

**SMALL FIRMS' NON-MARKET STRATEGIES IN RESPONSE TO
DYSFUNCTIONAL INSTITUTIONAL SETTINGS OF EMERGING
MARKETS**

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Note: This is a post-review pre-print accepted version, please cite:

Rodgers, R., Vershinina, N., Khan, Z., & Stokes, P. (2021). Small firms' non-market strategies in response to dysfunctional institutional settings of emerging markets.

International Business Review, in press.

Highlights

- Small firms engage in entrepreneurial and internationalizing activities, enacted through non-market strategies.
- Non-market firm-level activities help small firms to continue to operate in and beyond specific market settings.
- Non-market strategies help resource-deprived small firms navigate dysfunctional institutional spaces of emerging markets.
- Internationalization may enable small firms to overcome domestic market constraints.

ABSTRACT

Institutional settings in emerging markets are often plagued by state actors exploiting the vulnerability of resource-constrained small and medium sized enterprises (SMEs). Whilst we know a great deal about how large firms use non-market strategies (NMS) to navigate such institutional spaces, current knowledge of such strategies in connection with SMEs remains limited. Using in-depth interview data from a wide range of actors in Russia, we reveal the predatory behavior of state actors and how, in response, SMEs develop NMS to respond to fluctuating institutional conditions. We underline four forms of institutional predatory behaviors comprising *shifting the rules of the game*; *privatizing power*; *selectively using/abusing laws*; and *normalizing informalities*. In turn, we identify how SMEs variously adopt NMS to tackle these predatory strategies; namely *deflection*, *alliance*, *concealment* and *internationalization*. We highlight how SMEs learn to navigate, and ultimately to overcome, dysfunctional and fragile institutional conditions of emerging markets through the pursuit of particular NMS.

Keywords: Non-market strategies; Institutions; Emerging markets; SMEs; Internationalization, Qualitative study

1. Introduction

In recent years, the topic of non-market strategies (NMS) has attracted increased academic interest (Doh et al., 2003; Dorobantu et al., 2017; Lawton et al., 2013a,b; Mellahi et al., 2016; Rao-Nicholson et al., 2019; Rodgers et al., 2019; Uhlenbruck et al., 2006). As firms operate in both market and non-market environments (De Villa et al., 2015) they need to develop both market strategies and NMS in order to survive and outperform competitors (cf. Baron, 1995; Hillman et al., 2004 for an overview). We refer to Baron's (1995) definition of NMS, which differentiates non-market and market environments. As Baron states (1995, pp. 47–48);

The non-market environment consists of the social, political, and legal arrangements that structure the firm's interactions outside of, and in conjunction with, markets', whereas 'the market environment includes those interactions between the firm and other parties that are intermediated by markets or private agreements.

Thus, NMS represents approaches taking into account the wider non-economic institutional context in order to achieve organizational aims. These approaches contrast with, but may also occasionally complement, firms' strategies that focus solely on the narrow remits of the 'economic' dynamics of market competition.

Moreover, institutional theory has extensively explored the existence of formal institutional settings and how businesses seek to function within these structures (North, 1990, 2005; Webb, Ireland, & Ketchen, 2014). Furthermore, a corpus of scholars has sought to distinguish the notions of *formal* and *informal* institutions and consider how *informal* institutional structures may constrain business activity (Webb & Bruton, 2009). Nevertheless, to date, there has been little scholarly attempt to examine the theoretical fusion and inter-relationships of the emergence of NMS in SMEs in relation to informal institutional settings with the exception of a few notable studies (Mendoza et al., 2015; Sanusi & Connell, 2018; Wang & Clegg, 2018). This is rooted in a predilection for NMS and institutional theory to focus primarily on large organizations, rather than on SMEs.

Extant literature on NMS has tended to focus its attention on multinational enterprises (MNEs) engaged in internationalization activities, and their political NMS activities (Boddeyn, 2016; Doh et al., 2003, 2012; Liedong et al., 2017; Mellahi et al., 2016; Uhlenbruck et al., 2006). Two theoretical approaches have dominated explanations for why firms have engaged in NMS: *Corporate Political Activities* (CPA) (Boddeyn, 2016; Doh et al., 2012; Hadani et al., 2013, 2018; Holtbrügge et al., 2007; Lawton et al., 2013 a,b); and *Corporate Social Responsibility* (CSR) (Aguinis & Glavas, 2012; Doh et al., 2012). Inherent within these perspectives in order to implement effective CSR and conduct CPA activities in their markets is the notion of power, which firms either have, or do not have.

In developed markets, NMS are commonly associated with, for example, organizational lobbying-related activities, which aim to influence the ‘formal’ institutional environment (De Villa et al., 2015; Lawton et al., 2013 a,b; Mellahi et al., 2016). In contrast, where an institutional context is less developed, unstable, fragile, in a state of flux or even absent, actors operating in ‘institutional voids’ are essentially faced with dysfunctional formal institutions that can impede their development of competitive advantage (Khan et al., 2018; Marquis & Raynard, 2015; Verreyne et al., 2016). This results in firms engaging in time- and resource-consuming NMS mainly as a means of working around institutional voids (Doh et al., 2003; 2012; Khanna & Palepu, 1997; Liedong et al., 2017). Institutional voids equally give rise to predatory state actors who may want to make grey market profits by exploiting institutional imperfections (Mair & Marti, 2009). This can often lead to informal ‘exchange’ relationships between firms and the state actors (Lawton et al., 2013 a,b; Doh et al., 2012).

As signaled above, hitherto, the literature on NMS has focused on MNEs and larger firms, thus neglecting the vast majority of SMEs operating in both developed and emerging markets (e.g., Mendoza et al., 2015; Rao-Nicholson et al., 2019; Sanusi & Connell, 2018; Wang & Clegg, 2018; Wickert, 2016). One notable exception however is Sanusi and Connoll's (2018) study of SMEs in Indonesia, which found that the lack of social and political infrastructure, coupled with a weak regulatory environment, led SMEs to engage in illicit practices in order to remain viable. SMEs in dysfunctional institutional environments may not be able to secure bargaining leverage with state actors in the same way that MNEs might and therefore they adopt, and rely more on, close-knit 'exchange' networks of local entrepreneurs (Child & Rodrigues, 2011; Ivy & Perényi, 2020; Mathews & Stokes, 2013) so as to avoid vulnerabilities imposed upon them by rent-seeking state officials (Konovalov & Norton, 2014). Thus, in summary, in this paper, we explore the NMS that SMEs undertake in response to predatory strategies of state actors in emerging market settings (Marquis & Raynard, 2015; Wright et al., 2005). For the purposes of this paper, we understand predatory strategies of state actors as forms of coercion, which demonstrate and enact the power of state actors over SMEs and, in doing so, how they extract rent from SMEs (Yakovlev et al., 2014).

