The Growth Challenge of Western SMEs in Emerging Markets: An Exploratory Framework and Policy Implications

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In this paper, we explore the main inhibiting factors associated with the process of entry and escalation of SMEs in international markets, with a focus on Emerging Markets. We identify and propose seven main categories of Institutional Voids and three main types of resources that may critically determine SMEs' performances on EMs, namely, internationalization knowledge, social capital resources and marketing capabilities. Institutional Voids and resources are brought together within a conceptual framework suggesting that resource-scarce SMEs will hold back in their attempts to commit further to Emerging Markets and will be further dissuaded the higher the Institutional Voids in the market. The paper contributes to the policy literature on SME internationalization by focusing on two areas of public policy action that could have a clear and manifest impact on SMEs conduct in Emerging Markets, the first related to the resources available to and exploitable by SMEs and the latter associated with Institutional Voids.

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Introduction

SMEs are generally believed to be fundamental to the long-term economic development of both developed and developing countries. In the

Western world, several public programs and policies are aimed at supporting the start and establishment of SMEs, as well as their growth, wherever it takes place, both at the national and at the international level.

Due to economic slowdown in developed countries, a growing number of SMEs is today entering and trying to establish in Emerging Markets (EMs). Yet, after the first market access, these firms are discovering that the process of growth is particularly challenging. This is due to two factors. First, SMEs are typically resource-constrained when compared with their larger brethren. Second, EMs are characterized by 'unfamiliar conditions and problems' (Arnold and Quelch 1998, 8) that Khanna, Palepu and Sinha (2005) first termed as Institutional Voids.

Past research has thoroughly investigated the factors affecting firm growth on international markets from different perspectives. The adoption of the Resource-Based Theory (RBT) in the study of firm internationalization in general (e.g., Erramilli, Agarwal, and Dev 2002; Brouthers and Hennart 2007), and of SMEs in particular (Ruzzier, Hisrich, and Antoncic 2006; Wright, Westhead, and Ukbasaran 2007), has produced important results, and notably that resources matter in the success of a firm's internationalization strategy, especially when entering EMs. Further, current research on EMs has shown that Institutional Voids impact the effectiveness of the firms' resources and can impede or even block the progress of these firms in international markets (Meyer et al. 2009; Khanna and Palepu 2010).

Our study aims at further investigating the features of the evolution of Western SMEs' internationalization strategies in EMs, beyond the entry mode and the impact of resource-based advantages and institutional factors in that process. The aim of this paper is to generate and evaluate specific policy frameworks that can facilitate the success of SMEs in EMs. We identify the different obstacles that can limit the growth of SMEs in the EMs and suggest a set of effective policies to support such companies in their attempts to escalate in these markets. To do so, we combine the Resource-Based Theory of the firm (RBT) with an EMs' institutional perspective.

Our paper is structured as follows. First, we discuss Western SMEs' weaknesses in EMs, through the theoretical lenses of the Uppsala model (Johanson and Vahlne 1977) and the Resource-Based Theory (Barney 1991). Second, we describe EMs regarding their fundamental characteristics, and with a focus on Institutional Voids. Third, we focus on the role of SMEs' resources and capabilities in determining their international performance. Then, we describe how escalation of commitment of SMEs in EMs might be constrained by the presence of a weak resource and capabilities base and of significant Institutional Voids. Lastly, we derive a set of policy proposals for governments in their efforts to promote SME development in EMs.

Background

SMEs AND THEIR LIABILITIES WHEN ENTERING EMERGING MARKETS

The stage-based model of internationalization (Uppsala model) is one of the most enduring frameworks in the International Business theory (Johansson and Vahlne 1977; Petersen and Pedersen 1997). According to it, firms choose their optimal mode of serving a foreign market by considering their costs and risks in this particular market and their own available resources (Hood and Young 1979). The level of market-entry commitment is related to the firm's familiarity with the market: the more psychically distant the market, the riskier it becomes for the firm to serve this market; hence, the firm tries to minimize its investments by choosing a less resource-intensive mode of operation. Later on, firms learn from their current operations and activities in the foreign market, and, over time, this learning reduces the level of uncertainty and allows firms to strengthen their market position and eventually escalate their commitment. This process of increasing commitment is not designed to be deterministic: indeed, it has been recently suggested that commitment might decline or even cease if performance prospects are not sufficiently promising (Johanson and Vahlne 2009).

