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Barriers and public policies affecting the international expansion of Latin American SMEs: Evidence from Brazil, Colombia, and Peru☆

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ABSTRACT

The paper aims to improve the understanding of the determinants of the international expansion of Latin American SMEs. To do this, it adopts an institution theory perspective to study the interaction between public policies and other drivers of SMEs' expansion in four main areas: access to public financial resources; access to public procurement contracts; adverse regulatory and inconsistent legal frameworks; and public assistance on information and knowledge about markets. We collected the data from 465 SMEs in Brazil, Colombia, and Peru and analysed it using multivariate regressions; the findings have implications for theory, practice, and policy making. The results suggest that Latin American SMEs belonging to larger institutions (like business groups) seem to be in a stronger position to expand internationally. In addition, they show that SMEs perceive difficulties/barriers for their international expansion, mainly in dealing with domestic regulations in the domestic economic environment, and in poor information about external markets. Also, the findings indicate that having the government as a customer has proved to be a facilitator for the firms to expand internationally. All in all, the findings of the paper enrich the debate on the impact of institutions, and in particular of public policies, on the international expansion of SMEs from emerging and transition economies by analysing the role of governments' policies and strategies intended to support the international expansion of firms and questioning their mid- to long-term impact.

1. Introduction

How do managers and owners of small and medium-sized enterprises (SMEs) perceive barriers for their international expansion strategic decisions? Do constraints such as restricted access to financing and inefficient government assistance programs hinder the international expansion of Latin American SMEs? Do adverse domestic macroeconomic environments, weak legal frameworks, and cumbersome regulatory systems pose difficulties for SMEs' international expansion? How does the role of public procurement contracts affect their decision making process regarding their expansion strategies? How do public policies affect SMEs' internationalisation strategies? Answering these questions is relevant as SMEs are a fundamental building-block of the productive structure of the region "accounting for around 99% of business and employing around 67% of employees" (OECD, 2012) as well as a key agent of a much needed structural change in Latin American economies (ECLAC, 2013).

Nevertheless, most of the research on emerging market firms, in particular, Latin American firms has focused almost exclusively on multinational corporations (MNCs) (Dominguez & Brenes, 1997; Contractor, Kumar, & Kundu, 2007; Luo & Tung, 2007; Lopez, Kundu, & Ciravegna, 2009; Nicholls-Nixon, Castilla, Garcia, & Pesquera, 2011; Vassolo, De Castro, & Gomez-Mejia, 2011; Ciravegna, Lopez, and Kundu, 2013; Ciravegna, Fitzgerald, and Kundu, 2013) and the few works on Latin American SMEs are narrow in focus and cover only a scattered range of areas. These works have studied the development, growth, and mortality of SMEs in a few countries in the region (Carroll & Delacroix, 1982; Swaminathan, 1996), the relations between the context and the entrepreneurial activity (Dana, 1988; Dana, 1997), the factors limiting the activity of small firms in countries like Honduras, Ecuador, and Mexico (Busch, 1989; West, Bamford, & Marsden, 2008; Young & Welsch, 1993; Yu-Way & Zuniga, 1987), or the development of export-related competitive advantages in Argentina, Chile, and Colombia (Milesi, Moori, Robert, & Yoguel, 2007). In addition, little has been published on the impact of governments' programs for SMEs across the region

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(Lopez Acevedo & Tan, 2010). This has resulted in a fragmented body of knowledge and as such a major gap in the academic literature.

This limited knowledge about Latin American SMEs and their specific needs along with a poor availability of financial and human resources in the region (Hoskisson, Eden, Lau, & Wright, 2000) have resulted in poorly designed public policies, weak regulatory frameworks, and low development of firm-level capabilities to overcome the barriers to their expansion (West et al., 2008; Zevallos, 2003). In fact, the region's firms present relatively low levels of productivity in microenterprises (thirty-three times lower than that in large companies in the region, compared with only 2.4 times lower than that observed in OECD countries) and in small firms (six times lower than that in large companies, compared with 1.6 times lower in OECD countries), and also in relatively low levels of internationalisation with only 10% of Latin American SMEs engaging in export activities (compared with 40% of their European counterparts) (ECLAC, 2013). Also, the region's SMEs are having difficulties in participating in and benefitting from global value chains (ECLAC, 2013) and are also suffering from an increased international competition in their home markets mainly from Chinese firms (Fornes & Butt Philip, 2014; Jenkins & Barbosa, 2012). In this context, understanding the public policies, institutional settings, and business capabilities needed to overcome barriers is critical for the SMEs' development.

The present study aims at filling this gap. The premise is that, similar to what was found in small business in other emerging and transition economies, in particular China (Cardoza, Fornes, Li, Xu, & Song, 2015), SMEs in Latin America that benefit from sound government policy frameworks, favorable environmental conditions, and well-designed assistance programs are more likely to expand internationally (Zevallos, 2003). To this end, the study uses a systematically collected firm-level data-set and adopts an institution theory perspective to study the interaction between public policies and other drivers of SMEs' international expansion.

Summing up, a thorough understanding of the impact of barriers and policies on Latin American SMEs' international expansion is needed to extend the international business literature in emerging countries. In this sense this article intends to contribute to this body of literature in several ways: (i) by studying the relation between public financing, public procurement, regulatory frameworks, assistance programs and the international expansion of SMEs from developing countries, (ii) by providing a unique setting to test the set of barriers reviewed by Leonidou (2004) on the internationalisation of SMEs from industrialised countries, and (iii) by contributing to the development of a conceptual framework for the international expansion of Latin American SMEs. The study also expects to draw important lessons from the Latin American experience that can offer useful insights for policy-making in transition and emerging economies interested in accelerating the expansion process of their SMEs and benefiting from globalisation.