SMEs are different from large firms across various dimensions, including organizational culture, structure, resources, and governance systems (Fernandez et al., 2019; Lai et al., 2016). SMEs are commonly understood to comprise organizations with 11-250 employees (López-Ortega et al., 2016). Large firms tend to adopt grand strategies of CPA including lobbying and campaign contributions for certain political parties in order to influence government decisions in relevant policy areas, regulation, and levels of competition (Bernhagen, 2012; Doh et al., 2012; Lawton et al., 2013

a,b). SMEs, in contrast, are less likely to have institutional legitimacy and/or the capacity and leverage to influence the state actors at such levels, given their weak resource base. This may particularly be the case for SMEs in institutionally weak settings. Furthermore, unlike MNEs and large firms SMEs also do not have formal lobbying department in place, which further suggest that their NMS might be different compared to MNEs and large firms. SMEs operating in more institutionally stable contexts may have opportunities to exercise, for example, lobbying through representation/sector associations (Bennett & Ramsden, 2007). As such, findings related to large firm-state exchanges cannot be replicated and applied to SMEs (Arend & Wisner, 2005; Majumdar, 2010). Similarly, findings related to SME-state exchanges in developed markets cannot be readily transposed to SME-state exchanges in emerging markets, given the strong role of the state in economic activities of emerging markets (Soundararajan et al., 2018b). Simply put, an SME in a developed economy has to deal with the above-mentioned liabilities of smallness. However, an SME in an emerging context must deal with these liabilities, together with further liabilities such as poor legitimacy and weak resource base. These additional liabilities emerge from the necessity to learn how to navigate within volatile and highly unpredictable institutional settings. The emerging economy context, which is often characterized by the existence of institutional voids and the predominance of informal exchanges, may necessitate SMEs to enact various forms of NMS in order to develop competitive advantage and much needed legitimacy. Although a majority of the firms in emerging market contexts are SMEs (Radas & Božić, 2009), and their exchanges with state actors are inevitable, to the best of our knowledge, there is limited research on SME deployment of NMS within the context of emerging markets. In relation to

the above-outlined backdrop, we explore the following set of inter-related questions:

What are the predatory strategies that state actors in emerging markets use in relation to SMEs?

What are the NMS that SMEs in emerging markets use to drive forward their entrepreneurial activity?

What are the enabling conditions of these SME strategies?

To what extent do the dysfunctional institutional settings drive SMEs out of the domestic market and into international markets?

We answer these questions through an in-depth qualitative study of SMEs operating in the engineering and technology industry sectors, based in three regions of Russia. Interviews were conducted with a wide range of SMEs' owner-manager entrepreneurs and representatives of business associations and chambers of commerce. In addition, documentary evidence was collected wherever possible. We examined state actors at low- and medium-level positions of authority ('low' and 'medium' here identifies, for instance, city, regional and localized rather than central state or government officials; for example, regional regulators and tax officials, city-level officials). We consider how they use predatory strategies to elevate the importance of informal networks (Batjargal, 2006). We show how, in response to the predatory state actors, SMEs enact overarching NMS actioned through a series of everyday strategies. Moreover, we illuminate how SMEs adopt strategies of internationalization as an escape mechanism to counter the omnipresent dysfunctional institutional influence surrounding them in home markets.

We make three key contributions to the existing NMS literature. First, we contribute to the emerging stream of work on the nature of informal institutions by exploring the inter-relationships between informal institutions and NMS. Specifically, we illustrate how SMEs engage in entrepreneurial and internationalizing activities,

enacted through NMS, in order to counteract the deficiencies and fragility of the institutional setting of emerging markets. Second, we extend the existing NMS literature, which has predominately focused on MNEs' NMS by offering a nuanced and integrated understanding of non-market firm-level strategies deployed by SMEs in informal institutional settings (cf. Dorobantu et al., 2017; Marquis & Raynard, 2015; Mendoza et al., 2015; Sanusi & Connell, 2018; Wang & Clegg, 2018). Finally, we develop a conceptual framework regarding the adoption of NMS by SMEs in this specific context.

The remainder of the article is structured as follows. We commence by reviewing the literature connecting NMS and SMEs within emerging market contexts. We then outline the research setting of our study and the key methodological considerations. In our findings, we demonstrate the predatory behavior of state actors and correspondingly the everyday non-market strategies that owner-managers of SMEs employ to navigate state actor demands; and finally, we discuss the contributions of the article in relation to the extant literature on NMS, acknowledge its limitations, and suggest future research directions.

2. Non-market strategied, emerging markets and SMEs

NMS have been the focus of considerable scholarly attention (Doh et al., 2003; Dorobantu et al., 2017; Lawton et al., 2013a,b; Rodgers et al., 2019; Uhlenbruck et al., 2006) in relation to both developed and emerging market contexts. However, these analyses have predominantly focused on the behavior of large firms and MNEs rather than on SMEs (Rao-Nicholson et al., 2019). Within this literature, there has emerged an understanding that firms use different strategies and

relationships which evolve and operate beyond conventional competitive strategic practices, for example, lobbying and other forms of CPA with institutional actors (Rao-Nicholson et al., 2019). Recently, research on NMS in emerging markets has been gaining attention (e.g., Lawton et al., 2013 a,b; Nell, Puck, & Heidenreich, 2015; Puck et al., 2013; Rajwani & Liedong, 2015). For instance, Rajwani and Liedong (2015) advance our understanding of CPA and call for more studies on the empirical context of emerging market economies in which ‘relational’ strategies may be more effective in dealing with malleable political environments. Similarly, in their study of the non-market activities of western MNEs in emerging markets, Nell, Puck and Heidenreich (2015) find that NMS are used intensively by MNEs’ subsidiaries as a means for these organizational units to reconcile the demands of the headquarters with the realities of the institutional environment. Furthermore, in connection with NMS, institutional theory (North, 1990, 2005) implicitly and typically assumes the dominant role of *formal* institutions within societal settings.

However, in emerging market contexts, alongside formal institutions, there exist informal institutions, which may also have an impact on business activity. Formal institutions can be viewed as embodying the rules and regulations which are written down or officially accepted, providing guidance to wider society (cf. North, 1990, 2005). Alternatively, informal institutions represent for example traditions, customs societal norms, culture, and unwritten codes of conduct. These norms and values can be transmitted from one generation to the next and thus may prove resistant to change (Bruton et al., 2008). Within emerging market contexts, informal institutions may be more dominant and prevalent – requiring firms to develop networks and relational strategies. Within emerging markets where the institutional context is unstable, underdeveloped or missing, firms use non-market strategies to

offset institutional voids (Khanna & Palepu, 1997; Marquis & Raynard, 2015; Sun et al., 2012). Amongst numerous NMS, illicit and corrupt behavior has been identified as a prominent feature (Doh et al., 2012; Lawton et al., 2013 a,b; Mendoza et al., 2015; Wang & Clegg, 2018). Corruption, defined as the ‘abuse of public power for private benefit’, has been shown to constrain economic development as well as impeding firm-level growth (Mauro, 1995). Extant research on corruption presents a gloomy picture for firms, particularly those that operate in institutional settings in which corruption is pervasive (Doh et al., 2003, 2012; Liedong et al., 2017; Uhlenbruck et al., 2006). Despite the *prima facie* assumption within large strands of business and management literature that governments and their officials operate solely for the public good (Uhlenbruck et al., 2006), there are nevertheless studies which examine the consequences of self-serving behavior of government officials (Uhlenbruck et al., 2006). Many SMEs in emerging economies may enjoy established social connections and closed networks with government officials, which encourage the owner-managers of SMEs to engage in corrupt practices in order to reduce transaction costs and be able to operate in such informal institutional environments (cf. Tonoyan et al., 2010; Wang & Clegg, 2018). In essence, in trying to cope with corruption, SMEs are more localized and have limits to their influence and resources. Therefore, SMEs are *de facto* more vulnerable to more powerfully positioned corrupt actors.

