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**Do political and business relations help emerging markets' SMEs in their national and international expansion?
Evidence from Brazil and China**

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Do political and business relations help emerging markets' SMEs in their national and international expansion? Evidence from Brazil and China

ABSTRACT

Purpose. This study aims to understand whether business and political relations help emerging markets' SME to overcome the challenges posed by low institutionalization in their national and international expansion. It focuses on the role that these relations play in determining access to government funding and contracts, and to market information and business-related knowledge.

Design/methodology/approach. The data were collected from 828 SMEs in Brazil and China. The data analysis was developed in two stages: the first stage was based on multivariate regression analyses using the ratio of sales outside the companies' region of origin divided by total sales as a dependent variable and the survey's answers as independent variables; outward sales were taken at two different levels – national and international – to consider: (i) the different stages in the national and international expansion process, and (ii) the fragmented nature of domestic markets in both Brazil and China. The second stage was based on a stepwise multiple regression as the relative importance of the variables was not known beforehand and the objective was to rank them according to the managers' perceptions.

Findings. Informal institutions, in particular business and political relations, can help to reduce uncertainty and overcome some disadvantages associated with weak institutionalization. They do this by providing access to trusted distribution channels, improving the familiarity with different institutional environments, and strengthening the management of supply chains and commercial strategies to serve markets outside their region. Also, SMEs in emerging markets getting access to private sources of funding, market knowledge, and government contracts through business and political relations are in a better position to expand nationally and internationally.

Originality/value. The research shows that the domestic environment, in particular one with low levels of institutionalization, impacts negatively the national and international expansion of SMEs and, more importantly, how firms can use business and political relations to overcome the obstacles posed by this environment. The findings also have implications for theory, practice, and policymaking.

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3 Keywords: emerging markets, informal institutions, political and business relations, SMEs'
4 national and international expansion, Brazil, China.
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Do political and business relations help emerging markets' SMEs in their national and international expansion? Evidence from Brazil and China.

INTRODUCTION

In this paper we investigate how companies based in emerging markets (EMs), in particular, small and medium-sized enterprises (SMEs), use business and political relations to support their national and international expansion. We aim to explore whether the relatively weak institutional environment (IE) in their domestic markets (Buckley, 2018; Cárdenas, 2018; Muratova, 2018) hinders their business plans and expansion strategies to grow domestically and abroad. Getting answers to these points is relevant since EMs and developing economies account for over 60% of global growth (IMF, 2020), and within them, a growing number of SMEs are expanding overseas. In fact, in China, for example, small firms account for around 70% of the country's exports (which means about 10% of the world's exports) and in both Latin America and China, SMEs account for more than 98% of businesses and more than 65% of total employment (China Statistical Yearbook, 2017; IADB, 2014; OECD, 2012; Statista, 2020; WTO, 2020).

Despite the crucial contribution of SMEs to economic growth, most scholarly works in recent years have focused on the effects of emerging markets' relatively weak IE on multinational corporations (MNCs) (Haasis Timon, 2019; Hernandez & Guillen, 2018; Hong et al., 2015) with a few exceptions on how this institutional environment, and informal institutions, in particular, influence the development of EMs-based SMEs (Cardoza et al., 2016; Deng & Zhang, 2018; Felzensztein, 2016; Kahiya, 2018; Lopez Acevedo & Tan, 2010; Wu & Deng, 2020; Zhu et al., 2011). This is an area in need of further study, mainly because SMEs have fewer resources and capabilities to overcome institutional constraints (Boisot & Meyer, 2008; Couper, 2019; Fornes & Cardoza, 2018; Yamakawa et al., 2008). At the same time, SMEs are the fundamental building blocks in the productive structure of EMs, and as such, they are significant contributors to EMs' social and economic development. The present research aims to help fill this gap.

This article intends to contribute to the academic literature in several ways: (i) by studying the role of informal institutions supporting EMs-based SMEs' expansion and, within this, (ii) by analyzing how informal institutions such as business and political relations help to overcome the lack of market information, business services and funding needed for EMs-based SMEs' expansion. The study also brings implications for practitioners and policymakers. The premise

is that informal institutions, mainly in the form of political and business relations (also known as vertical and horizontal relations respectively) fill the institutional voidsⁱ to enable the expansion of business (Burt & Batjargal, 2019; Estrin & Prevezer, 2011; Nee & Opper, 2012; Tracey & Phillips, 2011). The study is framed within Institutional Theory to analyze how informal institutions help SMEs to overcome barriers in their process of national and international expansion (Peng, 2001). It focuses mainly on exports, usually the first stage in the international expansion (Dunning, 2003), when SMEs need to overcome different types of challenges present in their home environment (Boisot & Meyer, 2008; Burt & Batjargal, 2019; Cárdenas, 2018; Castanias & Helfat, 2001). For this purpose, the study uses a systematically collected firm-level dataset in Brazil and China to analyze the interaction between informal institutions and the drivers and barriers to SMEs' expansion.

The article proceeds as follows. The theoretical background part provides a general overview of the scholarly contributions to the analysis of institutions' role, formal and informal, in EM economies. The hypotheses development section presents a review of studies on the relationship between informal institutions and firms' performance and then develops hypotheses from the perspective of EM-based SMEs. The last part presents the methodology, followed by a section showing the results of the data analysis. The article finishes with discussion, implications, future research, limitations, and concluding remarks sections.

THEORETICAL BACKGROUND

The institutional environment, defined as the "set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution" (Davis & North, 1971: p. 6), is developed to structure and coordinate political, economic, and social relationships among members of a given society. Institutions are essential for economic development (North, 1991; Williamson, 1985) to reduce the uncertainty and transaction costsⁱⁱ derived from imperfect information (North, 1993, 1995). The institutional environment is formed by formal institutions like regulatory frameworks, laws, or standards, and informal institutions like norms, values, or practices (North, 1990). The international business literature has shown that IE affects companies' performance due to cultural distance (Hofstede, 1981; Kogut & Singh, 1988), unfamiliarity with business conditions (or liability of foreignness) (Fornes & Cardoza, 2018; Johanson & Vahlne, 1977; Zaheer, 1995), different public policies, legal institutions, and regulatory structures (Davis & North, 1971; Kittilaksanawong, 2017; Peng et al., 2005), among other factors. In this context, research has shown that institutions matter, but what is relevant to know is *how* institutions matter (Peng et al., 2008) to: (i) get