The paper is organised as follows. The next part presents the conceptual framework, provides a general overview of the main scholarly contributions to theory, and introduces the hypotheses. Section 3 explains the sample, methodology, and research design. The paper concludes with a discussion of the results, their implications, and possible directions for future research.

2. Review of the literature and hypothesis development

Institutional theory presents a relevant theoretical framework to understand the behavior of firms when markets are still in formation (Hoskisson et al., 2000) and as such it has been used to analyse the behavior of firms in emerging markets. This is because several factors are considered to affect their 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); among them cultural diversity (Hofstede, 1981; Kogut & Singh, 1988), unfamiliarity with business conditions (or liability of foreignness) (Johanson & Vahlne, 1977; Zaheer, 1995), and public policies, legal institutions, and regulatory structures (Davis & North, 1971; Peng & Heath, 1996; Peng, Wang, & Jiang, 2008; Yeung, 2002).

For example, following this stream, Peng and Heath (1996) analysed how different public policies and institutional environments determine the growth strategy of state-owned enterprises in transition economies. Similarly, Zhu, Wittmann, and Peng (2011) identified several institution-based barriers to innovation and business growth in China; in particular, barriers related to access to financing, the quality of laws and regulations, and the effectiveness of support systems, besides competition fairness and tax burdens. Also, Child and Lu (1996) found that firms from emerging and transition markets face different institutional constraints related to intervention by authorities and regulatory bodies in the decision making process, restrictions of information usually controlled by authorities, and access to public funding. Likewise, weak institutional frameworks, characterised by shortages of skilled labour, deficient capital markets (Hoskisson et al., 2000) and low levels of legitimacy (Yamakawa, Peng, & Deeds, 2008) were observed to affect companies' strategies and performance.

In this context, studies on Latin American emerging economies have also shown that the region's institutional environment is a key mediator in most firms' management issues (Nicholls-Nixon et al., 2011) as it is vulnerable, presents institutional voids, and "a weak market infrastructure" that favors "high levels of corruption and informal business activities" (Vassolo et al., 2011). Institutional voids (translated mainly into higher transaction costs and market failures evident in the region's relatively poorly developed capital and labour markets) have led to the development of business groups (legally independent companies bound together by formal and/or informal arrangements organised to take coordinated actions in their strategic pursuits and perform some of the missing market functions themselves (Carrera, Mesquita, Perkins, & Vassolo, 2003; Khanna & Palepu, 2000)). Also, weak market infrastructure has encouraged the growth of informal firms that commercialise legal products but manufactured and sold without paying taxes and/or considering regulations which has resulted in an environment where competition is not necessarily fair (de Soto, 1989) (contradictorily, this informal economy has been found to play a positive role in the region as it is responsible for around 50% of the employment in Latin America (World Bank, 2008) and as such an important source of wealth creation and employment in many countries (Bennett, 2010)). Vulnerable institutions in Latin America have also been found to be responsible for the volatility of the economy that has had a negative effect in the development and growth of the region's companies (Calvo, Izquierdo, & Talvi, 2006; Fornes & Cardoza, 2009; Milesi et al., 2007).

All in all, the relatively weak institutional context, along with a volatile macroeconomic environment in Latin America, seem to have created a non-conducive environment for the development of competitive advantages on which firms could base an international expansion (Chakrabarti, Vidal, & Michell, 2011; Milesi et al., 2007). In addition, institutional voids create a context that offers great opportunities for arbitrage and the growth of informal firms (Vassolo et al., 2011) which may also hinder the incentives to develop competitive enterprises.

2.1. Business development systems: a trigger for SMEs' international expansion?

Latin American SMEs are "highly heterogeneous in terms of access to markets, technologies, and human capital as well as their linkages with other firms; and these factors affect their productivity, export capacity, and potential growth" (OECD, 2012). To overcome these limitations and realise their potential Latin American governments have designed and applied business development systems (BDS) aimed at offering training for workers and managers, upgrading technology, controlling and improving quality and productivity, developing markets and, promoting exports (Lopez Acevedo & Tan, 2010). These BDS are focused on addressing market imperfections (that are supposed to affect SMEs

more than larger firms) and also at strengthening their technological and/or productive capabilities (Hallberg, 2000). However, there is very little empirical evidence supporting the effectiveness of government interventions through BDS in developing SMEs in Latin America (Lopez Acevedo & Tan, 2010).

For instance, George and Prabhu (2000) showed a link between government-oriented developmental financial institutions and value creation and entrepreneurship in emerging economies. Studies on BDS in Brazil have shown that government minority ownership has reduced capital constraints without the downsides of political interference (Lazzarini & Musacchio, 2001) and also that they have helped SMEs to increase R&D expenditures but with little impact on sales, employment, or productivity De Negri, Lemos, & De Negri, 2006). In Mexico, studies have found that BDS have generated gains in training but again with little impact on sales and productivity (Tan & Acevedo, 2005; Tan & Acevedo, 2006). In Argentina, it has been observed that BDS have produced improvements in innovation intensity but with little impact on new products or productivity (Chudnovsky, Lopez, Rossi, & Ubfal, 2006); and in Chile similar studies have shown progress in the use of technology, training, and R&D, but with mixed results on the impact on sales (Alvarez & Crespi, 2000; Benavente & Crespi, 2003; Benavente, Crespi, & Maffioli, 2007). A recent study of BDS in four Latin American countries (Colombia, Mexico, Chile, and Peru) (Lopez Acevedo & Tan, 2010) has shown that, on average, BDS have improved sales. Nevertheless, it has also been observed that BDS and other types of government interventions in Latin America tend to "produce higher levels of corruption than more market-oriented institutional settings" (Vassolo et al., 2011).