Such insights resonate clearly within the context of the emerging market economies which have evolved following the collapse of socialism across Russia and Eastern Europe. The case of Russia has seen the emergence of a specific form of ‘chaotic capitalism’ (Lane, 2000) rather than a well-functioning market-based system. Under such a system, state officials have increasingly generated an environment

wherein corrupt, rent-seeking behavior is endemic (Ivy, 2013). This involves the emergence and sustenance of patronage-clientele networks which have become significant as part of the post-Soviet institutional setting (Kazyrytski, 2020; Levin & Satarov, 2000). Within Russia, rather than market-based reforms developing within the contours of functioning formal institutional contexts, corruption has become rife, highly pervasive, and arbitrary (Batjargal, 2003). It is in such extreme institutional contexts that there exists a need for more empirical studies to examine how firms operating in such markets respond to constraining institutional settings (Batjargal, 2003; Marquis & Raynard, 2015; Wright et al., 2005).

As stated above, whilst we know a great deal about how large firms seek to navigate institutional constraints by using strategies involving CPA and/or CSR (Doh et al., 2012; Khan et al., 2015; Rodgers et al., 2019), to date, relatively little is known about how resource-constrained SMEs respond to the predatory behavior of state actors by enacting NMS (Marquis & Raynard, 2015; Wickert, 2014). SMEs frequently do not have at their disposition to engage mechanisms such as lobbying, which are commonly employed by MNEs.

The lack of capacity of SMEs to build NMS resources is rooted in a wider set of issues that commonly affect SMEs. This stems from a number of factors including the liabilities of their 'newness' and 'smallness' (Aldrich & Auster, 1986; Baum et al., 2000; Chen & Hambrick, 1995; Jayawarna, Jones, & Marlow, 2015; Jõeveer, 2013; Soundararajan et al., 2018a). These liabilities can seriously hinder SMEs in developing forms of NMS. In addition, SMEs are frequently resource-deprived (Lee et al., 2012; Spence, 2007). They do not possess adequate non-market-related capabilities and infrastructure such as large firms to engage in grand non-market strategies in order to influence policy makers.

Second, they lack market power and, indeed, often even depend on being large firms' supply base for survival (Street & Cameron, 2007). Third, unlike large firms, which have clear boundaries between principal and agent (i.e. managing executives and shareholders), with strong internal processes and governance regimes in place, in SMEs, the owner-manager is often the principal as well as the agent and thus makes all the decisions (Perren & Ram, 2004). The SME owner-manager is 'like an octopus' who controls as well as manages the firm's everyday activities (Hasle & Limborg, 2006). Since the boundaries, if any, between the firm and the owner-manager are small, the dynamics of the firm's activities are more likely a reflection of the owner-manager's decisions and actions (Spence & Rutherford, 2001). Fourth, SME activities tend to be highly localized (Macpherson & Holt, 2007). SME Stakeholders in the geographical location are frequently the primary stakeholders in relation to whom they base their major decisions and actions (Spence, 2016). Fifth, the management style in SMEs tends to be very informal rather than formal (Marlow & Patton, 1993). SME relationships with stakeholders are usually based on trust, social ties, and mutual support, and less likely defined by formal contracts or agreements as in the case of large firms (Mathews & Stokes, 2013; Ram et al., 2001). Moreover, as indicated above, where the owner-manager is frequently the same individual, this will also reinforce a more informal and less process-driven style of management. All these aspects contribute to the perception that SMEs are inferior with limited resources and associated scope for agency.

Despite the above constraints, SMEs are still considered to be economic engines in emerging markets (Filatotchev et al., 2009). They constitute nearly 95% of the total number of private firms in emerging markets. Nevertheless, their 'smallness' does not preclude them from escaping exchanges with state institutions and actors.

Currently, there are few studies that directly deal with SME-state exchanges in emerging markets. A limited number of studies have briefly touched on social strategies rather than focusing on non-market political strategies. For example, in their study of small garment exporters in India, Soundararajan et al. (2018b) show how these exporters engage in mundane evasion work to evade – or circumvent – demands to comply with state regulations and private standards for improved working conditions. In a similar vein, Jamali et al.'s (2017) study of SMEs in India shows how they selectively couple and decouple from institutional demands. These studies reinforce the notion that SME-state relationships in emerging markets tend to operate more at the micro level based on informal social networks and embedded in their everyday practices. However, extant studies tend to focus on CSR practices of SMEs based in emerging markets (Jamali et al., 2017; Pastrana & Sriramesh, 2014) rather than on the predatory behavior of the state actors and how SMEs respond to these practices through the development of NMS. Thus, the key focus of this study is to examine how SMEs develop NMS and respond to the predatory actions initiated by state actors in emerging markets where formal institutions are in a state of flux.

3. Method and context

3.1. Research Setting

The present study focuses on SMEs operating in Russia, an emerging market economy characterized as an institutional environment in which corruption is rampant, with conservative estimates of corruption practices accounting for approximately 15% of the country's GDP (Zhuplev, 2016). Given the lack of research on SMEs' NMS, we chose to utilize an in-depth qualitative exploratory study to examine how SMEs within the engineering and technology sectors negotiate state

actors (for example, regulators, tax officials, regional and city-level officials). Whilst such in-depth research has been criticized for its lack of generalizability (Jack & Anderson, 2002), its value lies in offering high-quality rich contextual knowledge required to develop and extend robust theories. Such an approach is also highly useful in environments where managers might be afraid to participate in sensitive research. As such, this approach provides a solid basis for in-depth research into the nature of NMS within the Russian SME-state relations. Data were generated in three Russian regions: Samara Oblast'; Stavropol Krai; and, Volgograd Oblast'. Samara Oblast', located in the Volga region, is one of the top areas of petroleum by-product and machinery production in Russia. Conversely, Stavropol Krai is a predominantly agrarian-based economy with industrial activity being largely based around the two cities of Budennovsk (oil refining) and Nevinnomyssk (chemical production). Volgograd Oblast' has an economic profile similar to Samara Oblast'. Its economic activity is concentrated in the region's two largest cities, Volgograd and Volzhskiy. Leading industrial branches include chemical production, metallurgy and oil refining.

3.2. Data Generation

Data were generated from 39 in-depth, semi-structured interviews with key actors across the three regions, including owner-managers of Russian-owned small firms (between 10-50 employees) operating in the engineering and technology industries, including chemical and automotive (see Tables 1 and 2). To facilitate data triangulation, further interviews were conducted with leaders of local business associations and chambers of commerce. The interview questions were based around the practices and approaches that SMEs use to manage state actors and everyday

business environments. We did not seek specifically to examine how SMEs may engage in processes of internationalization. However, some of the findings outlined below in relation to internationalization emerged from the data in relation to NMS. As a result of the nature of some of the activities being researched, ethical concerns were addressed with the interviewees. For access, the lead author used gatekeepers such as business associations, personal contacts and the snowballing method. Informed consent was sought from each of the participants. All participants were told that all data generated in the interviews would be anonymized, including names and location of interviews.