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3 useful insights for companies' strategy design and decision-making processes; (ii) evaluate
4 strategic options for national and international expansion, and (iii) design, implement, and
5 evaluate public policies to promote firms' expansion (Khanna & Palepu, 2010; Mathews,
6 2018).
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10 These factors appear more relevant when studying the expansion performance of companies
11 from emerging markets as it has been shown that these economies present a relatively weak IE
12 (Buckley et al., 2018; Hoskisson et al., 2000). Weaknesses are tangible in three main areas: (i)
13 lack of relevant information: comprehensive, reliable, and objective information to make
14 decisions is not always widely available; (ii) misguided regulations: political goals are
15 sometimes prioritized over economic efficiency reducing thus the chances to take full
16 advantage of business opportunities and, (iii) inefficient legal systems: independent judicial
17 systems enforcing contracts reliably and predictably are not always present in EMs (Fornes &
18 Mendez, 2018; Khanna & Palepu, 1997; Khanna & Palepu, 2010). These institutional voids,
19 usually basic factors taken for granted in developed economies, where they play a role in
20 providing a stable level playing field, are elements frequently missing in most EMs'
21 environments (Buckley, 2018; Meyer, 2004; Meyer et al., 2009).
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32 Emerging markets, including transition economies, are continuously working towards the
33 development of market governance to offer stability to their newly created free-market systems
34 (Arnold & Quelch, 1998) which result very often in "a 'high velocity' environment of rapid
35 political, economic, and institutional changes" (Wright et al., 2005: p. 7). These changes, in an
36 interconnected global economy, are bringing a non-ergodic uncertainty as it is no longer
37 possible to "satisfactorily predict the future by extrapolating from the past [because] complex
38 systems evolve in ways that are at least partially unpredictable"(Cantwell et al., 2010: p. 570).
39 In these less stable and uncertain environments, institutional voids may lead to market failures
40 and higher transaction costs, which usually result in EMs-based firms being forced to
41 internalize market functions (Buckley et al., 2018; Child & Rodrigues, 2005; Khanna & Palepu,
42 2000; Vassolo et al., 2011). Because the price system does not provide reliable information for
43 the efficient allocation of resources, and governments' discretion, rather than the rule of law,
44 determines property rights (Wright et al., 2005), SMEs face institutional barriers in their
45 business expansion. In this sense, North (2005) argued that this uncertainty originates primarily
46 in informal institutions because of the opaqueness and/or incommensurability of practices,
47 values, or norms and their effect on decision-making.
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On this point, scholarly works have been studying how MNCs from developed economies can overcome the challenges created by institutional voids and the associated complexities and uncertainties in host markets. For example, Cantwell et al. (2010: p. 579) argued that MNCs need to engage in institutional innovation with more decentralized structures that include “more locally responsive, yet internationally connected relationships”. Also, Regnéer and Edman (2014: p. 275) showed that four strategic responses (innovation, arbitrage, circumvention, and adaptation) could help subsidiaries “to transpose and evade [home country] institutions in the pursuit of competitive advantage.” Furthermore, Kostova et al. (2008: p. 1001) criticized the narrow subset of institutional ideas for studying these challenges as “MNCs are embedded in multiple, fragmented, ill-defined, and constantly evolving institutional systems.”

Even though these studies have shed light on the importance of institutions for the expansion of MNCs based in developed economies, critical questions for emerging economies are still unanswered, in particular, how can emerging countries achieve rapid growth rates in weak institutional settings when it is the growth of the firm, in the aggregate, that leads to the growth of the economy? Or, in more practical terms, how can institutional voids be filled to offer firms an enabling environment to grow? (Alon et al., 2011; Buckley et al., 2018; Peng et al., 2018; Shi et al., 2017; Wu & Deng, 2020). A growing number of works attempt to answer these questions by showing that firms based in emerging markets are exploiting the low levels of institutionalization in their home markets to support the companies’ development and expansion (Alon et al., 2018; Fornes & Butt Philip, 2014; Liang et al., 2018; Mutlu et al., 2015; Nicholls-Nixon et al., 2011; Peng et al., 2008). A partial answer to these questions seems to lie in informal institutions that link the micro and macro levels creating thus inter-organizational strategies that are based on alliances and networks (Estrin & Prevezer, 2011; Fornes & Cardoza, 2018; Nee & Opper, 2012; Peng & Luo, 2000).

To face the challenges of weak IE, informal institutions (for example in the form of relations, alliances, or networks) help companies to overcome market failures by getting access to capital, sometimes at below-market rates or subsidized/soft loans (Buckley et al., 2007; Vassolo et al., 2011), by accessing state-supported research and capital (Shi et al., 2017; Zeng & Williamson, 2003), or by protecting operations from domestic and international competitors (Buckley, 2018; Hoskisson et al., 2000). Informal institutions also assist in reducing transaction costs by, for instance, creating mechanisms for improving access to market information, firms matching, and referral (Rauch & Trindade, 2002; Suseno & Pinnington, 2018), by expanding the market and deepening competitive positioning (Estrin & Prevezer, 2011; Park & Luo, 2001; Ruan,

2017), by improving the engagement with trade associations located in the destination market (Brache & Felzensztein, 2019), by creating trust-based bonds (Goel & Karri, 2006), or by strengthening/undermining corporate governance (Estrin & Prevezer, 2011; Karhunen et al., 2018).

In this context, two main types of informal relations can be identified (Chen & Wu, 2011; Park & Luo, 2001): (i) political relations which refer to personal networks with government officials and regulatory agencies, and (ii) business relations which refer to personal ties with business partners, including suppliers, customers, competitors, and other collaborators. While the first type functions vertically or hierarchically, the second type operates horizontally. Also, through personal relations, firms can base their competitive advantage on links with local authorities and obtain licenses and other benefits to protect their operations from domestic and international competitors (Hoskisson et al., 2000).

There is a growing consensus that institutional voids in EMs present both challenges and opportunities for indigenous companies, as strategic behaviors followed by economic actors are a “direct response to the institutional processes that affect them” Oliver (1991: p. 145). However, the academic literature on this topic falls short of exploring how the performance of SMEs from EMs is affected by these institutional constraints and, particularly, how and if informal institutions can help these companies to overcome them (Elango & Pattnaik, 2007; Mathews, 2018; Puffer et al., 2010; Tracey & Phillips, 2011; Wu & Deng, 2020). To contribute to filling this gap, this research studies the effect of informal institutions (political and business relations) in the expansion, first national, and then international, of SMEs in two large emerging markets: Brazil and China.

HYPOTHESIS DEVELOPMENT

The Uppsala model states that firms in the early stages of their international expansion gain experience from domestic markets, start their foreign operations mainly through traditional exports, and eventually move to more intensive and demanding operation modes (Johanson & Vahlne, 1977). It is crucial, then, to understand the factors driving the national and international expansion of EMs-based companies considering that the initial process takes place in an environment characterized by low institutionalization levels and high uncertainty (Castro-Gonzales Segundo, 2017; Kim, 2019; Tracey & Phillips, 2011; Voss et al., 2009). EM institutional settings contrast with the high institutionalization levels in developed market economies (Silva-Rêgo Bernardo, 2019).

To get this understanding, as it has been argued in the previous section, an analysis is needed on how formal institutions take the place of more formal institutions (Tracey & Phillips, 2011) to fill the institutional voids and offer support to business' expansion. Previous studies have shown that informal institutions partially fill the institutional gaps and as a consequence reduce: (i) economic costs, by reducing uncertainty and associated risks, (ii) social costs, by increasing legitimacy and access to resources that accompany legitimacy and, (iii) cognitive costs, by giving access to relevant knowledge and strategic options (Lawrence et al., 2001; Phillips et al., 2000; Shi et al., 2017).

Therefore, in the absence of strong institutional settings, an essential factor in the development of firms from EMs lies in their capacity to build relations, including networks and alliances (Chen & Wu, 2011; Garud & Kumaraswamy, 2002; Ruan, 2017). These political and business relations become the de facto lubricant between the business community and the institutional context (Kao, 1993) and serve to legitimate new sets of practices among key actors (Nee & Opper, 2012). This kind of network is widely known as *guanxi* in China and as *quem indica/QI* in Brazil (Barbosa, 2014; Bian, 2017; Chang et al., 2014).

