Management International Review
https://doi.org/10.1007/s11575-026-00616-9

RESEARCH ARTICLE

# From Barriers to Gateways: Leveraging Institutional Change for SMEs' Access to International Markets

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Received: 6 October 2024 / Revised: 9 February 2026 / Accepted: 11 February 2026


## Abstract

This paper examines the processes involved in leveraging institutional change to facilitate SMEs' access to international markets. Drawing on institutional theory and rich qualitative data from 70 interviews in Kyrgyzstan across two time periods, it reveals a nuanced interplay between the reinforcement of formal institutions and the decline of outdated informal practices, as well as the influence of these changes on SMEs' actions. We find that SMEs' successful access to international markets stems from their distinct adaptive responses to simultaneous improvements in formal institutions and the reshuffling of informal ones. This enables SMEs to channel institutional change through deliberate behavioral responses toward access to international markets. The study suggests that the evolution of formal institutions alone may not suffice; tackling entrenched, historically embedded, and detrimental informal institutions inherited from the Soviet past is crucial to overcoming barriers to accessing international markets. With more transparent formal and informal institutions and practices, exporting SMEs gain access to resources and capabilities, further enabling their progression from exporting to contracted participation in GVCs. Our study, therefore, contributes to discussions in international business literature on the role of context-specific institutions in local SMEs' internationalization behavior. It highlights the importance of considering the combined role of formal and informal institutional change in providing adequate conditions for accessing international markets, particularly in transition countries, thereby providing policymakers and businesses operating in these contexts with empirically grounded practical insights.

**Keywords** Formal institutions · Informal institutions · Exporting · Garment SMEs · Kyrgyzstan · Transition economy · Global value chains

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Published online: 13 May 2026

## 1 Introduction

Since the fall of the Soviet Union, the primary challenge for former socialist republics has been enabling the emergence and growth of a viable private sector, particularly small and medium-sized enterprises (SMEs), that can compete beyond limited domestic demand. For SMEs in transition economies, improving economic prospects hinges not only on building domestic market institutions but also on expanding access to regional and international markets through exporting and cross-border commercial relationships. Access to international markets can alleviate poverty and enhance SME performance by creating demand, fostering learning opportunities, and providing incentives for capability development (Makhmadshoev et al., 2015). The significance of international trade and cross-border exchange for economic growth in developing and transition economies is widely recognized. For SMEs in these regions, especially those in labor-intensive manufacturing sectors, establishing and maintaining access to international markets through exporting and participation in industry-specific global value chains is a crucial pathway to growth and a means to enhance competitiveness (Epede & Wang, 2022). For example, international production and distribution networks can connect firms to coordinated channels and upgrading opportunities, supporting export-oriented industries (Cuervo-Cazurra & Pananond, 2023). Further opportunities to access international markets have also emerged as international sourcing and production arrangements have been reconfigured, enabling SMEs to perform contracted tasks beyond exporting (de Oliveira et al., 2021).

Interestingly, international business (IB) and global value chain (GVC) literatures are increasingly converging in recognizing that international market access for SMEs is often mediated by powerful buyers and orchestrators (e.g., the OEM) that coordinate cross-border relationships with peripheral suppliers (de Oliveira et al., 2021; McWilliam et al., 2020). Especially for SMEs in developing and emerging economies, engagement with international markets often begins with exporting and leads to their further development (Thakur & Sharma, 2025). Indeed, cross-border engagement can provide manufacturers in developing countries with the opportunity to learn through exporting and, through such engagement, upgrade their capabilities by developing higher-value-added products and services (Golgeci et al., 2021). Thus, participating in international markets extends beyond simply shipping goods abroad; it entails becoming an integral part of the global production process, performing specific subcontracted production functions, and seeking opportunities to move up the value chain to capture greater value (de Oliveira et al., 2021). Participating in international markets as a manufacturer and supplier of garments from a developing country involves satisfying several key requirements and functions set out by lead firms, typically located in developed markets overseas (Choksy et al., 2022; Soontornthum et al., 2020). Prospective suppliers must demonstrate sufficient financial resources to source raw materials and maintain inventory for specified

periods, as well as flexible manufacturing capacity to meet fluctuating orders in line with buyers' preferences.