INSERT TABLE 1 HERE

The lead author conducted all of the interviews either face-to-face or on the telephone commencing with the first fieldwork visits in 2008 and 2009, and these continued during three further research visits between 2011 and 2015. All the interviews were conducted in the Russian language, in which the lead author is fluent. To reduce potential data distortion, these interviews were transliterated (rather than translated) into English for analysis. Only coded data were translated into English. During the first stage in 2008 and 2009, interviews took place with eight owner-managers of SMEs across the three regions. The results of this initial round of fieldwork indicated that owner-managers were mediating relations with state actors in Russia in diverse ways on an everyday level. Between 2009 and 2011, the authors reflected on these initial findings and subsequently refined some of the research questions in order to gain a more fine-grained and nuanced understanding of the topic of investigation.

In the second stage of fieldwork between 2011 and 2015, an additional 31 interviews were conducted with 23 owner-managers of SMEs and eight

representatives of business associations and chambers of commerce. Interviews lasted between 45 and 90 minutes and before each interview, the interviewer explained the general purpose of the research. Each interview was stopped when respondents' answers became repetitive and a theoretical saturation had been reached (Glaser & Strauss, 2009; Saunders & Townsend, 2016). In order to improve validity of the findings, the lead author engaged in field observations taking part in informal conversations with relevant actors across the three regions whilst in Russia. These supplementary data were written down in notebooks and stored.

3.3. *Data analysis*

Using Braun and Clarke's (2006) guide to thematic analysis, the data were analyzed in four discrete stages. The lead author, who is fluent in the Russian language, mainly analyzed the data with constant discussion and inputs from the rest of the team. In Stage 1, the generated database was read several times in order to better understand the research setting in which respondents lived and worked. The data collected during the interviews formed the backbone of this evidence and were supplemented and reinforced with other data from observation notes and informal conversation notes. In Stage 2, in order to categorize the data into relevant themes, we utilized a grounded coding process (Glaser & Strauss, 2009) to draw out common themes, which is particularly important in researching everyday practices (King & Horrocks, 2010). Simple open questions were posed like: What are the practices that the firms in the sample use to manoeuvre state actors? How did they use such practices? Why did they use such practices? Why did such practices work? This analytical inductive approach generated narratives, which were then cross-referenced with data from other sources. The narratives were constantly discussed with the rest

of the team and the coding strategy was continually refined. Whilst starting our analysis with open coding by reading iteratively the narratives and fieldnotes, we identified initial codes which were then merged to create categories. The next stage of coding involved the development of emergent themes, which highlighted initial connections between clusters of data. We followed Corbin and Strauss' (2015) constant comparative analysis to reveal differences and similarities across the data segments. Finally, the NMS, as over-arching constructs, emerged from the data.

In Stage 3, incidences of owner-managers' purposive strategies with state actors, reasons for employing such tactics, and conditions under which such strategies worked were carefully coded and extracted from narratives, forming first-order codes. These were subsequently judged against Patton's (2002) two criteria for judging categories to confirm (a) they consisted of coherent data (*internal* homogeneity) and (b) there was a clear distinction between each code (*external* heterogeneity). In order to gain internal homogeneity, the authors re-read the potential first-order codes several times to verify the coherence of these codes. At this point, unique data were subsequently incorporated into an appropriate code. To gain external heterogeneity, the authors re-read the codes to ensure that they were sufficiently differentiated from each other. Following this, the first-order codes were interpreted again and grouped into second-order categories. Finally, in Stage 4, the second-order codes were clubbed together to form aggregate theoretical constructs. These constructs are discussed in the findings (see Table 2).

INSERT TABLE 2 HERE

4. Findings

First, we outline the enabling conditions which provide a critical context to the emergence of predatory behavior by state actors and the associated strategies which they pursue. Second, we discuss the strategies which owner-managers of SMEs utilize in order to counteract the predatory state actor behavior; and discuss the enabling conditions of the strategies identified. Third, we outline how some SMEs adopted internationalization strategies to remove themselves from the challenges associated with the prevailing institutional forces.

4.1 Enabling conditions for the predatory behavior of state actors

Before examining the predatory behavior of state actors, we need to recognize the emergence of such behaviors within the situated, specific context of Russia. Therein, the legacies of Soviet rule, involving particularly the hierarchical and overtly bureaucratic nature of public administration (Ledeneva, 2013), continue to impact on state-SME relations. First, the predatory strategies of the state actors were grounded in a *cultural acceptance* of state power. As one interviewee noted, ‘*Our bureaucrats believe that power belongs to them*’ (INT 7). Second, state actors have continued to sustain patronage-clientele networks, inherited from the Soviet times (Easter, 2000). During the late-Soviet period, the existence of a ‘deficit economy’ meant that individuals were forced to develop informal relationships with state officials in order to get by (Williams et al., 2013). Moving into the post-Soviet period, such cultural practices have become increasingly embedded within the ‘rules of the game’ of the Russian business landscape. We postulate that the adoption of NMS by SMEs in the Russian environment is a consequence of the dominance of such ‘informal’ institutions. In contrast, in institutional settings in which formal institutions dominate and are more stable, SMEs are more likely to follow market-based strategies.

4.2. *Predatory strategies of state actors*

The findings indicate that state actors in Russia engage in a wide range of predatory strategies in their exchanges with small firms. Predatory strategies used by state actors included shifting rules of the game, privatizing power, selectively using/abusing laws, and normalizing informalities. We discuss these below:

Shifting rules of the game; During the fieldwork process, inefficiencies within the institutional landscape in Russia were clear and were cited by several owner-managers of SMEs. Indeed, the large majority of the interviewees outlined how the ‘rules of engagement’ with state organs had radically changed during the last 20 years of economic and institutional transformations in Russia. Individuals spoke about the ‘heady’ days of the 1990s when, during the period of ‘chaotic capitalism’ (Lane, 2000), state organs had little power and many businesses had managed to develop profitable businesses in a business environment in which state regulations and controls were either non-existent or meaningless. Yet, over the past decade of Putin’s reign, control in business affairs returned to the state and our interviewees noted how, in the Russian environment, *‘the state knows how to maintain power’* (INT 2). Nevertheless, the notion of the weak nature of institutions in Russia leaving an institutional void (Khanna & Palepu, 1997; Puffer et al., 2010) was commonly cited. *‘The state organs constantly change their demands but the state officials do what is best for them’* (INT 12).

Privatizing ‘power’: Several interviewees spoke about how state bureaucrats sought to ‘monetize’ their positions of power – *‘vlast’* – and gain personally from their ability to impact on the activities of businesses: *‘In order to do ‘business’ we pay and then all our paperwork is overnight acceptable’* (INT 11). Interviewees also spoke

about how tax regulations were constantly changing, *'They constantly change the tax regulations'* (INT 4), with the intention of these changes perceived to be *'to catch businesses off guard and then force them to pay some fines'* (INT 7). Whilst the overarching intentions of some of these changes to tax regulations may well have been to produce positive societal outcomes, nevertheless, at the micro level, there is always an opportunity to manipulate the conditions, leading to unintended consequences.

Selectively using/abusing laws: The practice of selective use of laws in order to illegally seize private assets was also mentioned as a condition enabling non-market tactics to emerge. As a business association leader stated, discussing the plight of a local SME: *'One day the state official turned up and informed the firm that it now belonged to the Russian state'* (INT 14). Similarly, an owner-manager in Stavropol highlighted: *'A court order simply transferred my former firm into the hands of another supplier...'* (INT 16). The owner-manager highlighted how such practices were increasingly common as business elites in Russia, backed up with corporate and political power, were able to use weaknesses in Russia's judicial system to gain control over successful SMEs.