Previous studies have recognized the importance of these informal institutions and their influence in the development of capabilities along with their positive influence on firm performance. Peng and Luo (2000) showed that firms build relations to overcome institutional voids and then demonstrated that these personal relations led to higher firm performance, faster market expansion, and more robust competitive positioning, both at home and abroad. The reason for this is that the capabilities of firms operating in emerging markets are still relatively low compared to their Western counterparts (Chen & Wu, 2011; Rugman & Li, 2007).

For this reason, informal institutions have been approached as efficient and culturally viable mechanisms in emerging markets to minimize the impact of low institutionalization. For instance, Chen and Wu (2011) presented a positive relation between *guanxi* and corporate and marketing capabilities as the relations helped to secure "deals with suppliers, orders from buyers, and approval from the government" (Park & Luo, 2001: p. 463). Also, Shou et al. (2012) showed that, in comparison to Western firms, Chinese firms are better able to leverage their business and political relations to enhance their marketing capabilities. These informal relations seem to moderate and facilitate business by building trust and leverage in both domestic and international markets and, as a consequence, an impact on business' performance (Goel & Karri, 2006).

Besides, there is evidence showing that these political and business informal relations help EMs-based firms in reducing transaction costs and in dealing with market failuresⁱⁱⁱ (Alon et al., 2018; Jiao et al., 2015; Ramamurti & Hillemann, 2018). These kinds of relations also help firms reduce the cost of dealing with cumbersome and ambiguous regulations and red tape (Cardoza et al., 2015; Nicholls-Nixon et al., 2011) and improving access to resources and enabling inter-firm transactions (Kao, 1993). Also, it has been reported that political and business relations minimize the effects of market failures by improving exchanges of crucial information and, most importantly, by facilitating the accumulation of resources and capabilities among firms and governments since common resources contribute toward “enhanced survival and growth” (Park & Luo, 2001: p. 465). In other words, firms benefit from cooperative arrangements, political influence, and controlling information (Miles & Snow, 1984), which has a positive effect on their expansion. These considerations lead to the following hypothesis:

H1: Emerging markets-based SMEs with access to political and business relations are more likely to expand nationally and internationally.

Political relations play a vital role in the allocation of scarce resources by EMs’ governments (Alston, 1989; Angulo-Ruiz, 2019). For example, the participation of government (both local and central) in the Chinese firms’ ownership facilitates firms’ access to critical resources (Nee, 1992; Suseno & Pinnington, 2018)^{iv}. This differential treatment largely explains why, to overcome institutional failures, avoid ideological discrimination, and get preferential access to resources, firms tend to establish close ties with local or central government officers (Li et al., 2008). The situation is similar in Latin America, where the availability of resources for companies depends mostly on the ability to manage the relations between business and ruling elites (Castro-Gonzales Segundo, 2017; Nicholls-Nixon et al., 2011). For instance, (Vassolo et al., 2011) and (Ciravegna et al., 2016) argued that access to information on government contracts provides a competitive advantage for domestic companies in Latin America.

In the form of political relations, informal institutions have been crucial in the development of managerial capabilities of private companies in China since the end of the 70s. This bottom-up institutional innovation allowed the private sector to respond effectively to changing market opportunities and has played a vital role in enabling economic development in the country. Political relations have been critical for private firms (including SMEs) to reduce uncertainty while enhancing sustainable capability development and securing access to relevant market resources (such as market knowledge and business intelligence) (Nee & Opper, 2012).

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3 With the gradual development of China's new economy, firms are giving more importance to
4 developing firm capabilities as opposed to investing in positional advantage through political
5 capital. However, private firms, including SMEs, found that cultivating good ties with the local
6 government is still a valuable asset due mainly to the challenges still encountered as a result of
7 economic reforms. For example, Chinese firms rely on political relations to reduce the risk of
8 unfavorable treatment by politicians and regulatory agents or to secure timely and relevant
9 information from public agencies (Cardoza & Fornes, 2011; Nee & Opper, 2012). This
10 situation can still be appreciated today. Relations with public officers help firms to gain
11 political legitimacy and to avoid uncertainty in economic transition. These informal relations
12 provide shortcuts to government-related resources such as bank loans, tax payments,
13 government support plans (Buckley et al., 2018; Park & Luo, 2001), and industry trends (Chen
14 & Wu, 2011). Because of that, the development of personal ties with government officials has
15 become common practice among private firms and represents a valued asset for the success of
16 business operations.
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20 A similar positive impact of relations with business partners was observed in China by Ellis
21 (2011) and in Latin America by Gil-Barragan et al. (2020). The former found that "social ties
22 with known others provide access to distant and valuable opportunities [...] in the formation
23 of exchange agreements with new partners in new markets" (p. 121). The latter showed that
24 strong domestic ties and participation in export promotion programs are means to overcome
25 the lack of resources and internal barriers to export and reduce risks.
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29 In other words, doing business in weak and uncertain institutional settings, such as those in
30 EMs, requires creating and managing close ties with both business partners and governments
31 (Buckley, 2018; Peng, 2002; Tracey & Phillips, 2011), as access to customers, contracts/tender
32 processes, essential market information and business knowledge, financial resources, and
33 technology is not equally available to everyone in low institutional contexts (Felzensztein et
34 al., 2019; Gulati et al., 2000). The reason for this is that informal institutions, such as political
35 and business relations, substitute "for government-instituted, formal channels of resource
36 allocation" (Park & Luo, 2001: p. 461) in a context of ineffective factor markets and unclear
37 institutions and property rights. It might be argued, then, that SMEs that moderate the impact
38 of economic transactions through close links with business partners and the government are in
39 a better position to overcome obstacles related to weak institutional settings, to take advantage
40 of the information and resource asymmetries across sectors and players, and to expand their
41 operations. This argument leads to the following hypotheses:
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H2: Emerging markets-based SMEs benefiting from access to government-supported funding are more likely to expand nationally and internationally.

H3: Emerging markets-based SMEs benefiting from access to government contracts are more likely to expand nationally and internationally.

H4: Emerging markets-based SMEs with access to sources of market information and business-related knowledge are more likely to expand nationally and internationally.

In summary, political and business relations in EMs may help firms reduce uncertainty and associated costs and, overcome market failures through individual and organizational behaviors. In this context, the first hypothesis studies the influence of business and political relations on SMEs' national and international expansion; it suggests that the more profound the reliance on these relations, the more likely the firms' expansion at both national and international levels, during the first stages of expansion abroad. The second group of hypotheses analyzes the influence of political relations on access to government-supported loans; similarly, it implies that access to government funding would result in the national and international expansion of firms. Finally, the third and fourth hypotheses examine the access to contracts and market information through political or business relations and their influence on companies' performance; they also anticipate a positive effect on the expansion of SMEs. Figure 1 illustrates the proposed framework and argument of the paper.

