

The role of home country institutional agents (HCIAs) in supporting the internationalization efforts of SMEs¹

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Abstract

Acknowledging that SMEs contribute significantly to the economic growth of both developed and developing nations, this study examines *how* home country institutions (HCIs) support the internationalization of SMEs. Recent research has examined whether HCIs are supportive of the internationalization of SMEs, however, little is known about *how* such support is facilitated. In this study, we specifically examine the process by which HCIs provide support, particularly through the activities of home country institutional agents (HCIAs). We draw on the concepts of boundary-spanning and brokerage to conceptualize this process. Boundary spanning involves the establishment of links by HCIAs between SMEs and relevant knowledge, and the actors that facilitate their internationalization process in a host market. The process that boundary spanners use to connect two actors is one of brokerage. Utilizing interview data from New Zealand SMEs internationalizing into India and China, we identify a range of HCIAs that facilitate SME internationalization that are regulative, normative and cognitive in nature. In doing so, we provide deep insights to the questions of which HCIs support SME internationalization, and how they achieve this. Our findings have a number of research implications relating to SME internationalization and institutional support, as well as insights for policy-makers and SME managers.

Introduction

SMEs contribute significantly to economic growth and development of both developed and developing nations (Knight, 2000), as well as to the internationalisation of a nation's products and services (Bournakis and Tsoukis, 2016). However, SMEs face different challenges to MNCs in internationalisation, notably with regard to constraints on acquiring resources and capabilities, including knowledge and connections, as well as legitimacy in the host market. Thus, scholars in the international marketing domain maintain that SMEs should be looked at as a separate group from large firms and MNCs (Fillis, 2001). Our study is concerned with examining *how* home country institutions (HCIs) support the internationalisation of SMEs, building on earlier work that focuses mainly on institutional impacts. Institutions and the institutional environment in a country (or region) are known to impact the internationalisation of firms, both large (Hong, Wang and Kafouros, 2015) and small-medium sized (Dickson, Weaver and Vozikis, 2013). While earlier research looked mainly at host country institutions, more recent attention has focused on the influences of HCIs on internationalisation (Estrin et al, 2016), including in the context of SMEs; for example, examining

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whether or not these are supportive of the internationalisation of firms. What remains largely unresolved, however, is *how* such support is facilitated.

Research suggests that the failure of an internationalising firm to comprehend the institutional framework of the foreign host country in which it is undertaking business leads to unexpected costs and detrimental impacts on the firm (Orr and Scott, 2008). SMEs often lack knowledge about the host country environment into which they are internationalising (Agndal and Chetty, 2007). Given the potential of HCIs to support internationalisation, it is important to ascertain how SMEs gain knowledge and understanding of their host country environment, in order to avoid such costly impacts. Acquiring such knowledge is a necessary step in the SME being able to access key resources, including information, and networks, regulatory approvals, customers etc. in the host country (Dickson et al, 2013). At the same time, it is important for actors in the host country to comprehend the HCIs of the SME, in order to better accommodate the relationships that will most likely form. Mutual understanding between actors in a cross-border relationship may lead to trust and commitment, which are important aspects of relationship effectiveness in international business (Styles and Ambler, 2000).

In order to understand how these knowledge gaps are bridged, most particularly the knowledge gaps of the SME, we draw on boundary spanning as way of engendering learning across boundaries (Akkerman and Bakker, 2011). Since we are concerned with how institutional knowledge boundaries are bridged, particularly for the internationalising SME, our research focuses on the potential supporting role of HCIs. In examining the role of boundary spanning, it is important to distinguish between the institutions and the entities engaging in this activity, since, by definition, institutions, as non-concrete rules, values and norms, cannot engage in activities (North, 1990). We refer to the organisations that facilitate home country institutional support (the boundary spanners) as home country institutional agents (HCIAs). Since these can influence the institutional framework from which they were partially formed, North refers them as “major agent[s] of institutional change.” (p. 5)