Since the pioneering work of Johanson and Vahlne (1977) on the role exerted by the accumulation of market knowledge in reducing the psychic distance of firms in foreign markets, the Resource-Based Theory (Wernerfelt 1984; Barney 1991) has drawn increasing attention in the International Business literature (Ruzzier, Hisrich, and Antončič 2006) and has been successfully applied also to the case of SMEs entering EMs (Balboni, Bortoluzzi, and Grandinetti 2013; Bortoluzzi et al. 2014). The difficulties faced by small firms in the international markets have been traditionally described and discussed as 'the cost of doing business abroad' (Hymer 1976) and as the 'liability of foreigners' (Zaheer 1995). The Resource-Based Theory posits that the generation and the preservation of a competitive advantage is related to the firm's ability to develop and control specific assets that are valuable, rare, difficult for competitors to imitate, and difficult if not impossible to replace with other resources and capabilities (Barney 1991; Teece, Pisano, and Shuen 1997). Therefore, a difference in the endowment of resources and capabilities explains why firms operating in the same sector – thus subject to the same competitive dynamics at the industry level – exhibit different performance levels in a market (Grant 1991).

The same resource-based explanation can be applied to the process of a firm's expansion in international markets. Cuervo-Cazurra, Maloney, and Manrakhan (2007) identify three different categories of resource-based challenges in international markets: the loss of an advantage when transferring a valuable resource into a new country; the creation of a disadvantage due to the transfer of resources into a new country; the lack of complementary resources to operate abroad. The last category in turn generates three sub-categories, or 'liabilities': liability of expansion, related to the need to operate at a larger scale than before; liability of newness (Stinchcombe 1965; Shepherd, Douglas, and Shanley 2000), due to the need to learn and adapt to a new market, and liability of foreignness, which is mainly related to the difficulties in operating within a new institutional environment.

Such liabilities appear to be particularly significant for SMEs as they generate competitive advantages based on tacit resources (knowledge) that are not easily transferrable to other markets. Furthermore, their limited resource endowment and their lack of investment capacity generate additional obstacles in entering and being established in new markets. On top of this, weak managerial and marketing resources may generate further problems, explaining their preference for less demanding forms of presence (export-based modes).

The limits of an SME's resource and capabilities base are clearly observable when they try to enter EMs. Compared to developed markets, SMEs encounter very different institutional environments in EMs and often lack the needed market and cultural understanding, as well as the business and non-business relationships and the associated social capital (in the form of reputation, established relationships and brands). In this paper, we argue that SMEs suffer more such limitations in EMs than in developed markets and comparatively more than larger multinational firms, compounded by their weak base of resources and capabilities and the significant contextual differences they must deal with (Vianelli, de Luca, and Bortoluzzi 2012). Due to such intrinsic weaknesses, there is a need for specific policies aimed at supporting and promoting their entrance and growth in EMS.

EMERGING MARKETS AND INSTITUTIONAL VOIDS

While historically being considered as locations for cost-saving opportunities for Western firms (Cavusgil, Knight, and Riesenberger 2012), EMS are now experiencing a remarkable growth of purchasing power along with mounting expectations of local consumers. These changes push an increasing number of Western firms to enter those markets to exploit their potential opportunities involving increased exports, as well as the re-location of capital and production and the shift of supplier networks at the global level (Jansson 2007). Yet, despite a positive EMS dynamic, a limited group of European SMES export to EMS (approximately seven to ten per cent of SMES according to the European Commission 2011). To explain the phenomenon, some scholars studying developed country firms entering EMS have drawn attention to the peculiarity and idiosyncratic nature of EM contexts and to the degree of (under)-development of their institutions. Arnold and Quelch (1998, 8) stated that EMS are characterized by 'unfamiliar conditions and problems', which include poorly functioning or non-existent logistical infrastructure (highways, railways, harbours, airports, ICT networks), weak market systems and channels (i.e. sales and distribution networks) and important differences in buyer behaviour that developed country companies may find difficult to understand and adapt to.

The business strategies of firms from developed countries are frequently predicated on institutions that guarantee protection of their tangible and intangible resources. The absence of such institutions generates obstacles to being established in EMS. Such Institutional Voids relate to unfamiliar conditions and problems that characterize these markets and can deter firms from entering them or call for a modification of the entry modes (Arnold and Quelch 1998; Steenkamp 2005; Khanna and Palepu 2010).