[Insert Figure 1 around here]

RESEARCH METHODS

The data were collected through an in-person survey applied to a convenience nonprobability sample of 828 senior managers and directors of SMEs in two countries: Brazil (246) and China (582)^v. The survey aimed at gathering information about the companies, managers' perceptions (using five-point Likert-type scales based on Leonidou (2004), and other ordinal information. Data from only 715 questionnaires were used as the replies from the additional 113 were not complete; 28 from Brazil and 85 from China. Table 1 presents selected answers from the survey; in this table, it is possible to see that the majority of SMEs in both countries were founded more than ten years ago, that the majority of their managers are men between 35 and 54 years old, and that around half have completed higher education studies. Also, these companies show a relatively high active participation by members of the managers' families, expected in this type of firm in EMs. The definition of SMEs, both for Brazil and China, was taken from the (National Bureau of Statistics of China, 2009) (see Table 2). This broader definition for Brazil,

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3 in contrast with that of the OECD (2005), was chosen to allow comparisons between countries
4 (a similar approach was taken, for example, by Deng and Zhang (2018) and Tang et al. (2014).
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6 Participants operate within similar idiosyncratic characteristics (managerial, organizational,
7 and environmental) in their countries which make the responses operative and, as a
8 consequence, offer a similar contextual view of the challenges faced by their firms (Barret &
9 Wilkinson, 1985). Brazil and China present a lower level of institutionalization in comparison
10 with Western economies as measured by the World Bank (for example, Brazil scores 56 and
11 China 65 in the Ease of Doing Business measured as distance to the frontier, being the
12 frontier=100 (World Bank, 2019a).
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19 [Insert Tables 1 and 2 around here]
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21 The data analysis was developed in two stages. The first stage, following similar previous
22 studies on managers' perceptions on institutions (see, for example, Elango and Pattnaik (2007)
23 and Park and Luo (2001), was based on multivariate regression analyses using the ratio of sales
24 outside the companies' region of origin divided by total sales as a dependent variable and the
25 survey's answers as independent variables. Following Leonidou's (2004: p. 281) definition of
26 expansion ("the firms' ability to initiate, to develop, or to sustain business operations" outside
27 their home markets), the foreign sales/total sales ratio was used as a proxy for engagement in
28 national (outside of their home markets) and international economic activities in the models.
29 Foreign sales were taken at two different levels – national and international – to consider: (i)
30 the different stages in the expansion process, and (ii) the fragmented nature of domestic markets
31 in both Brazil and China (Deutsche Bank, 2019; ECLAC, 2019). The foreign sales/total sales
32 ratio is an established measure of expansion performance (Bonaccorsi, 1992; Calof, 1994) and
33 its use is consistent with previous studies (see, for example, (Capar & Kotabe, 2003; Fornes &
34 Cardoza, 2018; Geringer et al., 2000; Kahiya, 2018)).
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46 The second stage was based on a stepwise multiple regression to obtain the highest statistically
47 significant correlation with the independent variables. As the relative importance of these
48 variables was not known beforehand, this second stage analysis was included to complement
49 the results of the multivariate regression to see which of the variables has the highest impact
50 on the Brazilian and Chinese SMEs in the sample as well as to rank them according to the
51 managers' perceptions. The dependent and independent variables were the same as in the
52 multivariate regression. The models can be seen below, and the definition for the variables can
53 be seen in Table 3.
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[Insert Table 3 around here]

Political and business informal relations (H1)

$$\begin{aligned} ForeignSales_i = & \alpha + \theta_1 BR/CH + \theta_2 Size + \theta_3 Industry_i + \theta_4 Contacts_i + \\ & \theta_5 Representatives_i + \theta_6 Control_i + \theta_7 DomRegulations_i + \theta_8 Assistance_i + \theta_9 DistAccess_i \\ & + \varepsilon_i \text{ (Equation 1)} \end{aligned}$$

where $ForeignSales_i$ is the foreign sales/total sales ratio of company i at both national and international levels, BR/CH is a dummy variable to indicate where the company operates (in Brazil – the reference group – or China), $Size$ is a control variable using the number of employees as a proxy for size (Small, less than 50 -the reference group – and Medium), $Industry$ is a control variable; $Contacts$ (proxy for political influence and personal networks, vertical relations), $Representatives$ (proxy for business arrangements, horizontal relations), $Control$ (proxy for controlling information and operations, horizontal relations), $DomRegulations$ (proxy for regulations and red tape, vertical relations), $Assistance$ (proxy for access to government benefits, vertical relations), and $DistAccess$ (proxy for access to customers and resources, horizontal relations) are the independent variables defined in Table 3.

Access to government-supported funding (H2)

$$\begin{aligned} ForeignSales_i = & \alpha + \theta_1 BR/CH + \theta_2 Size + \theta_3 Industry_i + \theta_4 Personal_i + \theta_5 StateSupport_i \\ & + \theta_6 Private_i + \varepsilon_i \text{ (Equation 2)} \end{aligned}$$

where $ForeignSales_i$ is the foreign sales/total sales ratio of company i at both national and international levels, BR/CH is a dummy variable to indicate where the company operates (in Brazil – the reference group – or China), $Size$ is also a control variable using the number of employees as a proxy for size (Small, less than 50 -the reference group – and Medium), $Industry$ is a control variable; $Finance$, $Personal$, $State$, and $Private$ are the possible funding sources. The complete definition for the variables can be found in Table 3.

Access to government contracts (H3)

$$\begin{aligned} ForeignSales_i = & \alpha + \theta_1 BR/CH + \theta_2 Size + \theta_3 Industry_i + \theta_4 LocalGov_i + \theta_5 NatGov_i + \\ & \theta_6 Wholesale\&Retail_i + \theta_7 Manufacture_i + \theta_8 Others_i + \varepsilon_i \text{ (Equation 3)} \end{aligned}$$

where $ForeignSales_i$ is the foreign sales/total sales ratio of company i at both national and international levels, BR/CH is a dummy variable to indicate where the company operates (in Brazil – the reference group – or China), $Size$ is a control variable using the number of employees as a proxy for size (Small, less than 50 -the reference group – and Medium), $Industry$

is a control variable; *LocalGov*, *NatGov*, *Wholesale&Retail*, *Manufacture*, and *Others* represent the percentage of sales to this kind of customer. The complete definition for the variables can be found in Table 3.

Access to market information and business-related knowledge (H4)

$$\begin{aligned} ForeignSales_i = & \alpha + \theta_1 BR/CH + \theta_2 Size + \theta_3 Industry_i + \theta_4 InfoSources_i + \theta_5 Data_i + \\ & \theta_6 Preferences_i + \theta_7 HostRegulations_i + \theta_8 Tariff\&NTB_i + \theta_9 Familiarity_i + \theta_{10} Labels_i + \\ & \theta_{11} Communication_i + \varepsilon_i \text{ (Equation 4)} \end{aligned}$$

where *ForeignSales_i* is the foreign sales/total sales ratio of company *i* at both national and international levels, *BR/CH* is a dummy variable to indicate where the company operates (in Brazil – the reference group – or China), *Size* is a control variable using the number of employees as a proxy for size (Small, less than 50 -the reference group – and Medium), *Industry* is a control variable; *InfoSources* (proxy for access to market knowledge), *Data* (proxy for market information), *Preferences* (proxy for understanding potential customers), *HostRegulations*, *Tariff&NTB^{vi}*, *Familiarity*, *Labels*, and *Communication* (proxies for knowledge and requirements in markets different from the firms' home) are the independent variables defined in Table 3.