This apparent contradiction between the governments' intentions and the actual results raises questions about the effectiveness of BDS in the development of SMEs in Latin America, in particular in promoting their international expansion. It may also be that in Latin America weak institutional environments along with poor implementation of public policies affect small and medium-sized firms' international expansion strategies, as is the case, for example, in East Asia (Lin, 2005). Building on these insights this article conducts empirical research to verify, amongst others, the following hypothesis:

H1. Latin American SMEs benefiting from financial support from the government are more likely to expand internationally.

On the other hand, governments across Latin America have also used these BDS to pursue social aims like poverty alleviation, job creation, promotion of strategic industries, etc. (Lopez Acevedo & Tan, 2010). Similarly, other emerging countries have used industrial policies such as public contracts and government procurement to promote the expansion of selected enterprises (Nolan, 2002). This government involvement in firms' decision making processes has had an effect on firms' competitiveness and behaviors (Cai, Jun, & Yang, 2010) and may explain why, in order to overcome institutional failures, companies tend to establish close ties with local or central governments (Li, Meng, Wang, & Zhou, 2008). In this context, Latin American SMEs' strategies are affected by the relations between business and ruling elites as managers need to reconcile the apparent conflicts between the demands of political bureaucrats and shareholders in an environment characterised by crony capitalism (Nicholls-Nixon et al., 2011). In the context of the influence of public policies, one of the objectives of this article, the second hypothesis arises:

H2. Latin American SMEs benefiting from public procurement contracts show a greater propensity to expand internationally.

2.2. The macroeconomic and regulatory framework, government assistance, and their influence on SMEs' international expansion

The boom and bust shifts that characterise emerging economies, which have been shown to be heavily influenced by weak institutional settings (Chan, Isobe, & Makino, 2008), represent an important obstacle for the development of Latin American firms (Calvo et al., 2006; Milesi et al., 2007). These shifts have different effects on the development of firms in the region. It has been observed that contractions in capital markets during a bust negatively influence investment decisions and long-term hiring which result in an increased mortality rate of firms (Vassolo et al., 2011). At the same time, changes in relative prices, as a consequence of a bust, create a new set of market opportunities for SMEs as companies (new or established) use these periods to offer new, cheaper and/or lower-quality/lower-differentiation products (Fornes, 2009). Also, the survival rate in firms belonging/related to business groups (that are usually better positioned to overcome the challenges posed by periods of macroeconomic volatility) increases while the rate decreases in newer and more independent firms (Douma, George, & Kabir, 2006; Milesi et al., 2007). In other words, SMEs tend to grow during the boom and disappear at faster rates during the bust years.

Another factor affecting the development of firms in Latin America is the relatively poor quality of the regulatory frameworks. Similar to what has been found in other emerging and transition economies like India, Russia, or China (Douma et al., 2006; Estrin & Prevezer, 2011), business relations in Latin America tend to be based on personal links and commitments as managers do not trust the efficiency and reliability of legal systems to offer the contractual protection needed to pursue strategic options like alliances or long-term relations (Ciravegna, Lopez, and Kundu 2013; Mesquita & Lazzarini, 2008). In countries with weak institutional settings, characterised by low levels of trust in their justice system and poor enforcement of the rule of law (Transparency International, 2009), the perception that laws are not connected to society's needs prevails (Ratliff, 2006). Poor institutional environments are argued to lead to the development of informal linkages (Rocha, 2006).

This creates a situation in which the domestic macroeconomic environment, weak legal framework, and cumbersome regulatory system seem to hinder the international expansion of SMEs. The fact is that, in spite of public assistance programs, SMEs remain small, fail to export, and experience higher transaction costs and relatively higher rates of business failure (World Bank, 2007). These inefficient public assistance programs, unsuited business services, institutional bias that favors personal contacts, domestic regulatory discrimination, and scarcity of resources, may push SMEs to find more suitable environments in what was called institutional arbitrage by Boisot and Meyer (2008). Based on these arguments, the last hypotheses are formulated as follows:

H3. Latin American SMEs perceiving poor macroeconomic and regulatory frameworks are more likely to expand their business activities internationally.

H4. Latin American SMEs perceiving poor government assistanceon information and knowledge about markets and consumers are less likely to expand their business activities internationally.

Summing up, the proposed framework presented in Fig. 1 illustrates the relationships between the institutional environment, public policies, and SMEs' international expansion. The first group of hypotheses analyses the influence of public funding on Latin American SMEs' international expansion; this group is then divided into two main areas: access to public financing and/or engagement in public procurement. This group of hypotheses suggests that support from the government in any of the two forms mentioned above influences positively the international expansion of SMEs. The second group of hypotheses argues that the quality of the institutional environment influences the perception of SMEs' managers about domestic institutional risks and, consequently, has direct and indirect effects on firms' expansion. The first hypothesis in this group proposes that firms operating in a poor regulatory framework are more likely to expand internationally; the second hypothesis