Notable taxonomies of Institutional Voids include Khanna, Palepu and Sinha (2005) 'dimensions of institutional contexts' and the World Bank's 'Ease of Doing Business' survey. The World Bank has ten indices that measure the ease with which companies can do business in a country. Khanna, Palepu and Sinha (2005) developed an exhaustive taxonomy of potential Institutional Voids that they gathered into five categories. The first group is the 'political and social system' that includes political stability of the country, the degree of protection of private property and intellectual rights and the efficacy of the judiciary system. The second group, called 'openness', considers the existence of discriminatory legal restrictions and constraints facing foreign investors. The third describes Institutional Voids in 'product markets' and relates to the ease of access to valuable information on consumers and market trends, the existence of an adequate distribution system and the extent of product-related environmental and safety regulations. The fourth group is concerned with the conditions and flexibility of the 'labour market' and deals with the availability and quality of human capital in a specific institutional setting. The fifth and last category represents the 'capital market' and examines the extent and quality of financial intermediaries, venture capital investors, stock markets and regulatory systems (Welter and Smallbone 2011; Gao, Ballantyne, and Knight 2010; Meyer et al. 2009).

The core implication of these Institutional Voids taxonomies is that while the direct cost of doing business in EMS may be lower relative to developed country markets, Institutional Voids raise both risk and transaction costs of doing business. Institutional Voids are believed to create both barriers for firms entering EMS and to impose limitations on their commitment even if they decide to enter. A weak institutional environment, in terms of high Institutional Voids, may dissuade firms from committing time and resources in the market, as noted both by Broadman et al. (2004) and Welter and Smallbone (2011). Further, as reported by Khanna and Palepu (2010), a major problem in operating in EMS is the lack of 'intermediaries' (such as market research firms, development agencies, headhunting firms, business schools, advisors, regulators, legislators, judiciary system) who can reduce or eliminate Institutional Voids. This is a problem especially for foreign SMES, which – due to their limited resource base and lack of experience – would very much like to refer to such intermediaries to enter and be established in the EMS. For instance, Sousa and Bradley (2008) found that the institutional environment, expressed in terms of communication and marketing infrastructure, technical requirements, legal regulations and economic/industrial development, exerts a significant impact on the export performance of the firm. In a later study comparing the internationalization processes of SMES in EU, China and Russia, Hilmersson and Jansson (2012) found the institutional setting of EMS to limit the positive effect provided by the internationalization knowledge on the internationalization process of the firm. In a recent qualitative study analysing three European firms, Bortoluzzi et al. (2014) found Institutional Voids to severely affect the way entering firms set their distribution channels in EMS and the decision to invest in the use of more resource-demanding modes of presence. Further research also confirmed the role of institutional heterogeneity (and dysfunction) relative to developing country contexts and their impact on a firm's entry decisions and the effectiveness of subsequent steps in EMS (Khanna and Palepu 2010; Ferreira, Li, and Yong Suk 2009; Henisz 2004; Xu and Shenkar 2002; Kostova and Zaheer 1999). Overall, this research stream has led to a broad-based acceptance that institutions that support markets play a greater role in firm performance (Oliver 1997), 'directly determine what arrows a firm has in its quiver' (Ingram and Silverman 2002, 20), and represent 'one leg that helps sustaining a [firm's] strategy tripod' along with the firm's resources and capabilities and industry conditions (Peng, Wang, and Jiang 2008, 921).

Towards Developing a New Framework of SMEs' Escalation in Emerging Markets

THE DRIVERS OF SME ESCALATION IN EMERGING MARKETS

Past research has primarily addressed the theme of Institutional Voids to investments made by multinationals, frequently contrasting wholly-owned subsidiary (WOS) with joint venture (JV) modes (e.g. Brouthers 2002; Brouthers and Hennart 2007; Hill, Hwang, and Kim 1990; Puck, Holtbrugge, and Mohr 2009) thus perpetuating a simplified view of the reality, in which SMEs typically enter foreign markets through export-based modes. Such studies have taken into consideration the limits and constraints of SMEs going abroad, suggesting that such firms are less likely to pursue high-commitment forms of presence while preferring to approach foreign markets through direct or indirect exports (Gankema, Snuif, and Zwart 2000; Jansson and Sandberg 2008). Furthermore, while many SMEs enter EMS, only a few of them escalate to more resource-committed forms of presence (Akbar, Bortoluzzi, and Tracogna 2014).