Normalizing informalities: Many respondents were adamant that *'there was no way round'* engaging in the 'rules of the game' which were developed and increasingly normalized by institutional actors: *'You cannot do business in Russia without bribes'* (INT 26). As Rajwani & Liedong (2015) argue, within a weak institutional milieu, informal practices such as bribes, may, in fact, be increasingly normalized within the everyday context. As one interviewee stated, *'paying bribes is Russian capitalism'* (INT 1). Moreover, individuals also explicitly stated that state actors forced SMEs in particular to engage in making informal payments because *'they know we have little*

protection' (INT 35). As such, these predatory strategies of state officials, designed in the pursuit of personal gain, created a profoundly dysfunctional environment, constraining the operations of small firms. In response to such corrupt practices, SMEs engaged in a variety of different NMS in order to survive. There are various reasons why state actors use these strategies. The institutional environment is such that state actors are responsible for the implementation of laws. Nevertheless, there are no additional legitimate incentives for them to accelerate the implementation or offer immediate solutions to firms. On the other hand, firms – large or small – require speedy solutions so as not to be penalized. While large firms can afford these penalties, SMEs cannot afford to be relaxed about, for instance, not obtaining a fire licence on time. Moreover, large firms have higher levels of bargaining power and resources, and can act against state actors. SMEs, however, do not have such resources or power. Several interviewees spoke about how, with the collapse of the former Soviet command economy and Russia's moves towards an economy based on market relations, state actors such as regulators increasingly had turned to rent-seeking behavior. Such individuals, who previously had grown accustomed to wielding power during the Soviet days, were now using their power over emerging privatized businesses to realize personal financial gains. As one business association leader stated: *'Our bureaucrats see that businesses are making money and they want to be a part of this'* (INT 19). Similarly, an owner-manager of a SME spoke about the shifting nature of informal relations, developed in the Soviet times. *'Previously, it was important to keep positive relations with state functionaries to avoid punishment. Today, relations are money-based. State officials use their positions to live comfortably'* (INT 30). As demonstrated in the above quotations, alongside the

privatization of formerly state-owned assets, state actors had seized the opportunity to ‘privatize power’ as a strategy to extract personal financial gains.

4.3. *SMEs and their NMS as responses to predatory state actors*

Our findings identify that Russian SME owner-managers engage in a variety of NMS in order to navigate and ultimately survive within a constraining and volatile institutional environment. As one interviewee noted, ‘*Things are stacked up against you as a small firm. The only thing you can do is to fight or find a different market*’ (INT 8). Notable studies examine how SME-owners seek to respond to specific institutional demands through mundane everyday evasion activities to circumvent the institutional constraints (Soundararajan et al., 2018b) and engage in coupling with and de-coupling from institutional demands (Jamali et al., 2017). In addition, our findings reveal that SMEs in Russia do not simply conform to the demands of state actors; instead, we witness how variations exist in the degrees of agency, choice and self-interest that result in proactive strategies from SME owner-managers (Jamali, 2010; Jamali et al., 2017).

Faced with a dysfunctional institutional environment, Russian SME owner-managers employed overarching strategies of ‘*deflection*’, ‘*alliance*’ and ‘*concealment*’, which were actioned through a series of everyday strategies. It is important to make explicit that these strategies are certainly not definitive. Rather, these NMS emerged within the narratives identified from our data and also it is important to recognize that a given owner-manager was able to align with different narratives within his or her accounts.

Deflection: Owner-managers sometimes engaged in NMS in the form of deflection to seek to gain control over the institutional demands by changing the visible aspects of

their activities. As such, small firms may be under the ‘gaze’ of state officials engaging in one activity, whilst engaging in something else. Deflection strategies by SMEs were used in response to the *privatizing ‘power’* and *normalizing informalities* predatory strategies initiated by the state actors. As outlined by an owner-manager, *‘We pay the regulator and our business has expanded. No competitors have entered the marketplace in this region’* (INT 34). Such strategies were intentional with the aim to facilitate the growth of the firm in this particular environment.

Similarly, SMEs often used bribes to ‘bypass’ the necessities of regulatory controls: *‘We pay monies and we don’t worry about inspectors turning up’* (INT 1). Other respondents described the *‘payment of bribes’* as an ‘informal tax’, arguing that paying bribes was an efficient way for firms to ‘get ahead’. Other respondents outlined how they used the tactic of *‘vynos’* – involving the informal siphoning-off of public resources into the informal economy as a means to support their business operations. As an owner-manager outlined, *‘My friend and I work for the local council, which is a badly paid job but we have access to resources which we use for our private business’* (INT 10).

Finally, respondents highlighted how they commonly used *‘envelope wages’* to maintain their business operations, a tactic involving the under-reporting of formal employees’ wages (Round et al., 2008). Owner-managers stated that the main reason they engaged in this tactic was to evade paying full social insurance and tax liabilities which, in their view, were highly debilitating for the growth of SMEs. As one respondent stated, *‘I pay my employees a second ‘cash’ wage to bypass some of the rules’* (INT 38). In sum, we found that owner-managers engaged in several *‘deflection’* NMS with the aim of mobilizing scant resources more effectively and quickly in order to engage in calculating and self-serving behavior of state actors.

Alliance: The findings suggest that SMEs enacted other NMS such as ‘*alliance*’ to mitigate shifting rules of the game and selectively using/abusing laws tactics pursued by the state actors. Such strategies are important in the context of SME-state relations in Russia to overcome the predatory tactics of state actors. Here, SMEs conform to state actor demands and thus merge in order to find mutually beneficial ways of alliance. ‘Alliance’ refers to the blending of state actors’ interests with SME’ commercial activities. Several interviewees spoke about how the use of ‘consultancy’ firms was a strategy they employed to negotiate with state actors: ‘*Previously there was a lot of cash exchanged. Now we use consultancy firms*’ (INT 16). Such ‘outsourcing’ of services reflects the changing SME-state environment in which the payment of ‘cash bribes’ was not only becoming dangerous for both state officials and firms alike (not desiring to be caught engaging in criminal activities) but also did not facilitate the embedding of long-term relations. Consultancies operate as moderators between firms and state actors and represent a tactic of collaborating with a range of stakeholders to mitigate the predatory tactics initiated by the state actors. As well as ‘bypassing’ the institutional authorities, owner-managers of SMEs had also learnt to ‘work alongside’ the state agencies in a much more symbiotic relational manner. A kindred strategy was the use of ‘*pripiski*’ – false reporting. As an interviewee states: ‘*Firms have two sets of accounts. We agree figures with the tax inspector and they gain their own personal reward*’ (INT 26). Another tactic, ‘*otkati*’ – the receiving of kickbacks from vendors or buyers – was a more recently developed form of collaborating. As Malhotra, Zhu and Locander (2010) outline, kickbacks involve over-invoicing for public works projects. As an owner-manager stated: ‘*To win government contracts, you need to include in the tender price kickbacks for additional services. The monies go to our officials*’ (INT 38). In such a fashion, we see how the

owner-managers of SMEs engage in strategies of ‘*collaborating*’ to place them into embedded, mutually reinforcing relationships with state actors.