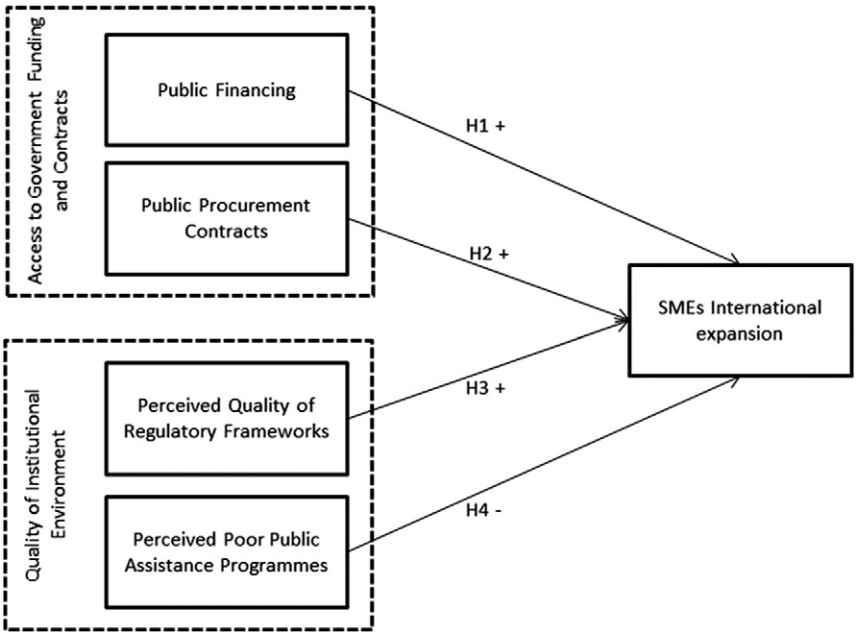

Fig. 1. Public policies and institutional determinants of Latin American SMEs' expansion: a framework

proposes that poor assistance programs are more likely to hinder international expansion. These relationships are conceptualised and then different hypotheses are formulated for empirical testing.

3. Methodology

We collected the data through a survey applied to a nonprobability convenience sample of 465 senior managers and directors of SMEs in three countries: Brazil (246), Colombia (105), and Peru (114). In the survey, we aimed at gathering information about the companies along with data on managers' perception using five-point Likert-type scales and other ordinal variables (data from 396 questionnaires were used as the replies from the other 69 were not complete). Participants operate within similar idiosyncratic characteristics (managerial, organisational, and environmental) making the responses operative (Barret & Wilkinson, 1985) and, as a consequence, obtaining a similar contextual view of the challenges faced by their firms.

Table 1 presents selected answers from the survey. In this table, it is possible to see that most SMEs in the sample were founded more than ten years ago, that the great majority of their managers are between 35 and 54 years old, that 65% of managers are men, and that 77% have completed higher education studies. These companies show a relatively high active participation by members of the managers' families. For this study, we defined SMEs as those with fewer than 50 employees following the OECD's classification (OECD, 2005).

Similar to previous studies on managers' perceptions on institutions (see, for example, Park and Luo (2001) and Elango and Pattnaik (2007)), the data analysis was based on multivariate regression analyses using the ratio of sales outside the companies' country of origin divided by total sales as a dependent variable and the survey's answers as independent variables. Following Leonidou's (2004) definition of expansion ("the firms' ability to initiate, to develop, or to sustain business operations" outside their home markets) the foreign sales/total sales ratio was used as a proxy for engagement in international economic activities in the models. The foreign sales/total sales ratio is an established measure of expansion performance (Bonaccorsi, 1992; Calof, 1994) and its use is consistent with previous studies in international business literature (see for example (Capar & Kotabe, 2003; Geringer, Tallman, & Olsen, 2000)).

The differences in the development of the regions are also factored into the analysis. The regressions were run for groups: (i) for the whole sample (coded as WS), (ii) for Brazil (coded as BR), (iii) for Colombia (coded as CO), and (iv) for Peru (coded as PE).[1] These different groups aim at identifying possible differences in the results from each country. The models can be seen below, and the definition for the variables can be seen in Table 2; the scale variables were operationalised using Leonidou (2004).

3.1. Public financing and international expansion (H1)

$$WS_i; BR_i; CO_i; = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 Personal_i + \theta_4 StateSupport_i + \theta_5 Private_i + \varepsilon_i \quad (1)$$

where WS_i; BR_i; and CO_i; are the export intensity of company i analysed in three groups (for the whole sample, for Brazil and for Colombia), *Exports/GDP* of the country of origin (Brazil 11.14%, Colombia 15.94% (CIA, 2014))[2] and *Industry* are control variables; and *Personal*, *State*, and *Private* are the variables defined in Table 3.

3.2. Public procurement contracts and international expansion (H2)

$$WS_i; BR_i; CO_i; PE_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 LocalGov_i + \theta_4 NatGov_i + \theta_5 Wholesale_i + \theta_6 Manufacture_i + \theta_7 NoManufacture_i + \theta_8 Retail_i + \varepsilon_i \quad (2)$$

where WS_i; BR_i; CO_i; and PE_i are the export intensity of company i analysed in four groups (for the whole sample, for Brazil, for Colombia, and for Peru), *Exports/GDP* of the country of origin (Brazil 11.14%, Colombia 15.94%, Peru 19.68% (CIA, 2014)) and *Industry* are control variables; and *Local Gov*, *NatGov*, *Wholesale*, *Manufacture*, *NoManufacture*, *Retail*, and *Others* are the variables defined in Table 3.

[1] Peru was not included in the analysis of H1 as the collected data in this section of the survey was not of sufficient quality.

[2] We only included *EXPORT/GDP* in the *WS* in the four models as it is constant in the subsamples.

Table 1
Selected answers from the survey (N = 465).

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
23%	35%	65%	35%	46%	31%	15%	18%	19%	13%	57%

3.3. Perceived quality of regulatory frameworks and international expansion (H3)

$$WS_i; BR_i; CO_i; PE_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 DomRegulations_i + \theta_4 ExchRate_i + \theta_5 Paperwork_i + \theta_6 Payment_i + \theta_7 EconEnvironment_i + \varepsilon_i \quad (3)$$

where WS_i; BR_i; CO_i; and PE_i are the export intensity of company i analysed in four groups (for the whole sample, for Brazil, for Colombia, and for Peru), *Exports/GDP* of the country of (Brazil 11.14%, Colombia 15.94%, Peru 19.68% (CIA, 2014)) and *Industry* are control variables; and *DomRegulations*, *ExchRate*, *Paperwork*, *Payment*, and *EconEnvironment* are the variables defined in Table 3.