Stepwise regression (second stage)

$$\begin{aligned} ForeignSales_i = & \alpha + \theta_1 Contacts_i + \theta_2 Representatives_i + \theta_3 Control_i + \\ & \theta_4 DomRegulations_i + \theta_5 Assistance_i + \theta_6 DistAccess_i + \theta_7 Personal_i + \theta_8 StateSupport_i + \\ & \theta_9 Private_i + \theta_{10} LocalGov_i + \theta_{11} NatGov_i + \theta_{12} Wholesale\&Retail_i + \theta_{13} Manufacture_i + \\ & \theta_{14} Others_i + \theta_{15} InfoSources_i + \theta_{16} Data_i + \theta_{17} Preferences_i + \theta_{18} HostRegulations_i + \\ & \theta_{19} Tariff\&NTB_i + \theta_{20} Familiarity_i + \theta_{21} Labels_i + \theta_{22} Communication_i + \varepsilon_i \text{ (Equation 6)} \end{aligned}$$

Robustness checks

The first check was for differences in the two sub-samples (BR and CH). An Independent Samples t-test was carried out to see if the difference between the two means was statistically significantly different from zero at the five percent level of significance. The second check was for specification, the omission or inclusion of irrelevant variables and the selection of an incorrect functional form. This process was carried out to test the robustness of the models, to avoid losses in the accuracy of the relevant coefficients' estimates, and to avoid a biased coefficient by estimating a linear function when the relationship between variables was nonlinear. Thirdly, different measures were put in place to avoid measurement errors, such as back translations and pilot testing of the questionnaire, and data collected in similar contexts

(as explained above). Fourthly, t-statistics were adjusted by a heteroskedasticity correction in the regressions to test whether error terms depended on factors included in the analysis. Fifthly, autocorrelation was checked by calculating the Durbin-Watson coefficient and multicollinearity was tested through an analysis of the correlation coefficients between the variables in the model and the calculation of the Variance Inflation Factor (VIF, see Tables 5 and 6). Sixthly, interclass correlation was tested using the clustered robust regression method to check for the lack of normality in the data collected from the two countries. Finally, the potential effect of outliers was checked using an interquartile range, outliers were defined as $<Q1-5(Q3-Q1)$ or $>Q3-5(Q3-Q1)$; none was found.

RESULTS

Table 4 presents the results of the independent samples t-test. As it can be seen, there is no statistical difference between the two subsamples BR and CH ($p>0.01$ two-tailed) which suggests that the two belong to the same population and therefore can be compared in the context of this study. Tables 4 and 5 present the correlation for the models. Table 4 shows the Pearson's ρ coefficient (for ordinal variables) and Table 5 presents the Kendall's τ coefficient for scale variables (as the equi-distance in the Likert scales cannot be justified). In general, there are no signs of large correlation between the independent variables; the very few that show a relatively significant correlation are, to a certain extent, expected owing to the apparent closeness of the concepts measured and the nature of the variables. The Durbin Watson coefficients of the various models do not show autocorrelation and the VIFs do not present signs of multicollinearity. The original variables were kept in the model as it was considered that, even factoring in the closeness of the concepts, the independent variables do not depart from their independence mainly owing to the different contexts and purposes of the original data. The F-test also shows the robustness of the models at a 0.05% confidence level^{vii}. The robust regression analysis yielded similar coefficients, standard errors, and t and p values to those of the OLS regression, therefore no correction for intraclass correlation was deemed necessary. The results of running the five models (Equations (1) to (5)) can be found in Table 7. The table presents two panels with the results for both national (A) and International (B) expansion. Details of the table follows:

Brazil/China: in the four models, the dummy variable *BR/CH* appears statistically significant ($|\beta_m/S_b|>t_{n-6, 0.95}$) for both the National and International expansion.

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Vertical/political and horizontal/business informal relations (H1): the first box presents the results of running Equation 1. In Panels A and B, it is possible to see that *DistAccess*, is statistically significant ($(|\beta_m/S_b| > t_{n-6; 0.90}$ and $|\beta_m/S_b| > t_{n-6; 0.95}$) at both International and National level.

Access to government-supported funding model (H2): the second box presents the results of running Equation 2. In Panel A, it is possible to see that *Private* is statistically significant ($|\beta_m/S_b| > t_{n-6; 0.90}$) and, in Panel B, that *StateSupport* and *Private* are also statistically significant ($|\beta_m/S_b| > t_{n-6; 0.95}$) respectively.

Access to government contracts model (H3): the third box presents the results of running Equation 3. In Panel A, it is possible to see that *NationalGovernment* and *Others* are statistically significant ($|\beta_m/S_b| > t_{n-6; 0.95}$). In Panel B, it is possible to see that *Wholesale&Retail*, *Manufacture*, and *Others* are statistically significant ($|\beta_m/S_b| > t_{n-6; 0.95}$ and $|\beta_m/S_b| > t_{n-6; 0.90}$).

Market information and business-related knowledge model (H4): the fourth box presents the results of running Equation 4. In Panel A, no variable is statistically significant, but in Panel B, *Familiarity* is statistically significant ($|\beta_m/S_b| > t_{n-6; 0.95}$).

Stepwise regression (second stage) model: the fifth box presents the results of running Equation 5. It shows the importance of each independent variable ranked by its explanation of the variance in the dependent variable; in other words the variables ranked based on the perceptions of SMEs managers on the relevance of the different types of relations and their impact on the firms' expansion. For National expansion, the ranking is *Private*, *InfoSources*, *Tariff/NTB*, *Others*, and *DistAccess* and for International expansion *DomRegulations*, *DistAccess*, *InfoSources*, and *Private*.

[Insert Tables 4, 5, 6, and 7 around here]

DISCUSSION

This study aims to understand the role of informal institutions, mainly political and business relations, in supporting EMs-based SMEs' expansion. To achieve this goal, conceptual arguments were developed and then deconstructed into a set of variables and models tested.

First, the negative sign of the coefficients for *BR/CH* in the four models suggests that SMEs based in Brazil are less likely to expand both nationally and internationally; these results are consistent with data collected and analyzed at the aggregate level by the World Bank showing that China ranks higher than Brazil in several IE-related indicators^{viii}. These results support