In this paper, we refer to two types of escalation of commitment in foreign markets: the first (between-modes) occurs through the adoption of riskier modes of operation, as typically described by the stage-based internationalization theory (Johanson and Vahlne 1977); the second (within-modes) results in the escalation of resource commitment within the initial mode of operation. This latter type of escalation relates to the degree to which additional resources, both organisational and managerial, are allocated to operations within a specific EM after the entry phase. Such a concept of escalation is not new to the international business literature: indeed, stage-based theories of internationalization are built around the process of committing additional resources in a market, because of the accumulation of international experience and market knowledge (Johanson and Vahlne 1977). However, this process of gradual establishment in a market (within-modes) is rarely considered as a key dimension of the internationalization process of firms and has been even less analysed in the context of EMS relative to the first type of escalation of commitment (between-modes), which results in the adoption of a higher mode in the establishment chain, ranging from: indirect export; direct export; strategic alliance (non-equity based agreements including also franchising); joint ventures (equity-based agreements) and Foreign Direct Investment (FDI) (Swoboda, Olejnik, and Morschett 2011).

Within the framework we are developing, and based on the RBT, three variables have a major direct and positive effect on the escalation of SMES in the EMS: the international knowledge of the firm or entrepreneurs (A), the social capital resources of entrepreneurs and their firms (B) and the marketing capabilities (C). We will refer to the above as the 'resource and capabilities base' (RCB) of SMES.

Several studies confirm the existence of a positive relationship between accumulated internationalization knowledge (A) and a firm's international achievements. Internationalization knowledge is the outcome of a learning process-taking place through and after the entry in foreign markets (Cavusgil, Knight, and Riesenberger 2012; Dean, Mengüç, and Myers 2000; Johanson and Vahlne 1977). According to Eriksson et al. (1997), such knowledge informs a firm's entry decision into a foreign market. It includes, for instance, the specific rules and customs of the market, the attitudes and preferences of local consumers, and the specific information about local suppliers and distributors. Internationalization knowledge accumulates over time, as the firm continues to operate in foreign markets (Blomstermo, Eriksson, and Sharma 2004; Autio, Sapienza, and Almeida 2000). Conversely, should a firm exit foreign markets, its accumulated knowledge rapidly obsolesces. The gradual accumulation of internationalization knowledge supports the further internationalization of firms, encouraging them to enter new, distant markets, and to escalate their existing commitments in already served markets (Francis and Collins-Dodd 2004; Prasad, Ramamurthy, and Naidu 2001). Francis and Collins-Dodd (2004) found a significant relationship between a firm's degree of export commitment, as a proxy of its accumulated experience, and its ability to further expand in foreign markets. Prasad, Ramamurthy, and Naidu (2001) found that the international knowledge of a firm moderates the relationship between its marketing capabilities and its international achievements. In other words, when a firm accumulates international knowledge, it becomes more able to exploit with success its marketing resources and capabilities in international markets. Internationalization knowledge allows managers to better understand foreign markets (Axinn 1989) and to better detect additional international opportunities there (White, Griffith, and Ryans 1998). This is especially relevant for SMEs whose expansion processes are typically more gradual than those of MNEs (Hilmersson and Jansson 2012). Thus, we can expect that internationalization knowledge positively impacts a firm's international market performance and establishment (Akbar, Bortoluzzi, and Tracogna 2014). In other words, SMEs endowed with greater amounts of internationalization knowledge will be better positioned to expand their business and to succeed also in the context of EMs.

The importance of social capital resources (B) in the internationalization process of SMEs was identified in different studies (Ruzzier and Antončič 2007; Birley 1985; Ostgaard and Birley 1994) and will represent our second main driver of SME escalation in EMs. Social capital, being a resource itself, is usually embedded within, available through, and derived from the network of relationships at the individual and firm level (Nahapiet and Ghoshal 1998). Regarding the network content, entrepreneurs' social networks can provide entrepreneurs and their firms with information and access to other scarce resources (Ostgaard and Birley 1994; Liao and Welsch 2003), and facilitate their identification, collection and allocation (Birley 1985). Social networks help firms expose new opportunities, obtain knowledge and learn from experiences (Chetty and Holm 2000), and establish formal relationships with lending institutions (Honig 1998). Peng and Luo (2000) stated that the social capital embedded in managerial ties may be more important in situations of imperfect competition, characterized by weak institutional support and distorted information (such as the EMs). The more uncertain the environment, the more likely informal ties with managers in other firms will be mobilized (Pfeffer and Salancik 1978).