3.4. Perceived quality of public assistance programs and international expansion (H4)

$$WS_i; BR_i; CO_i; PE_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 HostRegulations_i + \theta_4 Preferences_i + \theta_5 Assistance_i + \theta_6 Familiarity_i + \theta_7 SocioCultural_i + \theta_8 Verbal_i + \theta_9 Tariff\&NTB_i + \varepsilon_i \quad (4)$$

where WS_i; BR_i; CO_i; and PE_i are the export intensity of company i analysed in four groups (for the whole sample, for Brazil, for Colombia, and for Peru), *Exports/GDP* of the country of origin (Brazil 11.14%, Colombia 15.94%, Peru 19.68% (CIA, 2014)) and *Industry* are control variables; and *Contacts*, *InfoSources*, *Payment*, *Assistance*, *Familiarity*, *SocioCultural*, and *EconEnvironment* are the variables defined in Table 3.

3.5. Robustness checks

We checked the models for specification, the omission or inclusion of irrelevant variables, and the selection of an incorrect functional form. We carried out this process to test the robustness of the model, 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 (Schroeder, Sjoquist, Stephan, & SAGE, 1986). Also, 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). Then, t-statistics were adjusted by a heteroskedasticity correction in the regressions (White, 1980) to test if error terms depended on factors included in the analysis. Finally, 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).

4. Results

Tables 3 and 4 present the VIF values and the correlation for the models. Table 3 presents the Kendall's τ coefficient for scale variables (as the equi-distance in the Likert scales cannot be justified) and Table 4 shows the Pearson's ρ coefficient for ordinal variables. As can be seen, in general, there are no signs of large correlation between the variables; the very few that show a relatively large correlation are, to a certain extent, expected owing to the apparent closeness of the concepts measured and the nature of the variables presented by Leonidou

Table 2
Definition of variables.

Scale variables. 5-point Likert-type scale*			
HostRegulations	The different regulations in external markets make access and operations more difficult	*Payment*	Payment collections make export activities more difficult
Preferences	The different preferences, patterns, prices, and communication of customers in international markets make exports more difficult	*Assistance*	The government does not offer adequate assistance and incentives to carry out export activities
Tariff&NTB	The tariff and non-tariff barriers in international markets restrict export activities	*DomRegulations*	The regulations in place make it more difficult to capitalise on opportunities in international markets
Familiarity	Lack of familiarity with commercial practices abroad affects the company's operations	*EconEnvironment*	The deterioration of the countries' economic environment is an additional barrier to exports
Paperwork	It is considered that the paperwork related to exports is complicated and costly	*ExchRate*	Exchange rate variations represent an important risk for the company's exports
SocioCultural	The socio-cultural differences (religion, values, customs, attitudes, etc.) are considered obstacles to export activities	*Verbal*	The differences in verbal and non-verbal language affect the activities carried out in external markets
Ordinal variables**			
Personal	Own savings, family, second mortgage, credit card, loans from friends, inheritance, and pension	*Industry*	Manufacture, hotel/rest, retailer, wholesaler, professional SS, IT, construction, transportation, real estate, finance/insurance, health/education/social SS, others.
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*	% of the company's sales to Wholesalers.
LocalGov	% of the company's sales to the local government.	*NoManufacture*	% of the company's sales to non-manufacturing companies.
Retail	% of the company's sales to retailers.	*NatGov*	% of the company's sales to the national government.

* Interviewees could choose among the following options: (i) definitively yes, probably yes, neutral (affirmation), probably no, and definitively no, or (ii) total agreement, agreement, neutral (affirmation), disagreement, and 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 3
VIF and correlation matrix for scale variables — Kendall's τ coefficient.

	DomRegulations	ExchRate	Paperwork	Payment	EconEnvironment	HostRegulations	Preferences	Assistance	Familiarity	Sociocultural	Verbal	Tariff&NTB	VIF H3 WS	VIF H4 WS
ExpGDP													1.87	1.51
Industry													1.01	1.01
DomRegulations	1.00												1.15	
ExchRate	0.26**	1.00											2.07	
Paperwork	0.21**	0.33**	1.00										1.30	
Payment	0.13**	0.17**	0.23**	1.00									1.10	
EconEnvironment	0.16**	0.52**	0.32**	0.14**	1.00								1.73	
HostRegulations	0.15**	0.54**	0.33**	0.20**	0.47**	1.00								2.39
Preferences	0.15**	0.26**	0.23**	0.20**	0.26**	0.36**	1.00							1.34
Assistance	−0.03	−0.23**	−0.16**	−0.12**	−0.12**	−0.14**	0.01	1.00						1.12
Familiarity	0.09*	0.19**	0.21**	0.19**	0.19**	0.35**	0.32**	−0.01	1.00					1.57
Sociocultural	−0.09*	0.00	0.08*	0.09*	0.09*	0.15**	0.21**	0.07	0.37**	1.00				1.51
Verbal	0.08*	0.13**	0.17**	0.17**	0.22**	0.23**	0.27**	0.01	0.40**	0.43**	1.00			1.49
Tariff&NTB	0.12**	0.46**	0.33**	0.25**	0.44**	0.64**	0.32**	−0.14**	0.35**	0.19**	0.25**	1.00		2.27

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

(2004) (Table 2). The Durbin Watson coefficients[3] of the different 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 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.[4]

The results of running the four models (Eqs. (1), (2), (3), and (4)) can be found in Table 5. The table presents four panels with the results for the dependent variables for the four samples, WS_i; BR_i; CO_i; and PE_i. The analysis of the table follows.

