the UK) SMEs do not depend heavily on institutional support, they are likely to pursue other means to facilitate their internationalization and need not take extra measures to secure institutional attention. If, on the other hand, there are significant institutional voids in the form of limited accessibility and transparency, then SMEs requiring institutional support will need to find networking channels to secure institutional attention. The greater the dependence of SMEs on institutions, the more negatively asymmetrical is their power vis-à-vis those institutions and the more effort they need to expend to cope with institutional voids. This coping behaviour is itself seen to be informed by national cultural norms concerning networking relationships such as appropriate and necessary ways of securing of services from others (such as the role of favours).

**Figure 1. A model of networking by internationalizing SMEs in the light of domestic institutional voids and cultures**

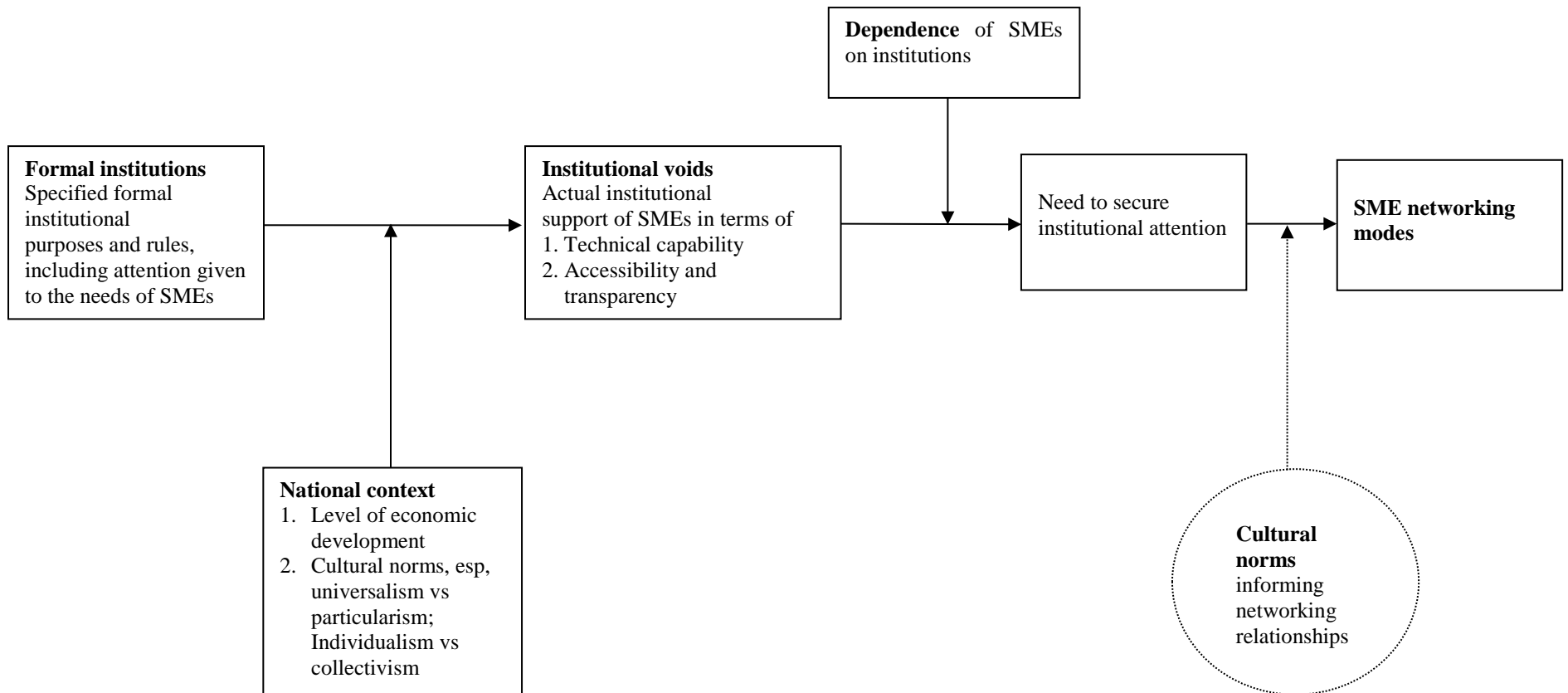




Figure 1 postulates that in order to understand the responses of small internationalizing firms to domestic institutional voids, an analysis is required that (1) combines institutional and cultural referents, and (2) crosses macro (culture, level of development), meso (institution) and micro (firm) levels of analysis. This implies that studies into the factors which account for variations in networking by internationalizing SMEs should extend beyond present emphases on the individual and firm levels in terms of factors such as entrepreneurial experience and firm sector (Child & Hsieh, 2014), and take into account as well the socio-economic environment in which the SME is embedded (Lu, Liu, Wright & Filatotchev, 2014).