It is broadly accepted that marketing capabilities (C) are a primary driver of a firm's competitiveness (Merrilees, Rundle-Thiele, and Lye 2011; Vorhies and Morgan 2005; Weerawardena 2003), while a wide literature recognizes the relevance of such capabilities also when firms enter foreign markets (Morgan, Katsikeas, and Vorhies 2012). Marketing capabilities refer to a firm's general ability to manage product offerings, business partners and distribution systems, as well as advertising and communication activities and pricing (Zhou, Wu, and Barnes 2012; O'Cass and Julian 2003). Cavusgil and Nevin (1981) were among the first to demonstrate that the export propensity of a firm is related to its ability to develop effective marketing plans. Zou and Stan (1998) explored ten years of empirical literature in this subject and found that the organization of marketing resources within a firm and its capacity to manage market research and its distribution network are important explanatory variables of the international presence of firms. More recent studies sharing a similar conceptual tradition include Hitt et al. (2000), Isobe et al. (2000), Minbaeva et al. (2003), Ruzzier, Hisrich, and Antoncic (2006), Hsu and Pereira (2008). Other studies, that explicitly adopted the RBT approach, confirmed this finding. Haar and Ortiz-Buonafina (1995) found that marketing capabilities positively impact the export development of Brazilian firms. Along the same lines, Lu et al. (2009) found that SMES in possession of more adaptive marketing capabilities perform better in foreign markets. We can thus conclude that SMES that are better equipped with marketing capabilities will also better perform in the context of EMS.

THE FRAMEWORK

The set of resources described above do not only show a direct positive effect on the escalation processes of SMES in EMS. Indeed, their effect on escalation is negatively moderated by the presence of Institutional Voids. In other words, resources and capabilities have a value that is contingent on the institutional conditions in which they are leveraged: Institutional Voids decrease the contextual value of the resources and capabilities and eventually determine, other conditions being equal, a lower-commitment presence and a less rapid escalation in the market.

Based on the above, we can introduce a set of propositions, which conceptually link SMES' escalation in EMS to the resource and capabilities vector (RCB), with Institutional Voids playing both a direct and a moderating role:

PROPOSITION 1 *The Resource and Capabilities Base (RCB) positively affects SMES' escalation in EMS.*

PROPOSITION 2 *Higher institutional voids exert a negative effect on SMES escalation in EMS.*

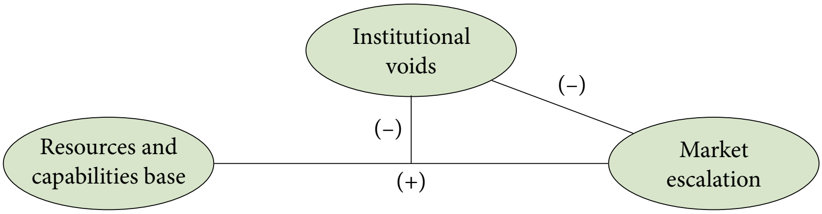

FIGURE 1 Framework of SMEs' Escalation in Emerging Markets

PROPOSITION 3 *Institutional Voids negatively moderate the direct positive relation of RCB on SMEs' escalation in EMs.*

The Impact of Institutional Voids on SMEs' Escalation in Emerging Markets

In delineating and characterizing Institutional Voids, we have referred to the World Bank's Ease of Doing Business Index. For the purposes of our research, we have selected 4 out of 10 sub-indices, namely:

1. Starting (and developing) a business, that is related to the time, costs and red tape that are needed to open a new business;
2. Protecting investors, which measures the strength of shareholder protection including transparency and the ability to sue officers and directors for misconduct;
3. Trading across borders, which is related to the ease of managing import/export activities (time, documents and costs);
4. Enforcing contracts, that refers to the ease of procedures and the time and costs needed to enforce a commercial contract.