However, access to international markets and deeper integration into GVCs are not automatic and depend on various factors. On the one hand, extensive research on GVC governance suggests that powerful multinationals, acting as lead firms, select their suppliers based on quality, price competitiveness, and the capability to handle complex transactions (Gereffi et al., 2005; Thomsen, 2007). Thus, the opportunities and barriers for supplier firms in developing countries to access international markets are largely determined by global buyers, who exert control over other actors in the supply chain (Cuervo-Cazurra & Pananond, 2023; Nadvi, 2008; Soliman et al., 2023). On the other hand, there is growing recognition in both IB and GVC research that local conditions in developing countries significantly influence local SMEs' ability to access international markets (Dekel-Dachs et al., 2021; Estrin et al., 2016; Thomsen, 2007). Questions remain open on *how* SMEs' behavior is influenced by local conditions.

While GVC research has extensively focused on the perspective of lead firms, the dynamics of the local context in which supplier firms are embedded—and how they shape opportunities and barriers to accessing international markets—have received considerably less attention. Concurrently, the IB literature on exporting SMEs emphasizes the role of both internal and external factors in facilitating access to international markets (Gaur et al., 2014; Kumaraswamy et al., 2012). However, the processes through which local institutions facilitate or hinder SMEs' access to international markets remain underexplored (Epede & Wang, 2022; Hong et al., 2020; Kumari et al., 2025), especially in contexts characterized by rapidly changing institutional arrangements, such as those found in transition economies.

There have thus been calls in the IB literature to further explore and analyze how localized institutional practices and norms, especially those inherited from historical contexts (e.g., Soviet-era legacies), affect the ability of SMEs to access international markets (Chandra et al., 2020; De Marchi et al., 2020; Epede & Wang, 2022). Indeed, beyond just acknowledging the importance of local institutions in promoting SME development and exporting, there is a need to theorize the dynamic relationship between institutional change and how such change in both formal and informal institutions impacts firms' abilities, resources, and opportunities to engage with international markets (Estrin & Mickiewicz, 2011; Makhmadshoev et al., 2015; Williams & Vorley, 2017). This gap in the literature presents a critical oversight, given that both formal and informal institutions, as well as their evolution, are fundamental in shaping economic incentives and disincentives, and fostering growth (North, 1990; Peng & Heath, 1996).

To do so, further contextualized theorization and insights are required (Piekkari et al., 2022; Teagarden et al., 2018). Moreover, to develop research in international business from an emic perspective (Buckley et al., 2014), there is a need to consider the unique institutional landscapes of transition economies, such as Kyrgyzstan, which are inadequately and often inaccurately represented in current research (Makhmadshoev et al., 2015; Rodríguez-Pose, 2013). Extant research on the internationalization of developing country SMEs often treats formal and informal institutions in isolation, rather than examining their interplay and coevolution in

context (Dekel-Dachs et al., 2021; Estrin & Mickiewicz, 2011; Webb et al., 2020). There is also a tendency to treat institutions as static, rather than dynamic entities subject to change (Mohan, 2016). This static perspective fails to capture the nuanced ways in which evolving formal and informal institutions impact SMEs' economic actions, including their access to international markets. This negligence has also led to a generalized, "one-size-fits-all" approach to policymaking (Rodriguez-Pose & Ketterer, 2019), which is particularly inadequate in transition economies where institutional landscapes are undergoing profound and rapid shifts. Addressing this gap requires a refined understanding of how these evolving institutions influence firm exporting behavior.

Building on North's (1990) distinction between formal and informal institutions, our research focuses on the context-specific institutional arrangements and practices in Kyrgyzstan's garment industry, exploring *how* evolving institutional arrangements shape barriers and opportunities for SME to access international markets through exporting.