We report on our exploration of the processes and mechanisms by which SMEs that have already internationalised acquire the necessary support (host country knowledge, access to resources etc. in the host country) from their home country institutions (HCIs) for continuing their post-entry development. We focus on the role of the institutional agents, HCIAs, as boundary-spanners connecting the SME with knowledge and actors necessary for successful internationalisation. Our study directly addresses the question of *how* HCIs facilitate and support SMEs in their post-entry development efforts, an area scarcely addressed in the literature. Specifically, we examine a range of HCIAs, how they are utilised by SMEs, and the outcomes experienced as a result of their interactions. Grounded in existing literature, a conceptual framework is further developed after analysing qualitative data collected from New Zealand SMEs internationalising to India and China. Through this framework, we identify a range of HCIAs (reflecting their respective institutions) that facilitate SME internationalisation through their boundary-spanning and brokerage activities. These activities enable SMEs to connect to relevant knowledge and actors in the host country, and benefit from a number of outcomes supporting their internationalisation activities. Further, in contrast to generally assumed motivations for brokerage, we find that the HCIAs actively seek to foster cooperative relationships between the relevant actors. The research has practical implications, since the study aims to identify the key HCIs and HCIAs that facilitate SMEs internationalisation, as well as the mechanisms utilised and likely outcomes achieved. With such knowledge, SMEs may be facilitated to utilise HCIAs more effectively, and policy-makers may be guided towards more targeted resource allocation to support the activities of the relevant HCIAs.

Conceptual framework

The question of *how* HCIs play a role in actively facilitating SME internationalisation is the central feature of our conceptual framework. Based on our literature review, we propose that home country institutions are represented through the activities of HCIAs, following North’s (1990) insight that institutions must be regarded separately from their actors. According to the literature, although not generally described as HCIAs, such actors relevant to SME internationalisation include government support organisations, and industry and professional associations; these represent regulative and normative institutional dimensions,

respectively. A country's cognitive institutional environment, reflected by its socio-cultural environment, is well documented, and we propose in our framework that socio-cultural agents include those HCIAAs that also represent the regulative and normative institutions. Given that the literature regards boundary spanning as connecting actors across boundaries to access resources, or information (Akkerman and Bakker, 2011), we draw on this concept to explore the ways in which HCIAAs may facilitate learning by internationalising SMEs. We regard boundary spanning as involving the establishment by HCIAAs of links between SMEs and relevant knowledge, and the actors that facilitate their internationalisation process in a host market. We suggest that the boundary spanners (HCIAAs) create links across relevant boundaries through the use of boundary objects, which creates the transfer mechanisms used by both actors. For example, a government support organisation may use seminars, websites or reports that connect the SME with the particular actors in the host market or provide market or customer information. The process by which boundary spanners build connections is captured in our conceptual framework by the application of brokerage (Collins-Dogrul, 2012). On the grounds that it ideally suits the context of the boundary spanning roles played by HCIAAs in facilitating the internationalisation of SMEs, we adopt the concept of *tertius iungens* (collaborative view) brokerage proposed by Collins-Dogrul (2012), rather than the more traditional view of brokerage (*tertius guardens*) (Burt, 1995). For example, when a government agency at home connects an SME with a potential intermediary (distributor) in the foreign market, facilitating and coordinating the initial relationship, the SME gains potential access to the market, the distributor gains another potential customer, and the government agency fulfils its supportive role and learns from the experience. Our conceptual framework depicts the result of the boundary-spanning activities and brokerage as outcomes supporting SME internationalisation. As noted in the literature, outcomes from government assistance programs might include government grants, learning from training programs, market research support etc.

The final aspect in our conceptualisation concerns the location of the HCIAA – in either, or both, home and host country. With little existing literature on HCIAAs operating in a host country, and the subsequent impact on home country SMEs internationalising there, we conceptualise a role for HCIAAs in a host country linking with different agents and resulting in different outcomes. In applying the conceptual framework to an empirical setting, using a qualitative methodology, our study sets out to (i) identify and investigate the types of HCIAAs that play a role in supporting SME internationalisation (ii) elucidate the boundary spanning activities of the HCIAAs, including the boundary objects utilised to help facilitate the transfer of knowledge, (iii) examine the brokerage perspective employed, and (iv) report on the specific outcomes and their benefits to the SME.