Furthermore, we have enlarged the list of institutional factors to include other variables, which are relevant in influencing the mode of presence and operations, and namely:

5. Availability of data and information on the market, related to the ease (and cost) of access to relevant information and data that can drive firms' decisions;
6. Intellectual Property (IP) laws and regulations, that refers to the level of protection guaranteed to foreign firms' intellectual capital;
7. Labour contract laws, dealing with the existence of restrictive rules and regulations to hire (and fire) workers.

TABLE 1 Effects of Institutional Voids on SMES Escalation in Emerging Markets

Institutional void	Potential impact on market escalation
Starting and developing a business	The factor is relevant to the theme of escalation when a firm who was previously exporting in EMS decides to establish a direct, local presence in the market (hence escalating from lower to higher resource commitment modes). In this case, significant difficulty in starting and developing a business locally can discourage a firm from growing.
Protecting investors	A lack of protection of foreign investors has a heavy impact on a firm's escalation process. In such cases, firms will tend to keep an export-based presence in the market and avoid any investment in proprietary facilities (shops, plants, warehouses, other facilities) given the difficulties in recovering or liquidating assets in the country.
Trading across borders	Restrictive trading legislation and practices could have very different impacts on firms' resource commitment decisions. Trading restrictions could hamper firms from escalating to heavier modes (i.e., switching from export to FDI) or, conversely, could force firms to have a local presence right from the beginning due to trade barriers that discourage the import of specific goods. Such barriers normally discourage smaller firms, more than bigger ones. In some cases, restrictive trade rules could disguise the real magnitude of firms' escalation in a market. For example, rather than pursuing a wholly owned FDI project, the firm may prefer or be required to form a Joint Venture instead – implicitly limiting its escalation.
Enforcing contracts	An unreliable judiciary system represents a serious impediment to the international commitment of firms. Firms are less willing to expand their presence in a market if they are not sure to be protected in case of disputes related to contracts and agreements. In these instances, they will prefer to manage sales and supply activities through spot contracts.

Continued on the next page

Such seven institutional factors can deter firms from entering them or call for a modification of the modes of presence (Steenkamp 2005; Khanna and Palepu 2010). In particular, high levels of Institutional Voids might explain why firms adopt a lower-commitment entry mode in international markets (Meyer et al. 2009), because of the higher risks and uncertainties posed on the firm's investments. Moreover, persistent high levels of Institutional Voids may also discourage further escalation of commitment once a firm has already entered a market.

In table 1, we have described more specifically how each identified Institutional Void affects the escalation of SMES in EMS.

TABLE 1 *Continued from the previous page*

Institutional void	Potential impact on market escalation
Availability of data and information on the market	A lack of data and information can prevent firms from exploiting emerging opportunities in foreign markets hence delaying investments in the development of a proprietary distribution system (i.e., franchising, directly operated stores, showrooms)
Intellectual Property (IP) protection and regulations	A special attention is here given to firms that tend to relocate in EMS their production and new product development activities to better meet local specificities. Usually, production activities are associated with the disclosure of trade secrets and knowledge transfers. However, weak IP protection could hamper smaller firms from moving their activities in EMS, thus limiting their commitment of financial, technological and human resources.
Labour Law	Smaller firms normally start escalating in a market by hiring local staff such as sales agents, area managers and quality controllers. If labour norms and regulations are too complex, firms will be discouraged in escalating their mode of presence. Conversely, when labour norms and regulations are not well defined, SMES might find it too risky to enter into ill-defined transactions.

Public Policy Proposals to Support SMES Escalation in EMS

Our conceptual framework of SMES escalation in EMS holds several managerial and public policy implications. About the managerial implications, SMES based in advanced economies need to confront the institutional 'reality' that their marketing capabilities and knowledge-based resources – originally built in developed countries – may need to be supplemented with new ones to cope with institutional weaknesses inherent in EMS. In practice, SMES must be aware of the effect that Institutional Voids will have on their resources and capabilities and hence be available to make additional investments to reinforcing them. This implies that SMES both develop existing resources and capabilities but also supplement them with new ones (Bortoluzzi et al. 2014). An effective means of resource adjustment and development is through networking, especially to accelerate the process of knowledge sharing and transfer between firms (Sandberg 2014). Thus, marketing and export partnerships should be encouraged between SMES confronting similar challenges in EMS as well as the building of local marketing networks.