Concealment: Owner-managers also used ‘*concealment*’ strategies for their SMEs. Concealment refers to blocking, hiding from or obstructing the influence of punitive strategies of state actors. SMEs enacted such strategies in response to the predatory strategies such as *shifting rules of the game* and *selectively using/abusing laws* initiated by the state actors. We found that SMEs which engaged in concealment strategies did not have the resources available to confront the state predatory strategies of *shifting rules of the game* and *selectively using /abusing laws*. However, in contrast to SMEs which elected to engage in collaborating activities with state actors, these SMEs pursued a series of tactics which involved proactively hiding rather than simply conforming. We discovered how several owner-managers used informal networks to avoid the punitive measures of state officials. As an owner-manager stated, ‘*If we show our hands too quickly, the authorities will find us*’ (INT 12). One business leader highlighted how it was important to ‘*have a contact in the Ministry*’ (INT 25) who could let you know if the state bureaucracies were planning to bring in new tax regulations. Another SME owner-manager stated: ‘*I have a contact who keeps me up to date with what to put on my tax returns*’ (INT 23). Other owner-managers spoke about the ‘*razpil*’ – ‘siphoning’ as a tactic to protect business interests using trusted individuals: ‘*To avoid paying fines, we allow monies from our different contracts to flow through lots of ‘shell firms’, which are owned by ‘trusted friends*’ (INT 24). Other SME owner-managers also highlighted how they used the tactic of ‘*kompromat*’ – acquiring compromising material on another individual (a business competitor or state actor) as a means to protect that given individual doing anything which would negatively impact on their business’s activities: ‘*We employ*

individuals to keep an eye on our competitors' (INT 6). In sum, the tactics involved in *concealment* enabled the SME-owners to protect themselves from future interventions from predatory state officials by gaining access to relevant information and developing their resource base with state officials. Overall, in response to the corrupt, dysfunctional institutional context in Russia, SME owner-managers developed a set of diverse NMS to seek legitimacy and protect self-interest.

4.4. *Enabling conditions driving NMS of SMEs*

There are two distinct enabling conditions for the adoption of NMS by owner-managers of SMEs. First, we find that firms which have access to resources can mobilize these resources in order to seek to exert control over the demands of the state actors. These firms tend to produce non-compliant strategies that serve organizational self-interest. Second, we identified firms which socially accept the demands of the institutional environment and comply with the demands from state actors in order to maintain legitimacy for their business. Such findings showcase how SMEs engage in 'decoupling from' and 'coupling to' state actor demands (Jamali et al., 2017). However, we reveal a third enabling condition concerning particularly resource-deprived SMEs. These firms neither have much agency nor interest in proactive responses to state actors' demands. These firms fall in between compliance and non-compliance. Their interests are neither defined by the state actors nor by their calculative or political interests. SMEs seek to exert their agency in a specific form, adopting *concealment* strategies. They work to slowly build a domestic resource base (initially through access to relevant information) whilst all the time striving to remain un-noticed. Therefore, access to domestic resources (favours and networks) has explanatory power for the pursuit of *deflection* and to a lesser extent *concealment* NMS. This said, within our sample, we have a number of SMEs that have sought to

overcome the institutional constraints domestically by engaging in strategies of internationalization as escape mechanisms.

4.5 Beyond compliance and towards internationalization

Whilst investigating the NMS that SMEs adopted, within our dataset, there emerged an alternative narrative involving SMEs developing strategies of internationalization and, in so doing, moving beyond the need to comply within the domestic institutional setting. We identify two key strategies which firms pursue specifically; these are building an international resource base and developing international networks.

Building an International Resource Base

A number of SMEs drew attention to how building a business presence across various social media platforms, which were international in nature, had led to positive results. Firms felt that they had been able to reach new customers and suppliers and had been able to showcase what their business can deliver. As one interviewee states, '*We've built a presence online which develops contacts internationally*' (INT 11). General exposure to international markets through attending international trade fairs and specialized workshops enabled some firms to generate new innovative ideas, which resulted in international contracts with proposals for international alliance. As one interviewee states, '*International trade shows give us lots of ideas*' (INT 20). For some of the SMEs there emerged a clear recognition of the importance of international certification and licenses in order to drive their businesses not only domestically but increasingly internationally. Another interviewee commented, '*We've realized the importance of international certification to get access to new foreign markets*' (INT 36).

Developing International Networks

The findings indicate that some of the firms also came to understand the importance of networking within the international arena. A number of firms' interviewees spoke about the potency and availability of cheap finance abroad. One interviewee succinctly states, '*Borrowing money in Russia is incredibly expensive. We now access finance from abroad*' (INT 5). Other firms spoke about the advantages of working with foreign suppliers, which often not only had clear cost benefits but also led to time efficiencies and getting rid of unnecessary delays previously associated with working with domestic suppliers and predatory state actors. Another interviewee explains, '*Increasingly, we're using foreign suppliers which help costs and consistency*' (INT 14). Finally, after developing their international presence, some SMEs discussed how they had started to refocus their business strategy towards acquiring more foreign customers as transactions with them were more straightforward and less bureaucratic. As one interviewee sums up, '*Our customer acquisition strategy has moved towards international markets*' (INT 39).

INSERT FIGURE 1 HERE

In summary, beyond resource mobilization, the desire of SMEs to align their interests to those of state officials results in more collaborative and compliant behavior. However, those firms that choose not to align their interests to state officials tend to engage in concealment or non-compliance, or refocus their businesses towards international markets. Whether SMEs are self-interest-driven and/or they pursue legitimacy, we find that SMEs engage in effective NMS, *vis-à-vis* their levels of domestic resource mobilization and social acceptance of state actors' demands. Arguably, dependent upon the level of pervasiveness of the dysfunctional institutional

setting such as those observed in Russia and many other emerging markets, the degrees of agency, choice, self-interest and proactiveness of SMEs become constrained. As such, the pursuit of domestic formal market strategies subjects SMEs to scrutiny by state actors. Therefore, engagement in NMS enables SMEs to exist in pervasive and arbitrary institutional settings. Moreover, other SMEs seek to pursue internationalization strategies as a means of bypassing the gaze of the state. We may argue that the more pervasive the institutional dysfunctions, the more the need arises for SMEs to adopt NMS and/or internationalization strategies. However, adoption of such strategies depends upon their ability to mobilize domestic and/or international resources and networks and their levels of acceptance of state actors' predatory demands. The linkages are presented in Table 3.

INSERT TABLE 3 HERE

5. Discussions and conclusions

Using the context of Russia, we examined SME-state informal exchanges and specifically, we explored the predatory strategies that state actors use to exert power over SMEs and the manners in which SMEs respond to such predatory behaviors through the enactment of NMS. This demonstrated the utility of NMS for SMEs within informal institutional settings. Such studies are rare within the burgeoning literature on NMS (Mellahi et al., 2016; Sanusi & Connell, 2018). Within this literature, hitherto, there has tended to be a narrow focus on MNEs and larger firms and their political NMS. In contrast, SMEs differ from large firms in respect of organizational culture, structure, resources and governance systems and, moreover, face significant resource constraints. As a result, whilst large firms may have the capacity and power to adopt grand and coherent CPA strategies including lobbying

for the sake of informing policy, regulation and levels of competition (Lawton et al., 2013 a,b; Doh et al., 2012), SMEs rarely have the legitimacy and the necessary resources and capabilities, close connections with powerful elites and/or the capacity to negotiate directly with the state. Specifically, in emerging market contexts, SMEs nevertheless face the challenges of engaging with predatory state actors at various levels, who seek to wield power over SMEs.