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3 what has been found in previous research studies: the domestic IE does have an impact on the
4 growth and development of companies.
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7 Second, the results from the first model show that business relations in the form of the capacity
8 to identify and get access to trusted distribution channels (*DistAccess*) are among the main
9 challenges for SMEs in the sample for both national and international expansion. This situation
10 can be explained by the fragmentations, red tape, and cumbersome procedures in both China
11 and Brazil (Boisot & Meyer, 2008; Daemmrich & Musacchio, 2011; Silva-Rêgo Bernardo,
12 2019; Wu & Deng, 2020). The results of the stepwise regression are consistent with this, as
13 trust information (*InfoSources*) of distribution channels ranks among the top positions.
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19 Third, the second model results present the predicted positive relationship between access to
20 state-supported funding and firms' expansion at the international level. Also, the evidence
21 shows that access to *Private* sources of funding (which is usually linked to a transfer of
22 knowledge and skills needed to operate in international markets) helps to deal with the
23 challenges related to access to financial resources. The combination
24 of *StateSupport* and *Private* funding suggests that, with the development of the economy in
25 Brazil and China, firms keep their access to critical resources, benefits, and differential
26 treatment through relations with governments while seeking to strengthen their capabilities via
27 relations with business. On the latter, access to *Private* sources of funding also indicates that
28 SMEs belonging to business groups are better positioned to expand internationally; this adds
29 to the findings of Douma et al. (2006) and Zevallos (2003) that small firms which are part of
30 conglomerates are in a stronger position to overcome the challenges of macroeconomic
31 volatility in EMs.
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42 Fourth, the results from the third model at the National level were expected as access
43 to *NationalGovernment* contracts can provide the scale, reduction in marketing and customer
44 acquisition costs, improvements in sales forecasting, and reduction in variability of income and
45 operations to reduce transaction and operational costs. As a consequence, SMEs can deploy
46 more resources to expand their operations beyond their markets of origin. However, the results
47 at the international level were not expected (i.e., sales
48 to *LocalGovernment* and *NationalGovernment* not statistically significant for international
49 expansion). A possible explanation could be that access to government contracts may be an
50 excellent way to kick off national expansion. However, they may also deviate attention from
51 competitors, new trends in international markets, and technology and productivity
52 improvements hindering, thus, the international competitiveness of the SMEs. However,
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selling to companies abroad (customers in *Manufacture, Wholesale&Retail, Others* are statistically significant) is a good source of knowledge and resources to increase competitiveness of the SMEs and thus reduce the impact of the domestic IE.

Fifth, the results from the fourth model show a relation between the need to be familiar with business practices outside the home market (represented by *Familiarity*) and the international expansion of the firm. This result can be explained by the low level of knowledge and understanding of overseas markets usually found in SMEs, especially when target countries have a higher institutionalization level or when the informal institutions are different from those in the home IE. For firms with limited knowledge of the international markets in practice, this means difficult access to political relations abroad when seeking dealings with host governments to gain legitimacy or reduce uncertainty. The same could be said for business relations; access to customers, contracts/tender processes, essential information, and business knowledge, financial resources, markets, and technology may require different relations than those pursued in the home market.

Sixth, the combination of the findings in the models also provides further insights. They indicate that governments can help SMEs by giving them access to procurement contracts, but this is not enough to create a conducive environment to help them get information and access to distribution channels to reach foreign markets. In other words, access to government support may boost SMEs' productive capabilities by reducing demand uncertainty and facilitating access to market information and lowering associated costs, however, they fall short in addressing market imperfections, in particular those related to knowledge and skills needed to reach foreign markets. This government support may also create more opportunities for corruption, as observed by Vassolo et al. (2011) and Karhunen et al. (2018) weakening, thus, the domestic IE further.

Seventh, also, the findings in the four models provide further empirical support to previous works on EMs-based firms (such as (Elango & Pattnaik, 2007; Fornes & Cardoza, 2018; Gil-Barragan et al., 2020; Goel & Karri, 2006; Park & Luo, 2001; Puffer et al., 2010; Rauch & Trindade, 2002; Tang, 2011)) that show the relevance of relations in the form of *guanxi*, family, kinship, trust, networks, or diaspora to support the growth and development of companies.

In summary, informal institutions, in particular business and political relations, can help to overcome some disadvantages associated with weak institutionalization and, as a consequence, reduce uncertainty and associated costs. They do this by providing access to trusted distribution

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3 channels, improving the familiarity with different IEs, and strengthening the management of
4 supply chains and commercial strategies to serve markets outside their home. Also, SMEs in
5 EMs that can get access to private sources of funding, market knowledge, and government
6 contracts through business and political relations are in a better position to expand nationally
7 and internationally.
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12 **IMPLICATIONS**

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14 The findings in this work have implications for practice, theory, and policymaking in emerging
15 markets. For practice, the results highlight the IE's relevance in the expansion of EM-based
16 SMEs and, in particular, they show that political and business relations can facilitate firms'
17 access to relevant resources. For theory, they enrich the current debate on the impact of the IE
18 on the growth of companies from emerging markets, in particular how informal institutions
19 and their associated socially accepted and recognized behaviors can fill the gap created by
20 institutional voids (Deng, 2011; Hernandez & Guillen, 2018; Silva-Rêgo Bernardo, 2019;
21 Suseno & Pinnington, 2018; Warner, 2014; Zhu et al., 2011). For policymakers, they show the
22 impact of government-supported funding and government contracts in the expansion of SMEs,
23 which is valuable information in the process of design, implementation, and evaluation of
24 public policy frameworks.
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34 *H2* and *H4* have further implications for practice. SMEs in EMs need to access private funding
35 sources to support their international expansion and, at the same time, improve their familiarity
36 with markets overseas, their management of supply chains, and their commercial policies.
37 Also, SMEs need to develop and maintain links to improve access to information about
38 consumers, practices, as well as insider information on barriers and opportunities for serving
39 the market segments competitively. These informal relations can compensate for EMs-based
40 SMEs' limited resources to first research and then do business in international markets.
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46 On implications for theory, the findings show that SMEs in EMs can still develop and expand
47 in a context of low institutionalization. The results provide empirical evidence to the proposal
48 from Tracey and Phillips (2011) that associated higher operating costs in low
49 institutionalization environments can be overcome by relations. The results also reinforce the
50 relevance of SMEs' managers to develop relations to legitimate their practices and enable
51 business activities. Relations seem to be useful instruments to deal with institutional voids
52 related to the access of information, inefficient resource allocation, and cumbersome
53 regulations in environments where a level playing field is not assured.
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Also, the results provide further implications for policymakers. The support from the government in the form of contracts and other special arrangements seems to be instrumental in the first stage of SMEs' expansion (outside their original markets), and the access to funding with preferential conditions appears to contribute in the second stage of the companies' expansion to international markets. Two main caveats need to be considered in this analysis; first, the potential adverse effect of government contracts in the long-term competitiveness of SMEs as they may insulate them from exposure to more competitive practices and environments; and second, the potential for opportunities for corruption in a context with opaque policies and inefficient procurement systems.

Further Research and Limitations

One of the main areas to broaden and deepen the understanding of EMs-based SMEs is to continue studying the impact of the IE on the growth and development of firms in three main aspects: (i) the role of personal relations to overcome barriers, span the voids, and reduce the impact of transaction costs and market failures in low institutionalization environments; (ii) the need for SMEs' managers in EMs to develop strong political and business relations to overcome market failures and improve their performance; and (iii) the impact of government policies intended to support the development and expansion of SMEs. In this context, a relevant question may be: how would the environment for business in EMs impact/affect/shape the next stages in the international growth of SMEs?

On the other hand, another limitation of this study is the generalization of results. Although, based on around 828 companies, the sample represents only a small proportion of EMs-based SMEs, therefore other emerging countries/regions need to be analyzed to obtain a better picture of the phenomenon under analysis. In this sense, the focus on both Brazil and China, countries with low levels of institutionalization according to the World Bank (2019b) and their specific institutional environments, limits the possibility to extend the conclusions to other emerging economies. Similarly, the study does not analyze industry variations. Further research is needed to investigate possible differences. In any case, this is one of the first empirical research studies to analyze such a large sample in two different locations.