In particular, Kyrgyzstan's institutional setting merits particular attention, given the country's status as an early reformer. Indeed, the country has followed a more liberal path to transition and has shown the greatest potential in the region for democratic reforms. It was the first in Central Asia to adopt a comprehensive program of market-oriented reforms, which included price liberalization, denationalization, and reforms in key areas of taxation, private enterprise, and export development (Makhmadshoev et al., 2015). Kyrgyzstan became the first post-Soviet country to join the WTO in 1998, cementing its status as an early reformer. Important changes in its political economy have also occurred over the last two decades, including several major events such as the Tulip Revolution in 2005 and the Second Kyrgyz Revolution in 2010 (Hopmann, 2025), which have contributed to fundamental changes in the country's institutional framework and the economic actions of agents. This leads us to our central research question: *How do formal and informal institutions, as well as changes therein, influence the behavior and access of SMEs to international markets in a transition economy context*? To address this question, we employ a longitudinal analysis, drawing on qualitative data from fieldwork conducted in Kyrgyzstan across two periods (2011 and 2018). Our dataset comprises 70 qualitative interviews with SME owners and expert informants, offering rich empirical insights into the institutional dynamics at play.

Our study contributes to the IB literature on institutions and SMEs' access to international markets in important ways. First, the study demonstrates the importance of considering the combined role of formal and informal institutional change in providing adequate conditions for SMEs' international market access. Second, by emphasizing SMEs' responses to such institutional change, it reveals how such adaptation supports their progression from exporting toward contracted participation in GVCs.

We thus propose a conceptual framework that captures the joint role of formal and informal institutions in transition economies, thereby advancing contextualized theoretical comprehension of their interplay with SME access to international markets (e.g., Dekel-Dachs et al., 2021). Specifically, our analysis reveals that improvements in formal institutions, coupled with the reshuffling of

outdated informal practices and norms, lead to notable improvements in the local business environment. These improvements manifest as lower transaction costs, more equitable access to resources, and a more transparent regulatory framework, collectively mitigating context-specific, path-dependent disruptions and entry barriers, thereby creating more conducive conditions. This empowers local SMEs to pursue further internationalization. In many cases, these improvements in institutional conditions have enabled firms to work directly with foreign buyers, thereby transitioning from lower-value, domestic subcontracting roles of exporters to fully fledged manufacturing suppliers capable of undertaking complex functions and orders, and, as a result, capturing more value from participation in international markets. Thus, the repeated cross-sectional design across two periods captures the evolution of both formal and informal institutions, offering a novel perspective on the phenomenon (Dau et al., 2022) and focusing on how institutional arrangements can influence SME behavior and facilitate their access to international markets.

Our study highlights that advancements in formal institutions alone are insufficient. Instead, we emphasize the need to address entrenched informal institutions inherited from the Soviet past to overcome internal disruptions and entry barriers. This dual focus allows us to identify and address specific contradictions within the existing literature (Makhmadshoev et al., 2015). While formal institutions may improve the regulatory environment, persistent, path-dependent informal institutions can create significant local barriers, undermining formal efforts to foster a more transparent and equitable environment for accessing international markets. This allows for a nuanced understanding of the local institutional landscape and how its evolution shapes local SMEs' ability to engage with and access international markets, which would be overlooked by a purely etic perspective (Buckley et al., 2014).

In so doing, our study also contributes to the contextualization of IB research (Michailova, 2011; Piekkari et al., 2022; Teagarden et al., 2018) and informs IB scholars' understanding of how national institutional conditions shape SMEs' internationalization through exporting activities (De Marchi et al., 2020; Dekel-Dachs et al., 2021). By adopting an in-depth qualitative approach to analyzing the institutional impact on SME access to international markets, this paper contributes to a more sophisticated, contextually rich understanding of how institutions matter for IB phenomena (Aguilera & Grogaard, 2019). We provide insights deeply rooted in Kyrgyzstan's socioeconomic and institutional realities by grounding the research in the local context rather than imposing external theoretical frameworks. This demonstrates the value of contextualizing institutional analysis in IB and highlights the importance of tailored approaches to institutional reform and policymaking in transition economies to facilitate access to international markets and economic development (Rodriguez-Pose & Ketterer, 2019). Additionally, we make an empirical contribution by extending the geographic scope of research at the intersection of IB and GVCs to Kyrgyzstan, offering rare, context-specific evidence from this underexplored region.