Regarding public policy implications, if governments wish for SMES to be able to fully exploit their current array of marketing and knowledge-based resources and capabilities, there is an onus on them to more actively develop resources that can help SMEs thrive in EMs. Indeed, the lack of specific resources and capabilities and the existence of numerous Institutional Voids in EMs, and their possible negative impact on SMEs, call for a dedicated set of public policies aimed at supporting firms and helping them overcome several liabilities when approaching foreign markets (Cuervo-Cazurra, Maloney, and Manrakhan 2007). Effective public policy must address SME weaknesses across numerous dimensions (e.g. attitudinal, experiential, informational and organizational) and provide firms with supplementary assets to compensate for them. Of course, precautions should be in place to avoid such policies induce SMEs that are not yet 'international ready' to move prematurely and consequently fail in EMs.

Past research has abundantly evaluated the role of government programs in helping firms entering new markets (e.g. Diamantopoulos, Schlegelmilch, and Inglis 1991; Crick and Czinkota 1995). Most of the noteworthy research on this topic dates to the early nineties, a period in which the world was changing rapidly due to the consequences of the fall of the Berlin Wall and the sudden opening of new supply, production and (potential) consumption markets to Western firms' in post-Communist economies (Arnold and Quelch 1998). However, world trade has been changing significantly since then, both in terms of geography (new 'emerging markets' have 'emerged' in the global scenario) and in the magnitude of firms' internationalization processes (more SMEs today enter EMs, some of them even escalate in their mode of presence). Yet, the debate over supporting policies has not kept pace (Gillespie and Riddle 2004; Francis and Collins-Dodd 2004; Cuervo-Cazurra, Maloney, and Manrakhan 2007). Common weaknesses in government policies supporting the internationalization of SMEs include:

- Prioritizing the entry phase of the firm process of internationalization, instead of looking at their whole process of international expansion;
- Providing support to the firms' export activities, instead of looking at further modes of entry and presence;
- Aggregating 'foreign' markets instead of distinguishing between supports needed to enter mature markets and those relevant for EMs.

Many policies equally fail to consider that the higher the international experience of a firm in a market the higher its propensity to be involved in more advanced stages of the internationalization process (from low to high-resource commitment modes of presence). Similarly, most policies fail to take into consideration the nature of the obstacles such firms face to achieve their international objectives (Kotabe and Czinkota 1992). Furthermore, additional research on the topic has noticed that excess government support to export activities could prevent firms to follow different and more profitable internationalization strategies (Acs, Morck, and Yeung 2001). As envisaged by Wright, Westhead, and Ukbasaran (2007), an effective set of public policies for SMEs entering EMs should:

- Facilitate the drive for an SME's early internationalization in EMs;
- Frame the internationalization processes as a dynamic activity (i.e. an activity that goes beyond the initial market entry) and grade the level and type of support appropriately;
- Supplement and complement the relative lack or scarcity of resources available to SMEs;
- Foster and encourage entrepreneurial attitudes and orientation towards internationalization in EMs;
- help SMEs leverage international resources through the development of networks and cooperative arrangements.

Whilst entering and escalating in a foreign market could be closely related, the kind of support that is needed to facilitate the firms' entry and escalation could differ significantly. First, companies that aim to escalate are already in the market and thus have already developed some form of presence and committed resources there. Second, escalating firms are not 'new to the market'. Hence, they have already developed some market-related knowledge and obtained some feedback from the market.

In their attempts to support market escalation of SMEs in EMs, policy makers should intervene both at the level of firms' resources and capabilities and at the level of Institutional Voids. Since foreign firms and institutions cannot readily replace Institutional Voids, policy makers should focus on ways to help SMEs deal with existing voids.

Table 2 summarizes a set of proposals of supporting policies aimed at helping Western SMEs in their escalation efforts in EMs.

The above set of policy proposals, which include educational programmes, information provision, mentoring and consulting services, can, in our view, effectively support the escalation processes of SMEs' in EMs.