Methodology

We used an exploratory qualitative approach for the study (Creswell 2007). Fifty four (54) New Zealand SMEs, which had already entered the Indian and Chinese markets were purposively selected. We used the OECD categorisation of small and medium enterprises (<10-250 employees) (OECD 2005). At the time of the study, there were relatively few SMEs which had internationalised into India and China, and the 54 firms chosen represented approximately 70% of the identifiable population, and those which also agreed to participate in the study. India and China were selected as the host markets of interest, since these represented countries with known institutional differences to New Zealand, and, which, we assumed, would require internationalising SMEs to have HCI support. Senior managers in the SMEs were interviewed as key informants, and the unit of analysis was the firm. Key constructs identified from the literature, and reflected in the conceptual framework, guided the development of a semi-structured questionnaire, which included questions relating to SME internationalisation into India and China more generally, as part of a larger study. Questions relevant to this study related to the use of HCIAAs, and types of support and outcomes achieved, in addition to firm characteristics, such as experience in the host country/ies. In order to gain deeper insights into the phenomena being investigated (Crouch and McKenzie 2006), open-ended questions were included. Face-to-face interviews with the CEO/ Managing Director, and/or International Marketing Manager of each firm were conducted by two researchers, and data were tape recorded for later transcription. The computer assisted qualitative data analysis software (CAQDAS) program, NVivo10, was used to analyse the transcribed data, and for the purposes of analysis, each interview was treated as a

‘case’ (Miles and Huberman, 1994). This approach allowed a logical path of data coding and interpretation to be followed (Auld et al 2007; Yin 2004). While the dataset provided perspectives on a much broader set of phenomena, we focused only on the data relevant to our research questions. Both within-case and cross-case analysis were conducted, in order to build themes and patterns relating to the constructs pre-conceptualised from the literature (Miles and Huberman 1994). We used a process of open coding, followed by axial coding and system closure (Strauss and Corbin 1998) in order to arrive at our final analysis. Coding consistency was checked by having two researchers each code a random sample of interviews.

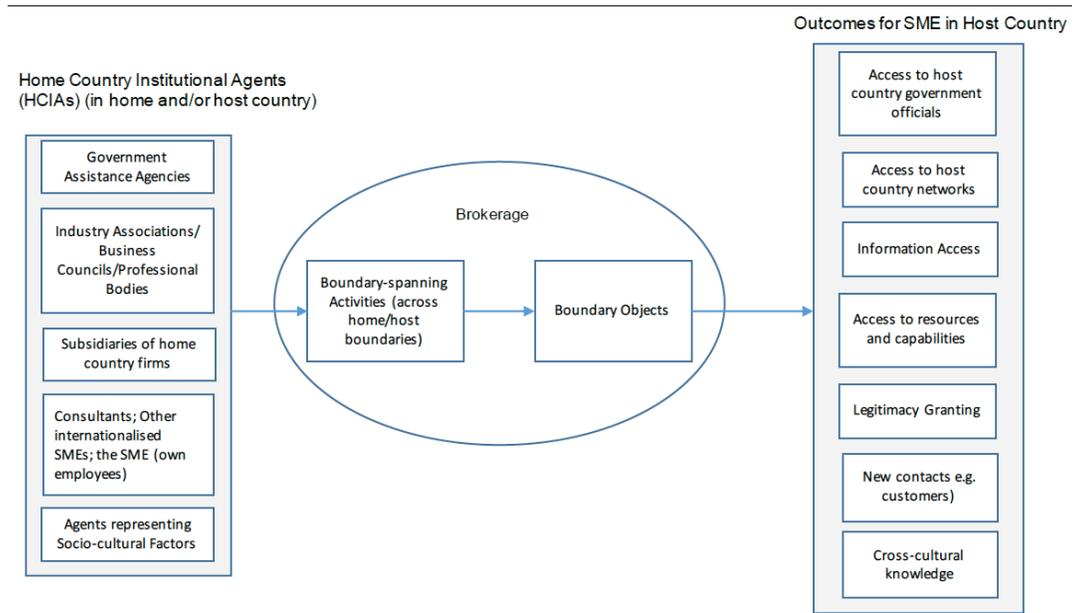


Figure 1. Conceptual framework

Findings

Several HCIA were identified from the data as having a role in the internationalisation of the SMEs. Government support was provided principally from two agencies: New Zealand Trade and Enterprise (NZTE), with offices in New Zealand (home country) as well as in India and China (host countries), and the NZ Embassy, with a High/Trade Commissioner/Ambassador in each of these host countries. The boundary-spanning activities from the government agencies included obtaining market information and market research, generating contacts with distributors or other intermediaries, and potential customer information. Boundary objects associated with these activities included websites, reports, seminars, trade shows etc. With these kinds of assistance, the SMEs started to build resources, contacts and sales in the host country. Firms reported interacting with industry-level HCIA only in the home country, since they were not present in the host countries involved in the study. Examples of HCIA included the India New Zealand Business Council, the New Zealand China Business Association, and industry groups involved in areas such as aviation, tourism, education, and information technology. Most were involved in a range of boundary spanning activities, including providing market information and advice, access to host country networks, including their industry association counterparts, and education/training. Individuals and small consulting organisations represented this group of HCIA and included those located in both the home and host countries. Their boundary spanning activities were mainly focused on specific needs of their SME clients, but they also undertook more generic activities. In the home country, the consultants facilitated connections with host country networks and market information, represented in boundary objects such as personal introductions, databases, websites, and generic and customised reports.