Our findings identify that state actors use a series of predatory strategies towards SMEs; namely shifting the rules of the game, privatisation of power, selective use/abuse of power and normalizing informalities in order to maintain power and consequently gain personal financial rewards. In response to these predatory strategies, we found that SMEs use three overarching NMS involving '*deflection*', '*alliance*' and '*concealment*' to deal with the predatory strategies initiated by the state actors. These NMS resulted from the various degrees of agency, choice, self-interest and proactiveness of the SME owner-managers and their ability to mobilize domestic resources as well as the levels of their social acceptance of state actor demands. These NMS and the associated tactics differed in their nature from ways in which large firms involve themselves in CPA and CSR (Doh et al., 2012; Rodgers et al., 2019) in their specific dealings with more senior state and government level state actors. In essence, whilst large firms use their power and resources to proactively engage in CPA activities in order to lobby their organizational interests (Boddewyn, 2016), for SMEs, faced with a myriad of demands upon them, are forced to engage in reactive forms of NMS. In doing so, they are not exerting power themselves, but rather, deflecting the power wielded upon by predatory state actors.

In this study, the NMS adopted by SMEs were more informal, relational and personalized and were pivotal (as opposed to more formal processes employed by

larger firms) to ensure survival of these firms. This enabled protection and growth of these firms from the negative consequences of operating in an institutional setting, characterized by predatory state actors and omnipresent competition. The NMS facilitate the development of bonding mechanisms between the SME and state actors thus enabling SMEs to dilute the forms of predatory power exerted upon them. As such, they develop pathways to navigate the institutional challenges present in their home market (Peng, 2003; Wright et al., 2005).

Within the extant NMS literature, there has been the broad assumption that firms have an array of approaches to choose from, as required, within their business operations, depending on particular institutional contexts (Kingsley et al., 2012). However, to date, considerably less was known about how SMEs might adopt NMS (Mendoza et al., 2015; Sanusi & Connell, 2018; Wang & Clegg, 2018) within the specific contours of institutional spaces in which informal institutions (Bruton et al., 2008) may be prevalent, if not dominating. The findings of this article highlight that SMEs are constrained in their strategic choices domestically. They either accept the state actor demands, challenge them, or elect to hide from such institutional demands within Russia's dysfunctional institutional spaces. However, our findings also demonstrate that, in response, and faced with such domestic institutional constraints, some firms develop strategies of internationalization that enable them to counteract prevailing forces and in doing so, engage in preparations for 'institutional escapism' (Luo, Xue, & Wan, 2010; Witt & Lewin, 2007).

Responding to Lawton's et al. (2013b) call for more detailed insights into the mechanics and mechanisms of NMS and building on Rajwani and Liedong's (2015) argument that, in specific emerging market settings, the propensity for the development of NMS built on relational, social ties (viewed as resources within this

article) can lead to coercion and corruption, our findings underline the critical importance of informal contacts with powerful state actors which can be ‘*enabling*’, allowing SMEs to enter into negotiations with rapacious state actors. Internationally, contacts enable firms to reach new suppliers, customers and finance in order to mitigate the predatory strategies pursued by the state actors. Simultaneously, we have found that the use of informal, corrupt practices is not only culturally embedded in the Russian business milieu (Batjargal, 2003, 2006; Puffer et al., 2010), but also that such practices are ‘*compensating*’ SMEs for the wider deficiencies in the institutional environment. Beyond the institutional reimits of the Russian business landscape, the findings of this paper may have applicability to other contexts where SME-state actor relations exist. We argue that in institutional settings in which more pervasive dysfunctionalities exist, SMEs can adopt NMS as opposed to market strategies in order to survive and/or engage in internationalization as a form of institutional escapism (Luo et al., 2010; Witt & Lewin, 2007). In institutional settings, where formal institutions dominate, we propose that SMEs may adopt more formal market strategies and would not be penalized for such strategic behavior. However, it is important to recognize that across diverse institutional settings, domestic and international resource mobilization and levels of social acceptance of state actor demands may hold explanatory power to understand SME behavior.

5.1. Implications for research

We make several contributions to the extant literature on this topic. First, we problematize the need to study the adoption of NMS within fragile institutional settings of emerging markets, characterized by the prevalence of informal institutions. Specifically, we highlight why and how SMEs engage in NMS and/or choose to internationalize in order to drive forward their entrepreneurial activity within

emerging market settings. To date, there have been limited studies that have connected firm internationalization and NMS (cf. Kline & Brown, 2019). Second, we propose a set of diverse non-market firm-level strategies which SMEs deploy to continue to operate in dysfunctional and fragile institutional settings of emerging markets, thus providing additional insights to the extant literature on NMS which has predominantly focused on large firms (Mellahi et al., 2016; Rao-Nicholson et al., 2019). Third, we present new insights into how resource-deprived SME actors navigate dysfunctional institutional spaces and, in doing so, we showcase the role of agency in state-SME relations. These findings contribute to the extant literature, which has identified that “while individual studies provide insight into different facets of firms’ non-market strategies, non-market research as a whole fails to deliver an integrated understanding of the costs, benefits and corresponding trade-offs of different strategic options” (Dorobantu et al., 2017, p. 115). This study provides a fine-grained and integrated perspective of NMS enacted by SMEs in response to the predatory nature of state actors based in a specific emerging market context – Russia. Finally, we develop a conceptual framework of the adoption of NMS and tactics by SMEs, which has the explanatory power across multiple, diverse institutional settings. Overall, one of the key implications of this study is that institutions and firms co-evolve in emerging markets, and in this article, we call for extended research that develops the theorization of how SMEs engage in NMS.

5.2. Implications for practice

Our paper also provides important insights to managers of SMEs. The findings highlight that SMEs can effectively compete in and operate under dysfunctional institutional settings by either engaging in NMS or by choosing to internationalize. Thus SME managers need to develop opportunities and capabilities carefully when

engaging in NMS. Managers can use some of the strategies highlighted in this article such as deflection, alliance and concealment in order to deal with evolving institutions. The findings highlight that relational strategies are more effective under dysfunctional and fragile institutional settings. Thus firms operating in emerging markets need to balance relational and transactional strategies in order to effectively compete in emerging markets. Finally, SME managers should consider when internationalization may represent an alternative strategy to NMS, offering access to new resources, partners and markets.