Public financing (H1) *and international expansion model*: the first row presents the results of running Eq. (1) for the four samples WS_i; BR_i; CO_i; and PE_i. In Panel A, it is possible to see that *StateSupport*, and *Private* are significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$) for the whole sample. Panel B shows that *Private* is significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$) in Brazil. Finally, Panel C shows that no variable is statistically significant for Colombia ($|\beta_m/S_b| > t_{n-6;\,0.95}$). This rejects H1 for the three samples, *WS*, *BR*, and *CO*.

Public procurement contracts (H2) *and international expansion model*: the second row presents the results of running Eq. (2) for the four samples WS_i; BR_i; CO_i; and PE_i. In Panel A, it is possible to see that only *NationalGovernment* is significant ($|\beta_m/S_b| > t_{n-6;\,0.90}$) for the whole sample. Panel B shows that *Wholesale*, *Manufacture*, *NoManufacture*, *NationalGovernment*, and *Retail* are significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$) in Brazil. Panel C shows that *Wholesale* and *LocalGovernment* are significant ($|\beta_m/S_b| > t_{n-6;\,0.90}$) in Colombia. Finally, Panel D shows that *LocalGovernment* and *NoManufacture* are statistically significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$ and $|\beta_m/S_b| > t_{n-6;\,0.90}$ respectively) in Peru. This accepts H2 as public procurement (whether local or national) was found to be statistically significant (along with other customer types).

Perceived quality of regulatory frameworks and international expansion (H3) model: the third row presents the results of running Eq. (3) for the four samples WS_i; BR_i; CO_i; and PE_i. In Panel A, it is possible to see that *DomRegulations* and *EconEnvironment* are significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$) for the whole sample. Panel B shows that only *DomRegulations* is statistically significant for Brazil ($|\beta_m/S_b| > t_{n-6;\,0.95}$). Panel C shows that no variable is statistically significant for Colombia ($|\beta_m/S_b| > t_{n-6;\,0.95}$). Finally, Panel D shows that *Exchange Rate*, *Payment*, *EconEnvironment* and *Paperwork* are statistically significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$ and $|\beta_m/S_b| > t_{n-6;\,0.90}$ respectively) for Peru. This accepts H4 for three samples, WS; BR; and PE.

Perceived quality of public assistance programs and international expansion (H4) model: the fourth row presents the results of running Eq. (4) for the four samples WS_i; BR_i; CO_i; and PE_i. In Panel A, it is possible to see that only *Familiarity* is significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$) for the whole sample. Panel B shows that *Familiarity* is also statistically significant for Brazil ($|\beta_m/S_b| > t_{n-6;\,0.95}$). Panel C shows that no variable is statistically significant for Colombia ($|\beta_m/S_b| > t_{n-6;\,0.95}$). Finally, Panel D shows that *HostRegulations* and *Assistance* are statistically significant ($|\beta_m/S_b| > t_{n-6;\,0.95}$ and $|\beta_m/S_b| > t_{n-6;\,0.90}$ respectively) for Peru. This rejects H4 for three samples, *WS*; *BR*; and *PE*. A summary of the results can be seen in Table 6.

5. Discussion

The analysis of the results shows that, as expected, there are several differences in the findings in the four samples; as the contexts in which the SMEs operate are different, they perceive different drivers and

[3] Public financing *d*: 1.84 (dl 1.83, du 1.86), public procurement contracts *d*: 1.90 (dl 1.81, du 1.87), perceived quality of regulatory frameworks *d*: 1.97 (dl 1.82, du 1.87), perceived quality of public assistance programs *d*: 1.88 (dl 1.81, du 1.88).

[4] Public financing: F = 7.695; public procurement contracts: F = 4.878; perceived quality of regulatory frameworks: F = 6.984; perceived quality of public assistance programs: F = 4.72.

Table 4
VIF and correlation matrix for ordinal variables — Pearson's ρ coefficient.

	ExpGDP	*Industry*	*Wholesale*	*Manufacture*	*NoManufacture*	*LocalGovernment*	*NationalGovernment*	*Retail*	*Personal*	*StateSupport*	*Private*	VIF H1 WS	VIF H2 WS
ExpGDP	1.00											1.13	1.11
Industry	0.08	1.00										1.01	1.04
Wholesale	0.05	−0.08	1.00										2.11
Manufacture	−0.27**	−0.02	−0.44**	1.00									1.88
NoManufacture	−0.04	−0.02	−0.23**	−0.06	1.00								1.23
LocalGovernment	0.11*	0.11*	−0.17**	−0.07	0.03	1.00							1.17
NationalGovernment	0.08	0.09	−0.15**	−0.08	0.05	0.28**	1.00						1.14
Retail	0.03	−0.01	−0.31**	−0.19**	−0.10*	−0.06	−0.05	1.00					1.52
Personal	0.02	−0.04	−0.04	0.06	−0.07	−0.04	−0.05	0.04	1.00			1.18	
StateSupport	0.18**	0.06	−0.10	−0.04	−0.04	0.00	−0.04	0.16**	0.36**	1.00		1.22	
Private	−0.26**	−0.07	0.09	0.10	−0.08	−0.07	−0.06	0.03	0.16**	0.12*	1.00	1.12	

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

barriers to their international expansion. Having said this, the nature of the perceived drivers/barriers in some cases is similar in nature, like *DomRegulations* and *Paperwork* (H3), *ExchRate* and *EconEnvironment* (also H3), or *Familiarity* and *HostRegulations* (H4). This may indicate that the concerns about the domestic business environment along with the poor information on potential host markets are high barriers for the companies' international expansion.

Also common across the samples is the impact of public procurement (whether local or national) in the international expansion of SMEs (statistically significant in the four samples in H2). This provides evidence of the benefits of some BDS; access to government contracts seems to have an effect on the expansion of the SMEs in the countries under study. Further research is now needed to see if this access has been preferential and, if so, the impact it may have on the long-term competitiveness of these companies; government contracts may be a good way to kick off the expansion but it may also divert attention from competitors, new trends in the market (domestic and international), and/or technology and productivity improvements.