SMEs in our study identified a number of New Zealand firms with subsidiaries in China or India that were instrumental in providing support, directly or indirectly. The subsidiaries acted as boundary spanners in a

variety of ways. By virtue of having a well-established operation in the host country, for over two decades in some cases, they had many connections and trusted reputations. The benefit of their boundary spanning activities to the SMEs included access to information (country- and market-level) and other resources, detailed industry knowledge, key contacts with officials at local and central government levels, access to customers, as well as introductions to host country networks.

Many of the SMEs employed nationals from the host country because of their ability to span relevant institutional boundaries. For China, cultural boundaries were especially important, as China was perceived to be more culturally distant than India, and consequently a more challenging country in which to do business. These SME employees were located in either the SMEs' home country operations, or, in most cases, in their SME's representative office in the respective host country. By spanning boundaries between the SME and their native country, those home country-based employees were able to provide market information, cultural and language resources, and, sometimes, useful contacts, directly to the SME. From a host country base, they provided additional benefits by sharing of insights into the culture and language and drawing on their existing links; these included connections to key individuals and regulatory authorities in the host country.

Perceived cultural distance and unfamiliarity with host country social norms were substantial barriers to SMEs internationalising in India and China. At the same time, the perceptions of socio-cultural differences were often to be shared by actors in the host countries, making it difficult for a common understanding or accommodation of the differences to be achieved. Our findings indicate that boundary spanning by HCIAs played an important role in helping actors to gain mutual understanding of these differences and focus on building strong relationships with one another. The HCIAs contributing most to this process were those government- and industry- level organisations located in the host country and acting as boundary spanners from that base. For India, examples included government-supported New Zealand 'ambassadors' representing the sport of cricket – usually 'big name' individuals. Cricket is hugely important as a national sport in India and the two countries have enjoyed a long and positive relationship in this sport.

For most of the HCIAs identified, there was an overarching motivation to foster cooperation between the actors being connected. Although the focus of these HCIAs was on facilitating the internationalisation of New Zealand SMEs, benefits for the host country actors were also considered important. The HCIAs also benefited from their brokerage efforts since many had a mandate to support SME internationalisation to the particular host countries. It was in the interests of these boundary spanners and their brokerage roles to be valued, so that their services and support would continue to be sought. Our findings indicate that the SMEs gained numerous positive outcomes from the boundary spanning activities of the range of HCIAs with which they engaged – both in the home and host countries. Table 1 shows the main outcomes perceived by the SME managers, and the HCIAs facilitating them.

Discussion

By identifying a number of HCIs involved in supporting SME internationalisation, and viewing the role of relevant HCIAs through a boundary spanning and brokerage lens, we have sought to provide deeper insights to the questions of which HCIs support SME internationalisation, and how they achieve this. Our findings support the recent literature that argues for an important role for HCIs in internationalisation (Sun et al, 2014). In our study, we have explored a wider range of HCIs and HCIAs, reflecting regulative, normative and cognitive dimensions, thus providing a more comprehensive view of the institutions and their respective agents involved in providing support for SME internationalisation. We found that HCI support for SME internationalisation was reflected in the activities of a range of relevant HCIAs. These organisations facilitated support through their boundary spanning activities, brokerage, and use of boundary objects, resulting in a number of beneficial outcomes for the internationalising SMEs. The HCIAs in our study were predominantly involved in linking the SMEs with knowledge and actors in the host countries, which accords with recent research on cross-border, or transnational, boundary spanning by HCI[A]s located in the home country (Yagi and Kleinberg, 2011). However, we also found a strong involvement of HCIAs in the host countries. These HCIAs undertook a range of important boundary spanning activities inside the host country, directly or indirectly supporting the SMEs undertaking business there (as exporters, having a

representative office, or a joint venture). Many of these activities (such as hosting of diplomatic events, or meetings with industry leaders) could not readily be undertaken by the home-country based HCIA, since they required a physical presence in the host country and an intimate knowledge of its important actors. These HCIA were highly instrumental in assisting the SMEs to further their internationalisation efforts in both the host countries involved in our study, India and China.