Our findings suggest that in contexts like Egypt where significant institutional voids are manifest in problems of access, SMEs in effect face a challenge of securing *institutional attention*. We found indications that the consequences of an absence of transparent rule-based rights to institutional support could be moderated by the *power* that firms possess. Thus it was agreed by respondents both from Egyptian agencies and SMEs that institutions like the IMC gave priority to large firms which are not only of greater significance for the economy but also may have opportunities to overcome difficulties of access proactively through lobbying and offering social investments.<sup>7</sup> Although these opportunities are not normally open to SME decision-makers who lack the necessary resources and social status, there were instances where they were able to mobilize a degree of power and secure institutional attention by acting collectively. Nevertheless, in general, the notion that SMEs experience a liability of smallness needs to include the limited power they enjoy to solicit institutional attention (compared to large firms) when such attention is not mandated by a universalistic rule-based system. The ways that they try to cope with such institutional voids is consistent with the proposition that organizations with little power have to rely on social mediation to cope with external challenges (Child & Rodrigues, 2011).

## CONCLUSION

The comparison of Egypt and the UK suggests that institutional agencies can assist SMEs to forge network ties of a business kind which lower transaction costs and reduce the perceived risk of internationalization. In this way they help SMEs to venture into unfamiliar foreign markets. However, it was apparent that the quality of institutional support for SME

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<sup>7</sup> The favouring of larger firms in Egypt has also been attributed to crony capitalism (*The Economist*, 2014).

internationalization does not just depend on the competence and resources of the agencies concerned but also on the ease and transparency of access to their services. For SME decision-makers, our findings imply that while business ties offer advantages of lower cost and greater scope, social ties can offer specific benefits and may be in tune with cultural norms. The priority given to each of these two types of tie should reflect both domestic social conditions and those in foreign markets. This requires a careful analysis of prevailing institutions and cultures.

The limitations of the study serve to indicate fruitful lines of further research. One limitation lies in its purpose and design. This was exploratory and small scale. The sample included firms across different industries in order to achieve a balance between manufacturing and service firms. This means that it could not examine another concomitant of the level of economic development, additional to institutional voids, which might influence national contrasts in the networking of SMEs. This is the tendency for more developed economies to have a higher incidence of non-traditional knowledge-based SMEs. Such SMEs, in industries such as biotech and IT, typically have their own international networks in place at an early stage in their development (Salavisa, Sousa & Fontes, 2012). These reduce the firms' dependence on institutions for supporting internationalization and thus enable some hazards of resource dependence to be reduced. Nor did the present study examine systematically the extent to which the SMEs used other network links to reduce their dependence on domestic institutions. In principle, SMEs have two options for dealing with domestic institutional voids. Either they can try to cope with them directly, which has been the focus of our study, or they can try to initiate or employ other network links which enable them to bypass a dependence on institutions. Some of the UK firms took the second option. However, in Egypt this option was restricted by the preference to rely on a limited number of strong social ties as well as by institutional constraints such as when export permits were refused.

Another limitation is that we have focused on the positive enabling aspects of networks for SMEs. At the same time, we noted the cost and effort required to build social network ties of the kind that the Egyptian SMEs heavily relied upon. Building and maintaining such close network ties imposes a penalty of time and effort that may detract from pursuing internationalization speedily. Further research into the 'darker' side of networks is required, including the possibility that a heavy reliance on strong social networks can constrain the scope of SME internationalization (Sasi & Arenius, 2008).

In conclusion, our analysis of networking by internationalizing SMEs in the light of contrasting levels of domestic institutional voids provides a strong pointer to the significance of inherent differences between developing and developed economies. It also supports the view that the greater vulnerability of SMEs vis-à-vis institutions, and an explanation of their options for coping with this vulnerability, requires a different line of theorizing to that informed by the hitherto dominant focus on MNCs. In particular, the contrasting power of MNEs and SMEs is a factor deserving greater attention in the future.

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