CONCLUDING REMARKS

In this paper we investigated how companies based in EMs, in particular SMEs, use business and political relations to support their national and international expansion. We explored

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3 whether the relatively weak IE in their domestic markets hinders their business plans and
4 expansion strategies to grow abroad. The work attempts to shed light on these issues after an
5 analysis of 828 SMEs operating in Brazil and China.
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9 The analysis of the data shows that business and political relations can help to overcome some
10 disadvantages associated with weak institutionalization, reduce uncertainty and associated
11 costs, and as a consequence support national and international expansion. The results show that
12 access to private sources of funding, government contracts and funding, distribution channels,
13 market knowledge, and preferential sources of information help to overcome the challenges in
14 the domestic IE and therefore support the expansion of SMEs from emerging markets. Also,
15 support from the government in the form of contracts and other funding arrangements fill the
16 voids related to access to financial and other critical resources in the first stage of SMEs'
17 expansion (i.e., outside their home markets) and access to private sources of funding help to
18 fill the voids related to market information in the second stage of the expansion (mainly
19 international markets). These elements, along with a high familiarity with overseas markets,
20 proved to help SMEs overcome low institutionalization, reduce uncertainty and associated
21 costs, and develop the business capabilities needed to expand to national and international
22 markets.
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**FIGURE 1: INFORMAL INSTITUTIONS AND SMEs' DEVELOPMENT. A
FRAMEWORK**

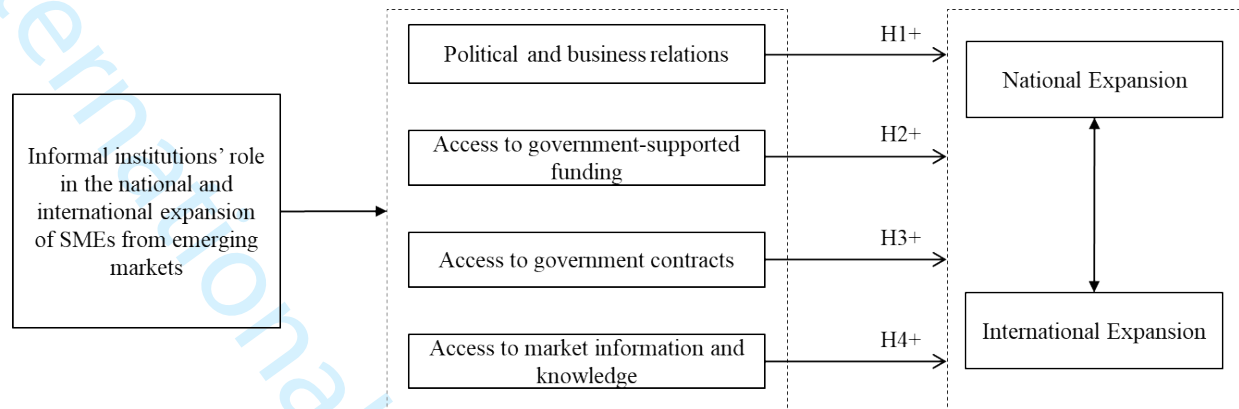


TABLE 1: SELECTED ANSWERS FROM THE SURVEY (N=715)

	Age of respondent		Gender of respondent		Studies of respondent		Active Participation of family members			Years since start-up	
	35-44	45-54	M	F	UG	PG	Sons	Husband / wife	Father/ mother	6-10	>10
BR	26%	33%	67%	32%	44%	36%	19%	19%	26%	34%	41%
CH	38%	29%	77%	23%	59%	13%	14%	32%	15%	22%	41%

TABLE 2: DEFINITION OF SMALL AND MEDIUM-SIZED ENTERPRISES – sales and total assets in thousands of RMB (National Bureau of Statistics of China, 2009)

	Employees	Sales	Total Assets
Industry	2,000	3,000	4,000
Construction	3,000	3,000	4,000
Wholesale	200	3,000	
Retail	500	1,000	
Transportation	3,000	3,000	
Postal Service	1,000	3,000	
Accommodation & Restaurant	800	3,000	

TABLE 3: DEFINITION OF VARIABLES

Scale Variables. 5-Point Likert-Type Scale*			
HostRegulations	The different regulations in external markets make access and operations more difficult	Assistance	The government does not offer adequate assistance and incentives to carry out activities outside the home market
Preferences	The different preferences, patterns, prices, and communication of customers in external markets make sales and exports more difficult	DomRegulations	The regulations in place make it more difficult to capitalize on opportunities in outside markets
Tariff&NTB	The tariff and non-tariff barriers in international markets restrict export activities	Familiarity	Lack of familiarity with commercial practices outside home markets affects the company's operations
Contacts	The company has difficulties in identifying and developing contacts (business and/or political) outside their home markets	InfoSources	The company does not have access to the relevant information sources to identify markets for the company's products and services
Representatives	It is difficult to find reliable representatives outside the home market	Data	The company does not have the relevant data to assess the possibilities that outside markets are offering
Control	It is difficult to exercise effective control over the middlemen outside the home market	Labels	The products' labels and packaging do not meet the requirements of the target markets
DistAccess	It is complex and costly to access the distribution channels to sell the company's products outside the home market	Communication	Communication difficulties affect the normal development of business outside the home market
Ordinal Variables**			
Personal	Own Savings, Family, Second Mortgage, Credit Card, Loans from Friends, Inheritance, and Pension	Others	% of the company's sales to other types of customers.
StateSupport	Overdrafts, Subsidies, Leasing, Loans from Banks, and Subsidised Loans.	Private	Venture Capital, Suppliers, Other Business, Previous Years' Profits, Private Investors, and Depreciation.
Manufacture	% of the company's sales to Manufacturing companies	Wholesale&Retail	% of the company's sales to Wholesalers and Retailers.
LocalGov	% of the company's sales to the Local Government.	NatGov	% of the company's sales to the National Government.
Control Variables			
Industry	Manufacture, Hotel/Rest, Retailer, Wholesaler, Professional SS, IT, Construction, Transportation, Real estate, Finance/insurance, Health/Education/Social SS, Others.	Size	Small, less than 50 employees -the reference group – and Medium, more than 51 employees.

*: Interviewees could choose among the following options: (i) definitively yes, probably yes, neutral (affirmation), probably no, definitively no, or (ii) total agreement, agreement, neutral (affirmation), disagreement, complete disagreement (depending on the question) to complete the survey.

** : Interviewees were asked to provide the % for each of the options given in all the questions.

TABLE 4: RESULTS OF THE INDEPENDENT SAMPLES t-TEST

	Mean	Std. Deviation		Levene's Test		t	Sig. (2-tailed)
				F	Sig.		
BR	0.30	0.35	Equal variances assumed	20.62	0.00	5.10	0.00
CH	0.17	0.31					

TABLE 5: CORRELATION MATRIX FOR ORDINAL VARIABLES – PEARSON'S ρ COEFFICIENT

	Personal	StateSupport	Private	Local Government	National Government	Wholesale&Retail	Manufacture	Others	VIF
Personal	1.00								1.06
StateSupport	.209**	1.00							1.09
Private	.129**	0.05	1.00						1.14
Local Government	-0.01	0.03	-.084*	1.00					1.50
National Government	-0.01	0.02	-0.01	0.07	1.00				1.19
Wholesale&Retail	0.02	-0.03	0.06	-.266**	-.174**	1.00			3.94
Manufacture	0.02	-0.03	0.05	-.129**	-.097**	-.631**	1.00		3.39
Others	-0.02	0.04	-0.06	-0.02	0.00	-.295**	-.148**	1.00	1.71