A combination of the findings in H2, H3, and H4 indicates that governments help SMEs by giving access to procurement contracts but fail in creating a conducive environment to develop their capabilities and in providing information and assistance to access foreign markets. In other words, BDS seem to give strong support to SMEs' productive capabilities by reducing demand uncertainty, lowering marketing costs, etc., but they fall short in addressing market imperfections, in particular those related to knowledge and skills needed to reach foreign markets. However, this government support may also create more opportunities for corruption as observed by Vassolo et al. (2011).

On the other hand, the fact that SMEs have been able to expand their operations internationally, even when perceiving poor regulatory frameworks and weak support systems from the government (H3 and H4), contrasts with the findings in Western countries where SMEs find high barriers to expand internationally when the regulatory framework is weak and government support systems are not easily available (Leonidou, 2004). These results suggest that the institutional environment seems to have an impact on Latin American SMEs' international expansion different to that on Western SMEs. This is similar to what was found in other emerging and transition economies like China (Cardoza & Fornes, 2011).

The findings from H1 indicate that *Private* sources of funding (which are usually linked to a transfer of the knowledge and skills needed to operate in international markets) are an important driver for the companies' international expansion, especially in Brazil. This may show that the access to technologies, know how, distribution channels, funding without government conditionality, etc., tends to support the international expansion of SMEs. In addition, this may also mean that SMEs with preferential access to these kind of resources for belonging to business groups are better positioned to expand internationally; this adds to the findings of Douma et al. (2006) and Zevallos (2003) that small firms which are part of conglomerates are in a stronger position to overcome the challenges of macroeconomic volatility in Latin America.

Summing up, the findings from this study show that access to government procurement contracts impacts the international expansion of SMEs. They also show that governments have not been successful in developing a conducive environment for the development of companies' capabilities as firms still perceive several barriers in their domestic markets; this goes along with poor knowledge and information about potential markets abroad. However, SMEs have been able to overcome these barriers and expand their operations outside their home country. Finally, SMEs that receive funding from private sources are in a better position to go abroad; this may include belonging to a business group and also getting access to knowledge and skills usually in short supply to small firms.

Table 5
Results from regressions.

		Panel A: WS			Panel B: BR			Panel C: CO			Panel D: PE		
		β	*t*		β	*t*		β	*t*		β	*t*	
H1	a	0.59	*8.07*		0.31	*8.66*		0.08	*0.89*				
	Exp/GDP	−0.03	*−5.68*										
	Industry	0.01	*1.83*		0.01	*1.06*		0.01	*1.03*				
	Personal	−0.00	*−0.41*		−0.00	*−0.17*		−0.03	*−0.99*				
	State support	0.04	*2.06*	*	0.03	*0.85*		0.00	*0.08*				
	Private	−0.01	*−3.10*	*	−0.01	*−3.05*	*	0.07	*1.56*				
	R^2	0.11			0.05			0.14					
	Durbin Watson	1.07			0.93			2.45					
H2	a	0.54	*6.91*		0.72	*6.06*		0.32	*1.52*		0.09	*1.21*	
	Exp/GDP	−0.02	*−5.36*										
	Industry	0.01	*2.54*		0.01	*1.22*		0.02	*1.80*		0.02	*2.60*	
	Wholesale	−0.02	*−0.36*		−0.41	*−3.38*	*	−0.37	*−1.71*	**	−0.03	*−0.39*	
	Manufacture	−0.04	*−0.69*		−0.47	*−3.72*	*	−0.24	*−1.07*		0.07	*0.54*	
	NoManufacture	−0.11	*−1.23*		−0.64	*−3.77*	*	0.06	*0.24*		0.46	*1.92*	**
	LocalGovernment	0.10	*0.73*		−0.81	*−1.62*		−0.51	*−1.84*	**	0.71	*3.77*	*
	NationalGovernment	−0.33	*−1.84*	**	−1.05	*−2.02*	*	−0.25	*−0.79*		−0.37	*−1.48*	
	Retail	−0.06	*−0.97*		−0.60	*−4.26*	*	−0.15	*−0.66*		−0.04	*−0.37*	
	R^2	0.08			0.11			0.35			0.26		
	Durbin Watson	1.22			1.12			2.21			1.90		
H3	a	0.36	*2.80*		0.09	*0.79*		0.28	*1.35*		0.07	*0.82*	
	Exp/GDP	−0.02	*−3.43*										
	Industry	0.01	*2.41*		0.01	*1.40*		0.01	*0.99*		0.01	*2.24*	
	DomRegulations	0.03	*2.67*	*	0.04	*2.28*	*	−0.07	*−1.21*		0.01	*0.34*	
	ExchRate	0.02	*1.42*		0.03	*1.45*		0.06	*1.25*		−0.06	*−2.41*	*
	Paperwork	0.01	*1.05*		0.01	*0.34*		−0.00	*−0.09*		0.03	*1.63*	**
	Payment	−0.00	*−0.24*		−0.01	*−0.68*		−0.01	*−0.11*		0.06	*2.83*	*
	EconEnvironment	−0.04	*−2.54*	*	−0.02	*−1.07*		−0.03	*−0.57*		−0.04	*−2.05*	*
	R^2	0.11			0.06			0.14			0.30		
	Durbin Watson	1.24			1.00			2.34			1.97		
H4	a	0.62	*6.31*		0.39	*3.92*		0.12	*0.60*		0.20	*2.11*	
	Exp/GDP	−0.02	*−4.75*										
	Industry	0.01	*2.38*		0.01	*1.12*		0.02	*1.67*		0.02	*2.27*	
	HostRegulations	−0.02	*−1.40*		−0.01	*−0.38*		−0.04	*−0.56*		−0.06	*−1.99*	*
	Preferences	0.00	*0.13*		−0.00	*−0.12*		−0.03	*−0.53*		0.02	*1.07*	
	Assistance	−0.02	*−1.58*		−0.02	*−0.92*		−0.02	*−0.34*		−0.04	*−1.80*	**
	Familiarity	−0.03	*−1.99*	*	−0.05	*−2.10*	*	−0.05	*−1.06*		0.00	*0.19*	
	Socio-cultural	0.02	*1.48*		0.03	*1.46*		0.05	*1.14*		−0.01	*−0.23*	
	Verbal	−0.00	*−0.05*		−0.00	*−0.11*		0.02	*0.58*		0.01	*0.26*	
	Tariff&NTB	0.01	*0.83*		0.01	*0.23*		0.04	*0.55*		0.03	*0.96*	
	R^2	0.10			0.04			0.15			0.16		
	Durbin Watson	1.22			0.98			1.88			1.73		