TABLE 2 Supporting Policy Proposals Aimed at Helping SMES in Their Escalation Efforts in EMS

Target*	Policy proposals
Internationalization knowledge	Different educational programs should be targeted to both starting and experienced entrepreneurs to promote periods of stay and mentorship programs in EMS, such as Erasmus for entrepreneurs in Europe. Often, firms undervalue the importance of training in dealing with specific markets, institutions and cultures. Here, there is room for policies aimed at providing specific training and preparation for managers of SMES, emphasizing the sharing and adoption of best practices that have succeeded in specific EMS.
Social capital	The promotion of networking is a way to accelerate the process of knowledge sharing and transfer between firms. This could be further underpinned by inviting experts in the field (such as scholars and consultants from EMS) to accelerate the process of experience acquisition, supporting SMES in the absorption and integration of knowledge from others. Policy makers should encourage networking between SMES that operate in a certain market, irrespective of their industry, to foster knowledge and information exchange. Policy makers could also organize collective 'market excursions', where costs would be co-financed. This way, SMES could develop/establish new networks and knowledge about functioning of EMS.
Marketing capabilities	Policy makers should strengthen and foster an SME's understanding of EMS through the financing of the collection of specific market data and the preparation of marketing research studies. Policy makers should also find ways for supporting those firms' communication activities in a market to promote a firm (or a country of origin) brand more effectively. Marketing capabilities could be developed also by organizing and co-financing presence in foreign trade fairs and exhibitions.
Institutional Void: Starting and developing a business	Direct or indirect support should be offered by policy makers to SMES that want to escalate their form of presence, especially when red tape is particularly difficult and/or when an institutional support could be important to speed-up the process. Direct support could come in the form of political pressure to encourage liberalization and harmonization of business legislation. Indirect support could come from providing and/or co-financing external consulting to SMES from EM experts. Visits to selected EMS would also help SMES come to terms with the realities and challenges of foreign markets.

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Conclusions

In this paper, we have explored and framed our conceptual understanding of the main inhibiting factors associated with the process of escalation

TABLE 2 *Continued from the previous page*

Target*	Policy proposals
Institutional Void: Protecting investors	Policy makers should educate SMES about the best methods and approaches to protect their investments. Seminars, mentoring, consulting services, sharing of best practices appear to be the most appropriate forms. Governments should also provide investors' insurance in foreign markets.
Institutional Void: Trading across borders	When trade barriers are too high, policy makers should help SMES in finding alternative solutions. An example is leveraging on 'triangulation' which means reaching a targeted market indirectly, through a 'parent' market that can boast advantageous custom agreements. While current trade legislation and procedural knowledge may be strong in larger firms, SMES may not have the time or resources to learn how to address all such specific challenges and therefore there is a role of public policy in providing targeted training on trade rules.
Institutional Void: Enforcing contracts	Policy makers should help SMES navigate foreign judicial systems through specific training and even direct support when needed.
Institutional Void: Availability of data and information on the market	SMES do not normally have sophisticated marketing information systems or databases. That is why policy makers should help them with market studies, meetings with experts and consultants. Online platforms could also help, supporting the collection and exchange of information to enter and operate on foreign markets. Such platforms could be used also as networking media, as well as for creating a collaborative entry of groups of firms into EMS, thus sharing the costs of entry and the potential associated risks.
Institutional Void: Intellectual Property (IP) laws and regulations	Policy makers should help SMES better understand the risks connected with IP rights. Providing information on the theme and developing connections with trustworthy foreign experts in the field can help SMES.
Institutional Void: Labour Market Law	SMES are encouraged to hire workers in an EM when they have the support of trustworthy local experts. Policy makers should help SMES identify those professionals and get firms in contact with them. This can be done through the development and maintenance of a database of EM experts.

NOTES * Resource and institutional void.

of SMES in international markets, with a special focus on EMS. The increasing attractiveness of EMS, compared with developed markets, has encouraged aspiring and growth-oriented SMES to consider them as important targets. Yet, EMS are associated with specific conditions related to institutional characteristics, particularly Institutional Voids, which affect (moderate) market entry and market escalation strategies of SMES.

Based on well-established classifications of Institutional Voids and our personal research, we have identified and proposed seven main categories of Institutional Voids relevant for SMES. We have presented in detail their potential influence on entry and escalation of SMES in EMS. Further, our paper has identified three main types of resources and capabilities that critically determine a firm's performance on EMS, namely, internationalization knowledge, social capital resources and marketing capabilities. We have brought together resources and Institutional Voids into a conceptual framework of SMES escalation in EMS. The model suggests that resource-scarce SMES will hold back in their attempts to commit further to EMS and will be further dissuaded the higher the Institutional Voids are present in the market.

Finally, we considered a set of policy proposals for governments in their efforts to promote SMES entry and escalation in EMS, which represent a good basis for enhanced policy development and support, especially with the proper understanding of SMES escalation in EMS.

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