6. Limitations and suggestions for future research

The study has limitations which points to opportunities for further research on this topic. First, future studies could apply mixed method approaches. In addition, future studies could examine both the antecedents and performance consequences of NMS for SMEs and also the appropriateness of SMEs seeking to internationalize through the use of NMS across emerging and developed markets (e.g., Kline & Brown, 2019). Second, we focused on SMEs operating in the engineering and technology sectors of Russia, thus futur research could expand the study geographically and also in terms of the sample to include specific business sectors such as renewable energy, biotechnology and pharmaceuticals. Third, future research may examine to what extent foreign SMEs entering the Russian market are forced to negotiate similarly with state structures, and which strategies and tactics they adopt to reconcile dysfunctional institutional settings. Fourth, there may be a need to conduct a longitudinal study on same-sample firms and re-examine how their internationalization trajectories have progressed,. Future works could also explore the extent to which these firms have managed to disassociate themselves from the challenges of the domestic institutional setting. Fifth, firms might use non-market

strategies to deal with external shocks such as the COVID-19 pandemic, therefore, future studies should examine how SMEs and MNEs utilize non-market strategies during crisis. Lastly, as we did not examine the impact of NMS on SMEs' performance, future studies could address this gap by examining the role of NMS on SMEs' growth and performance.

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Tables and Figures

Table 1: List of Interviewees

Interviewee Number	Region	Position	Enterprise
1	Samara	Owner-manager	Light Engineering
2	Samara	Chamber of Commerce	N/A
3	Samara	Owner-Manager	IT services
4	Samara	Owner- Manager	Software support
5	Samara	Owner-Manager	Aerospace
6	Samara	Owner-Manager	Chemicals
7	Samara	Owner-Manager	Metals
8	Samara	Owner-Manager	Light engineering
9	Samara	Owner-Manager	Telecommunications
10	Samara	Owner-Manager	Automotive
11	Samara	Owner-Manager	Chemicals
12	Samara	Owner-Manager	Technology
13	Samara	Owner-Manager	Light Manufacturing
14	Samara	Business Leader	N/A
15	Samara	Owner-Manager	Automotive
16	Stavropol	Owner-Manager	IT services
17	Stavropol	Owner-Manager	Engineering
18	Stavropol	Business Leader	N/A
19	Stavropol	Chamber of Commerce	N/A
20	Stavropol	Owner-Manager	Telecommunications
21	Stavropol	Owner- Manager	Chemicals
22	Stavropol	Owner-Manager	Automotive
23	Stavropol	Owner-Manager	Light Engineering
24	Volgograd	Owner-Manager	Construction
25	Volgograd	Business Leader	N/A
26	Volgograd	Owner-Manager	Chemicals
27	Volgograd	Owner-Manager	Light Engineering
28	Volgograd	Owner-Manager	Technology
29	Volgograd	Owner-Manager	Telecommunications
30	Volgograd	Owner-Manager	Automotive
31	Volgograd	Owner-Manager	Light Engineering
32	Volgograd	Owner-Manager	Automotive
33	Volgograd	Owner-Manager	IT services
34	Volgograd	Owner-Manager	Technology
35	Volgograd	Owner-Manager	Software services
36	Volgograd	Owner-Manager	Chemicals
37	Volgograd	Chamber of Commerce	N/A
38	Volgograd	Owner-Manager	Chemicals
39	Volgograd	Owner-Manager	Software support

Table 2: Interview Questionnaire, frequency and summary of responses

ENVIRONMENT AND STRATEGIC RESPONSES	SUMMARY OF KEY TACTICS	Frequency of responses (out of 39 respondents)	Illustrative quotes
PREDARATORY INSTITUTIONAL ENVIRONMENT	<ul style="list-style-type: none"> • Shifting rules of the game 	23	‘We’ve had chaos now for over two decades’
	<ul style="list-style-type: none"> • Privatizing power 	20	‘Our bureaucrats enjoy power but they enjoy making money even more’
	<ul style="list-style-type: none"> • Selectively using/abusing laws 	24	‘They change the rules not to improve things but to catch you out’
	<ul style="list-style-type: none"> • Normalizing informalities 	27	‘There is no point in investing when it can be taken away without discussion’
	<ul style="list-style-type: none"> • Cultural acceptance of state power • Existence of institutional voids 		‘The state will never lose its desire to control us’

<p style="text-align: center;">NON-MARKET STRATEGIES OF SMALL FIRMS</p> <p style="text-align: center;"><i>DEFLECTION</i></p>	<ul style="list-style-type: none"> • Cultural acceptance of negotiating with state actors 	28	<p>‘The formal laws here are just in the rule book’</p>
	<ul style="list-style-type: none"> • Payment of illicit bribes 	36	
	<ul style="list-style-type: none"> • Misuse of state resources • Use of envelope wages 	27	<p>‘The state makes life impossible and forces individuals to come to the table’</p>
	<ul style="list-style-type: none"> • Use of Favours 		<p>‘You have to always have some money set aside, not for a rainy day but to pay someone.’</p>
	<ul style="list-style-type: none"> • Use of Outsourcing 	10	<p>‘We use resources from the state help our business develop’</p>
	<ul style="list-style-type: none"> • False reporting 		<p>‘All small businesses use envelope wages, they help us to survive’</p>
	<ul style="list-style-type: none"> • Use of Kickbacks 	5	<p>‘We’ve learnt to use people we’ve known for a long</p>

<i>ALLIANCE</i>	<ul style="list-style-type: none"> • Use of Informal contacts 	8	time to get by and not get caught by the state'
	<ul style="list-style-type: none"> • 'Razpil' - siphoning away – hiding assets 	12	<p>'Consulting firms now act like an informal tax collection service'</p> <p>'These output figures exist only on paper'.</p>
	<ul style="list-style-type: none"> • Hiring of Facilitators 	8	'To win contracts, pockets need to be filled'
	<ul style="list-style-type: none"> • Use of Blackmail 	7	'It's important to have a friendly face in our Ministries'
	<ul style="list-style-type: none"> • Engaging with Social Media platforms 	6	'We hide monies in shell firms'
	<ul style="list-style-type: none"> • Participating in international events 	16	
		5	'Keeping an eye and staying one step ahead is very important'

<p><i>CONCEALMENT</i></p>	<ul style="list-style-type: none"> • Applying for international product licenses 	<p>9</p>	<p>‘We’ve used this method for decades. It provides leverage’</p>
<p>SMALL FIRMS PREPARING FOR INTERNATIONAL MARKETS</p>	<ul style="list-style-type: none"> • Seeking finance abroad • Collaborating with foreign suppliers 	<p>8</p>	<p>‘We’ve built a presence online. We’ve found it very fruitful in developing contacts internationally’</p>
<p><i>BUILDING RESOURCE BASE</i></p>	<ul style="list-style-type: none"> • Developing relationships with foreign customers 	<p>12</p>	<p>‘We’ve attended some international trade shows, which gave us lots of ideas’</p> <p>‘We’ve realized the importance of international certification to get access to new foreign markets’</p>

<i>DEVELOPING INTERNATIONAL NETWORKS</i>		7	‘Borrowing money in Russia is incredibly expensive. We’ve started to access finance from abroad’
		17	‘Increasingly, we’re using foreign suppliers which help costs and consistency’
		10	‘Our customer acquisition strategy has moved towards international markets, we gain hugely from this’
		19	
		23	

Table 3: Linkages between state actor strategies and small firm non-market responses

Predatory Strategies of state actors	Responding Non-market Strategies of Small firms
<i>Shifting rules of the game</i>	Alliance & Concealment
<i>Privatizing power</i>	Deflection
<i>Selectively using /abusing laws</i>	Alliance & Concealment
<i>Normalizing informalities</i>	Internationalising strategies through building international resource base & developing international Networks

Figure 1: Non-market Responses to Predatory Institutional Settings