* Significant at the 0.05 level.
** Significant at the 0.1 level.

5.1. Implications

The findings in H1 and H2 have implications for practice and theory as they question the role of the government and its mid- to long-term impact. For practice, they have implications in the development of policies and strategies for the international expansion of Latin American firms. For theory, they enrich the debate on the impact of institutions, and in particular of public policies, on the international expansion of SMEs from emerging and transition economies (Peng et al., 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005). The findings in H1 also have implications for practice and theory. They show that Latin American SMEs belonging to a larger institution (like a business group) seem to be in a stronger position to expand internationally as they have access to a large pool of resources, capabilities, and funding.

Table 6
Summary of the results.

	Whole sample (WS)	Brazil (BR)	Colombia (CO)	Peru (PE)
H1	*StateSupport* *Private*	*Private*	None	N/A
H2	*NationalGovernment*	*Wholesale* *Manufacture* *NoManufacture* *NationalGovernment* *Retail*	*Wholesale* *LocalGovernment*	*NoManufacture* *LocalGovernment*
H3	*DomRegulations* *EconEnvironment*	*DomRegulations*	None	*ExchRate* *Paperwork* *Payment* *EconEnvironment*
H4	*Familiarity*	*Familiarity*	None	*HostRegulations* *Assistance*

The findings in H3 and H4 have implications for practice and policy making. They indicate that SMEs perceive difficulties/barriers mainly in dealing with domestic regulations (including *Paperwork* and *Payments*), the domestic economic environment (including *ExchRate*), and information about external markets. This means that governments and companies need to invest in these areas to close the gap and therefore increase the probability of success in ventures outside their home country. The findings from H1 also have implications for practice. They show that private sources of funding are necessary in addition to the support from the government. This support from private sources usually brings a transfer of the knowledge and skills needed to operate in international markets. Another implication for practice can be found in H3. The findings show that having the government as a customer has proved to be a facilitator for the firm to expand internationally; however, this access may hinder the long-term competitiveness of companies.

5.2. Future research directions

Based on the overarching conceptual framework of this article, one of the main areas to broaden and deepen the understanding of Latin America's companies would be continuing the study of the impact of institutions on the international development of firms and especially SMEs; this is because the complex web of institutions that permeates the developed economies is either different, absent, or poorly developed in Latin America (Fornes & Butt Philip 2012; Nicholls-Nixon et al., 2011; Vassolo et al., 2011). This becomes apparent in three main areas: (i) information problems: comprehensive, reliable, and objective information to make decisions is not widely available (Estrin & Prevezer, 2011); (ii) misguided regulations: political goals may take priority over economic efficiency, reducing thus the chances to take full advantage of business opportunities (Chakrabarti et al., 2011; Hoskisson et al., 2000); and (iii) inefficient judicial systems: the neutrality/independence of the judicial system in many Latin American countries to enforce contracts in a reliable and predictable way has been questioned (Transparency International, 2009). In this context, relevant questions may be: how will the evolution of the institutional environment for business in Latin American countries impact/affect/shape the next stages in the international growth of SMEs? And how can public policies help SMEs to integrate into business groups' value chains in order to strengthen their capabilities and better position them to expand internationally?

5.3. Limitations

The main limitation of this study is generalisation. Although based on around 500 companies, it is recognised that they represent only a small proportion of Latin American SMEs and that other countries/regions (mainly Argentina, Chile, and Mexico) need to be analysed to have a better picture of the phenomenon under analysis. In any case, this is one of the first research studies to analyse such a large sample in three different locations.

6. Summary and conclusions

How do managers and owners of small and medium-sized enterprises (SMEs) perceive barriers for their international expansion strategic decisions? Do constraints such as restricted access to financing and inefficient government assistance systems hinder the international expansion of Latin American SMEs? Do adverse macroeconomic environments, legal frameworks, and regulatory systems pose difficulties for SMEs' international expansion? How does the role of public procurement contracts affect their decision making process regarding their expansion strategies? This work provides answers to these questions after an analysis of around 500 companies in three Latin American countries.

The analysis of the data shows that access to procurement contracts with governments (local and/or national) has an effect in the international expansion of Latin American SMEs since these companies have the opportunity to move up in the learning curve and develop, in the process, the competencies and capabilities needed to compete internationally. It also shows that firms perceive a domestic business environment that is not conducive for the development of competitive advantages and therefore it acts as a barrier for their international expansion; however, some companies have overcome this barrier and have expanded their operations beyond the borders of their home market. Finally, SMEs getting access to private sources of funding, which includes being part of business groups and receiving knowledge and skills, are better positioned to expand their operations abroad. These key findings highlight the need to continue the understanding of the development of Latin American SMEs to strengthen their capabilities and as a consequence improve their expansion initiatives.

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