We first present a critical review of recent advances in debates on the role of institutions and institutional change on SMEs' access to international markets. We

highlight here the convergence of IB and GVC research and their complementarity in framing the research problem our study addresses. We then present our qualitative longitudinal approach, followed by our findings. This is followed by a discussion and a proposed framework on the combined roles of formal and informal institutions in SMEs' access to international markets through exporting.

## 2 SMEs' Access to International Markets and Institutional Change in Transition Economies

IB literature seeks to understand how SMEs access international markets. One strand of research explores the firm-level activities of SMEs. Exporting has been recognized as a first step to internationalization since the 1970s (Bilkey & Tesar, 1977). SMEs from developing and emerging countries often use exporting as a first step into accessing international markets (de Oliveira et al., 2021; DeRemer et al., 2025). For these SMEs, opportunities arise from the reconfiguration of GVCs and the increasing reliance of lead firms on a constellation of SME suppliers worldwide (Liesch et al., 2012). Through their exporting activities as suppliers, it is argued that these SMEs join GVCs, in which they benefit from upgrading (Epede & Wang, 2022; Liu et al., 2024). In this way, IB scholars explicitly find points of convergence with the GVC literature (De Marchi et al., 2020; Kano et al., 2020) to argue that these exporting SMEs learn and gain further capabilities from such upgrading (Stoian et al., 2018; Thakur & Sharma, 2025) and develop abilities to access international markets (DeRemer et al., 2025). However, such a query also raises questions about the role of local conditions in facilitating such access, a question IB scholars have asked (Dekel-Dachs et al., 2021). The control exerted by multinational OEMs over suppliers raises questions about governance and control mechanisms within global value chains, as well as the role of local regulations, policies, and institutions in the countries of supplier firms (Zahoor et al., 2023). Examining suppliers and exporters from a GVC perspective underscores the importance of this initial step for SMEs in accessing international markets and in their governance systems.

### 2.1 International Market Entry Barriers for SMEs

The debate on the role of foreign buyers and multinational enterprises (MNEs) in shaping developing-economy firms' outcomes in cross-border business is well established (Choksy et al., 2022; Cuervo-Cazurra & Pananond, 2023; Nadvi, 2008). While participation in GVCs is one important route (Kano et al., 2020), the broader challenge for SMEs is gaining and sustaining access to international markets through exporting, contracting with overseas buyers, and building stable cross-border relationships. For example, Soliman et al. (2023) examined how MNE subsidiaries engage and retain small suppliers in emerging markets, focusing on bridging institutional voids through dynamic, subsidiary-driven activities. In contrast, the influence of local conditions in developing economies on SMEs' ability to reach and compete in international markets has

received comparatively less attention (Chandra et al., 2020; Epede & Wang, 2022; Thomsen, 2016). International market participation is shaped by multiple interconnected actors and processes that extend beyond national boundaries. Accordingly, the influences on market entry barriers are not limited to lead firms; they also entail a more exhaustive investigation of practices and processes that affect existing and prospective local and smaller participants seeking cross-border opportunities (Selwyn, 2008). These gaps point to the scarcity of research on the institutional dimension in explaining access to international markets, and on the underexplored role of institutional change in hindering or facilitating SMEs' ability to internationalize (Kumari et al., 2025), including, but not limited to, entry into GVC-mediated relationships (Horner, 2017; Neidik & Gereffi, 2006; Neilson & Pritchard, 2011). Such work is crucial in ensuring that IB research yields meaningful and relevant policy interventions that enhance SMEs' international competitiveness at the national level (Chandra et al., 2020).