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

TABLE 6: CORRELATION MATRIX FOR SCALE VARIABLES – KENDALL'S τ COEFFICIENT

	Contacts	Representatives	Control	DomRegulations	Assistance	DistAccess	InfoSources	Data	Preferences	HostRegulations	Tariff&NTB	Familiarity	Labels	Communication	VIF
Contacts	1.00														1.14
Representatives	.230**	1.00													2.43
Control	.186**	.641**	1.00												2.34
DomRegulations	.100**	.225**	.170**	1.00											1.18
Assistance	-0.02	-0.01	0.00	-0.03	1.00										1.01
DistAccess	.227**	.499**	.474**	.180**	0.01	1.00									1.65
InfoSources	.108**	.074*	.096**	.157**	-0.02	0.03	1.00								2.18
Data	0.00	-.076*	-0.03	0.04	0.06	-.084**	.424**	1.00							1.49
Preferences	.162**	.273**	.269**	.221**	.071*	.246**	.171**	0.01	1.00						1.49
HostRegulations	.150**	.289**	.341**	.228**	-0.01	.200**	.314**	.120**	.410**	1.00					2.65
Tariff&NTB	.171**	.246**	.313**	.192**	-0.01	.220**	.275**	.063*	.407**	.647**	1.00				2.32
Familiarity	.149**	.248**	.233**	.165**	0.02	.216**	.071*	-0.04	.320**	.349**	.309**	1.00			1.44
Labels	.072*	.146**	.183**	.190**	0.00	.072*	.401**	.236**	.167**	.345**	.280**	0.04	1.00		1.90
Communication	.170**	.303**	.284**	.149**	0.06	.241**	0.06	-0.03	.297**	.258**	.255**	.334**	.124**	1.00	1.32

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

TABLE 7: RESULTS FROM REGRESSIONS

	Panel A: Nat		Panel B: Int	
	β	t	β	t
H1 ^a	0.45	6.06	0.27	3.80
BR/CH	-0.25	-7.07 **	-0.08	-2.33 **
Size	0.04	1.29	-0.07	-2.17 **
Industry	0.00	0.02	-0.00	-1.05
Contacts	0.01	0.92	-0.00	-0.23
Representatives	0.00	0.20	0.01	0.36
Control	-0.00	-0.20	-0.02	-1.06
DomRegulations	0.01	0.65	0.02	1.34
Assistance	-0.00	-0.41	-0.01	-1.17
DistAccess	-0.02	-1.66 *	0.03	2.25 **
R ²	0.10		0.06	
Durbin Watson	1.55		1.44	
H2 ^a	0.38	11.61	0.39	12.23
BR/CH	-0.22	-6.89 **	-0.13	-4.26 **
Size	0.05	1.49	-0.09	-2.71 **
Industry	0.00	0.06	-0.00	-1.11
Personal	-0.00	-0.11	-0.01	-1.40
StateSupport	-0.01	-0.83	0.03	2.04 **
Private	0.02	3.81 **	-0.02	-3.52 **
R ²	0.13		0.07	
Durbin Watson	1.54		1.44	
H3 ^a	0.47	7.25	0.23	3.62
BR/CH	-0.26	-8.37 **	-0.08	-2.75 **
Size	0.05	1.39	-0.08	-2.43 **
Industry	-0.00	-0.33	-0.00	-0.85
LocalGovernment	0.11	1.02	0.07	0.69
NationalGovernment	0.34	2.40 **	-0.07	-0.47
Wholesale&Retail	-0.04	-0.70	0.12	2.05 **
Manufacture	-0.01	-0.11	0.13	1.97 *
Others	-0.18	-2.22 **	0.22	2.71 **
R ²	0.13		0.06	
Durbin Watson	1.54		1.44	
H4 ^a	0.49	5.66	0.41	4.83
BR/CH	-0.29	-6.12 **	-0.11	-2.36 **
Size	0.06	1.71	-0.10	-2.95 **
Industry	-0.00	-0.19	-0.00	-0.79
InfoSources	-0.02	-1.19	0.03	1.71
Data	0.02	1.17	-0.01	-1.00
Preferences	-0.01	-0.59	0.01	0.69
HostRegulations			-0.02	-1.20
Tariff&NTB			-0.02	-1.24
Familiarity	-0.02	-1.18	0.03	2.39 **
Labels	-0.01	-0.99	-0.01	-0.43
Communication	0.01	0.41	-0.01	-1.08
R ²	0.11		0.07	
Durbin Watson	1.53		1.43	

** : Significant at 0.05 level * : Significant at 0.10 level

TABLE 7: RESULTS FROM REGRESSIONS (continued)

Panel A: Nat				
Stepwise	Order	R ²	F	p
Private	1	0.04	30.69	0.00
InfoSources	2	0.07	18.43	0.00
Tariff&NTB	3	0.08	9.15	0.00
Others (sources of funds)	4	0.09	6.16	0.01
DistAccess	5	0.10	4.30	0.04
Panel B: Int				
Stepwise	Order	R ²	F	p
DomRegulations	1	0.02	9.76	0.00
DistAccess	2	0.03	10.97	0.00
InfoSources	3	0.04	4.67	0.03
Private	4	0.05	5.32	0.02

TABLE 8: SUMMARY OF THE RESULTS

	Panel A: Nat	Panel B: Int
H1	Dist Access	Dist Access
H2	Private	StateSupport Private
H3	NationalGovernment Others	Wholesale&Retail Manufacture Others
H4		Familiarity

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ⁱ Defined as “the absence of specialist intermediaries, regulatory systems, and contract-enforcing mechanisms” in an economy (Khanna & Palepu, 2006: p. 62).

ⁱⁱ Defined as “the costs of specifying and enforcing the contracts that underlie exchange and therefore comprise all the costs of political and economic organization that permit economies to capture the gains from trade” (North, 1984: p. 7).

ⁱⁱⁱ It has been estimated, for example, that around 30% of new positions in big corporations in Brazil are filled through QI, an efficient way to get referrals and improve matching in the absence of specialized services in the labor market (Gutierrez, 2013).

^{iv} This, for example, resulted in around 98% of SMEs with no access to formal financing, facing more significant credit constraints, and relying on self-financing (China Daily, 2012; Shen et al., 2009; Zhu et al., 2011).

^v The different sample sizes between the two countries attempt to represent the different size of the Brazilian and Chinese economies.

^{vi} *HostRegulations* and *Tariff&NTB* were not included in the national level analysis.

^{vii} Political and business relations: $F=4.916$; Government-supported funding: $F=8.978$; Government contracts: $F=5.244$; Market information and business knowledge: $F=3.87$. A relatively low R^2 was not deemed as a problem because statistically significant coefficients continue to represent the mean change in the dependent variable given a one-unit shift in the independent variables.

^{viii} See, for example, the Ease of Doing Business and Getting Credit indexes (World Bank, 2019b), the “percentage of establishments that consider that firms with characteristics similar to theirs are making informal payments or giving gifts to public officials to secure government contracts” and “the percentage of firms that export directly

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or indirectly at least 1% of their total annual sales” (World Bank, 2019c), and “the value added by manufacturing as % of GDP in each country (World Bank, 2019d).

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