Our findings also indicate corresponding differences in the types of boundary spanning activities undertaken by the home based and host based HCIA, even though, in some cases, the same organisation was involved (e.g. NZTE). Following Somech & Drach-Zahavy's (2014) (cited in McNall, 2014) typology of boundary spanning activities, we found that those of the home country based HCIA focused more on scouting (information provision) and, to a lesser extent, on coordination (between the actors), while the host country based HCIA tended more towards coordination, buffering (protecting from host country impacts) and bringing up the borders (integration among key actors – in our case, particularly relevant at political and diplomatic levels). We believe that this finding relating to host country based HCIA adds a new dimension to the existing literature on role of institutions in SME internationalisation.

In terms of brokerage, our findings show that most of the HCIA sought to create cooperative relationships between SMEs and relevant actors involved. This aligns with the less commonly held view of brokerage, *tertius iungens* (Obstfeld, 2005). *Tertius iungens* brokerage contrasts with the mediation view (*tertius guardians*) of brokerage, in which the brokers are 'guardians' of the relationships between actors for their own gain (Burt, 1997, 2005). The exceptions to the *tertius iungens* approach in our study were the independent consultants and SME employees, who, while still subscribing to the objective of cooperation between the actors they were connecting, nonetheless had a vested interest in retaining some control over the relationships created, since their 'jobs' depended on having ongoing brokerage role. These HCIA, therefore, occupied a brokerage position part-way between *tertius guardians* and *tertius iungens*. These findings, delineating the types of brokerage employed by different HCIA in their SME internationalisation support activities are, to our knowledge, novel.

A key benefit of boundary spanning identified in most definitions of the phenomenon is learning (Akkerman and Bakker, 2011). The identification of specific learning-based outcomes derived from the boundary spanning activities of different HCIA in our study is not evident in current literature, which has so far mainly dealt with outcomes deriving from support from government assistance agencies, and not from other HCIA. The type of outcome tended to be associated with a particular type of boundary spanning activity, the actors involved, and the boundary objects utilised. While the provision of macro-level government support has been noted in some other studies (e.g. Crick and Lindsay, 2015), little, if any, research has investigated the relationships between these four elements. Particularly interesting is the finding that these are also associated with the level of the SME's experience and business development in the market. Notably, we found that different outcomes are important to SMEs, depending on these levels, and that the boundary-spanning process involved reflects these differences. These findings could add further insights to the existing research on post-entry development of SMEs, which has received relatively little attention in the internationalisation literature (Benito, Peterson and Welch, 2009).

Our findings clearly indicate that host country based HCIA facilitated additional (higher level) outcomes compared to the HCIA located in the home country. Most research on HCIA/HCIA has considered only the support activities provided from within the home country (e.g. Moini, 1998; Torres et al, 2016). These findings support the view that a physical presence and face-to-face interaction enabled by proximity are beneficial for relationship building (Styles, Patterson and Ahmed, 2008), and, we suggest, for boundary spanning activities with relevant actors. To our knowledge, this is a new finding in the area of home country institutional support and SME internationalisation, and one deserving of further research.

We believe that our study makes several contributions to the international marketing literature, notably that relating to home country institutions, government assistance, and SME internationalisation. By bringing these sub-domains together and incorporating the phenomenon of boundary spanning as a way of unravelling the processes involved in HCIA/HCIA support for SME internationalisation, we have attempted to extend the current literature and add a finer-grained perspective to this topic. Specifically, we have (i) identified a range of HCIA involved in supporting SME internationalisation; these reflect a range of HCIA

that are regulative, normative and cognitive in nature; (ii) proposed that the way in which these HCIAAs provide support is through their boundary spanning activities and the use of relevant boundary objects; (iii) suggested that the benefits to SMEs accrue from their use of these boundary objects and the brokerage of their connections with other actors by the boundary spanners (HCIAAs) involved; (iv) proposed that the type of brokerage employed is mainly of the tertius iungens type, which seeks cooperation among, rather than mediation between (tertius guardian type) actors; (v) identified a range of beneficial learning-based outcomes for the SMEs, with these outcomes aligning with different types of HCIAAs; and (vi) shown that the location and associated boundary spanning activities of HCIAAs in the host country are as, or more, beneficial for the SMEs than those of the HCIAAs located in the home country, particularly for those SMEs that were more experienced and advanced in their post entry development in the host country.

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