Institutions were initially identified as a critical dimension in GVC research (Gereffi et al., 2005). However, the subsequent research has typically focused on issues of GVC governance and upgrading (McWilliam et al., 2020), leaving many scholars to argue that the institutional dimension remains theoretically and empirically underdeveloped (Eckhardt & Poletti, 2018; Mohan, 2016; Neilson & Pritchard, 2011; Selwyn, 2008; Tewari, 2008; Thomsen, 2007). In particular, scholars highlight the perceived lack of emphasis on institutions at national levels in countries from which GVC suppliers originate, typically the global South (De Marchi et al., 2020).

Against this backdrop, several recent studies have demonstrated that local institutional structures and processes significantly influence the economic behavior and performance of firms participating in international markets (Horner, 2017; Mohan, 2016). Examples include the role of state policies in upgrading the capabilities and competitiveness of local GVC members, or the role of political-economic systems in facilitating engagement with overseas markets (Neilson & Pritchard, 2011; Thomsen, 2007). While these studies demonstrate that a greater focus on institutions can yield richer insights into the role of local and regional conditions in shaping access to international markets in developing economies, institutions are treated primarily as static entities (Mohan, 2016). We contribute to furthering this debate by explicitly focusing on the implications of institutional evolution for international market entry. The locus of our argument is that it is essential to understand not only how institutions matter but also how *institutional change* affects the facilitation or hindrance of access to international markets, whether that access occurs through direct exporting, contracted production relationships, or GVC-mediated arrangements.

More broadly, this paper extends theoretical debates at the intersection of IB and GVC. In recent years, IB research has adopted a growing interest in contextualization (Piekkari et al., 2022; Teagarden et al., 2018). A greater focus on contextual factors can enrich IB phenomena and make research results more relevant, novel, and robust (Aguilera & Grogaard, 2019; Michailova, 2011). Meanwhile, the increased focus on GVCs among IB scholars suggests that integrating insights from GVC research can enrich IB studies by allowing for greater contextualization and a more sophisticated

understanding of the interrelationships between local institutional conditions and firm outcomes (De Marchi et al., 2020; Kano et al., 2020). Such in-depth treatment of institutional factors is better suited to capturing the complexity of local context and the role of embedded elements, such as informal institutions, on IB phenomena (Dau et al., 2022). Building on these debates, adopting a robust, established institutional framework offers an important opportunity to advance theoretical understanding of how context matters for IB.

### 2.2 Formal and Informal Institutions, Institutional Change, and their Interplay in Transition Economies

This study adopts institutional theory, specifically the distinction made by North (1990) between formal and informal institutions, as a relevant theoretical approach to uncovering and conceptualizing the "rules of the game" governing the economic behavior of actors. Formal institutions are official rules (e.g., constitutions, laws). Informal institutions encompass unwritten norms, practices, and traditions that are deeply rooted in social culture (Boddewyn & Peng, 2021; North, 1990; Peng & Heath, 1996). Institutions matter because they establish the norms and constraints according to which firms operate and compete (Peng & Heath, 1996). They influence economic performance and outcomes by determining transaction costs and resource access (Manolopoulos et al., 2018) and by mediating market entry (Boddewyn & Peng, 2021; Casson et al., 2010; Williams & Vorley, 2017). For example, Hong et al. (2020) examine the impact of local institutional quality on GVC participation using the World Bank Enterprise Survey and find that better-developed local institutions enhance GVC participation, which in turn improves innovation performance.

Despite their perceived inertia, institutions can be seen as large, organic systems in which, albeit gradual, change is inherent (Smallbone & Welter, 2012). Institutional change is about incrementally replacing a set of rules, expectations, and behaviors with another over time (Smallbone & Welter, 2012). Institutional change is particularly pertinent to transition economies where institutions undergo profound transformation and evolution (Thomsen, 2016). Indeed, the project of institutional transition from a planned to a market economy implies extensive and complex changes to the system of formal rules and informal constraints (Myant & Drahokoupil, 2011). Such changes fundamentally affect the activities of local actors, including their abilities to compete and participate in markets (Bruton et al., 2018).

Transition economies are often perceived as challenging environments for firm growth due to unstable political conditions and a lack of effective and conducive formal institutions, leading to increased reliance on outdated informal institutions (Puffer et al., 2010) as an alternative—yet not necessarily efficient or productive—way of organizing economic activities (Liu & Li, 2019). Thus, informal institutions often play a more fundamental role, even though they are often overlooked (Boddewyn & Peng, 2021), in governing firms' transactions and mediating access to key resources (Peng & Heath, 1996; Peng et al., 2009). However, relying solely on informal institutions can lead to uneven access to resources, reduced market opportunities, unequal competitive environments, and less efficient economic

arrangements (Makhmadshoev et al., 2015). Due to inertia and path dependency in many transition economies, informal norms and practices inherited from the Soviet era that undermine rather than support formal institutions still prevail (Ledeneva, 2006). They can manifest in various forms, including patronage arrangements, clan-based structures, nepotism, pervasive bureaucracy, corruption, extortion, and hostile attitudes toward private enterprises (Makhmadshoev et al., 2015; Welter & Smallbone, 2011; Williams & Vorley, 2017).

The above discussion highlights the importance of analyzing both sets of institutions and the need to contextualize institutional analysis to account for the patterns of transition. It also emphasizes: (1) the need to understand *how* institutions matter in supporting or hindering access to international markets, and (2) consider the role of institutional change on SMEs' internationalization behavior, which our study proposes to address in the context of a post-Soviet transition economy.

## 3 Contextual Background

Kyrgyzstan gained independence from the Soviet Union in 1991. Compared to other post-Soviet countries in the region, Kyrgyzstan has adopted a more liberal pathway to economic reforms and institutional transition from socialism to capitalism (Hopmann, 2025). Notably, it became the first CIS (Commonwealth of Independent States) country to introduce its own currency in 1993 and the first to join the WTO in 1998. The adoption of a comprehensive program of market-oriented changes cemented Kyrgyzstan's status as an early reformer and paved the way for key institutional reforms in areas such as privatization, private property rights, taxation, private enterprise, and export development (Makhmadshoev et al., 2015). A selective timeline of key sociopolitical events and pertinent institutional reforms is presented in Fig. 1. The emergence and expansion of Kyrgyzstan's garment sector, which is almost entirely dominated by export-oriented private SMEs, have been rapid and significant in stimulating entrepreneurial activity (Makhmadshoev & Laaser, 2021). Such rapid growth created employment opportunities in the local economy, particularly for women. What makes the context of Kyrgyzstan's garment sector empirically and theoretically interesting is its growth and relative success in entering garment GVCs, considering the country's transition status. This represents a fitting opportunity to explore how context matters when accessing international markets.

The Kyrgyz garment sector comprises over 3000 SMEs that primarily subcontract to produce ready-made garments, with over 90% of all garments exported to countries such as Russia, Kazakhstan, and beyond (OECD, 2018). The sector is supported by Dordoi Bazaar, Central Asia's largest market for goods and raw materials from China and Turkey (Eggart, 2023). The country's official production and exports of garments grew steadily over the last decade, increasing from around $128 million in 2010 to $326 million in 2022 (Eggart, 2023; UN Comtrade, 2019). However, other sources suggest a more significant figure of $700 million in 2011 alone, due to historically high volumes of unregistered exports by firms in the shadow economy (UNCTAD, 2016). Official exports from this sector account for about 10% of the country's total exports (UN Comtrade, 2019). This

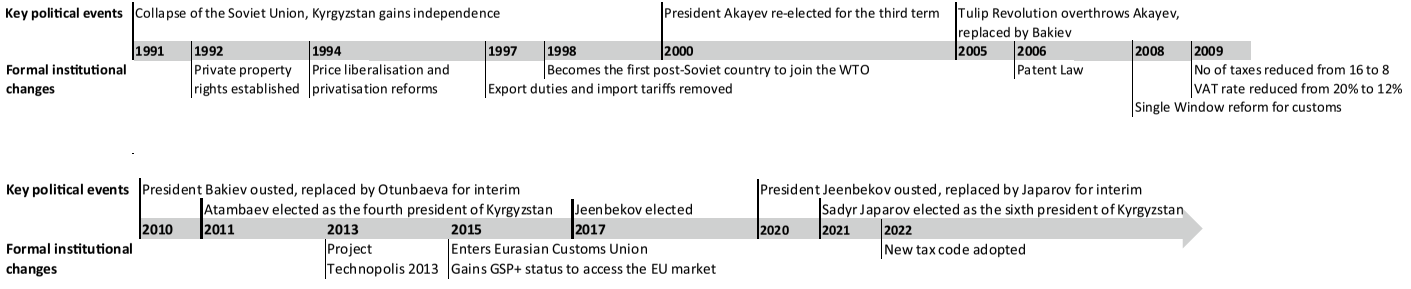


**Fig. 1** Timeline of the political and institutional changes in Kyrgyzstan (1991–2025)

makes garments the second largest export commodity, only behind gold (UNCTAD, 2016). Regarding employment, the sector employs up to 300,000 people, accounting for 13% of the total labor force (OECD, 2014), and represents a vital source of employment, especially for women, and a significant force for socioeconomic development (OECD, 2018). Kyrgyzstan's burgeoning garment industry is embedded in regional and international markets, with its SMEs focusing on adding value through design, quality, the ability to undertake complex orders, production flexibility, and affordability. This strategy helps differentiate their products from cheaper, lower-quality alternatives from China and more expensive garments from countries like Turkey (Tilekeyev et al., 2020).

## 4 Methodology

### 4.1 Sampling

Our research is informed by two fieldwork studies conducted in Kyrgyzstan across two distinct periods, selected purposefully. We employed a repeated cross-sectional design, collecting data at different points in time (i.e., with different participants in each fieldwork). The rationale for this was to observe institutional change, both formal and informal, and study how institutional settings shape trajectories, leading to different economic outcomes (Gertler, 2010), as well as changes in the behavior of SMEs in this context of changing formal and informal institutions. However, institutional theory posits that institutions change at different paces and that informal institutions evolve particularly slowly (North, 1990; Roland, 2004). In addition, in transition economies, informal institutions inherited from the past tend to persist (Makhmadshoev & Laaser, 2021); hence, there is a need for a time lag between the two fieldworks. The first fieldwork was conducted during a crisis and a change in the formal institutional setting in 2011. The second fieldwork was conducted seven years later, enabling the capture of informal institutional change. Thus, in 2018, we observed firms' more recent experiences following the saturation of the earlier reforms in formal institutions and the culmination of changes in informal institutions, which evolve more slowly (Roland, 2004). Overall, this approach allowed us to track and analyze the impact of institutions through the experiences of SME owners and managers in the garment sector.

### 4.2 Data Collection

The data were collected through in-depth semi-structured interviews. Such a qualitative research approach enables a deep, refined contextual understanding of the phenomenon and offers several advantages. It first enables the capture of the "*how*" question (Miles & Huberman, 1994), in our case, on the role of institutions in the economic practices of agents. Second, generating novel primary data through interviews allows for compensating for the lack of reliable existing data on institutional change and, most importantly, yields further insight into the

phenomenon. Third, a qualitative field study approach accounts for context and provides contextually grounded theoretical explanations (Welch et al., 2011). It thus enables us to provide novel theorization on the mechanisms that emerge from the interplay between the institutional context and the practices of agents (Garud et al., 2014). This means analyzing and theorizing the effects of informal and formal institutions on economic practices and behavior (international market entry) of SME owner/managers in a transition economy context (Kyrgyzstan). This approach has been widely adopted, particularly in contexts characterized by increased dynamism and instability (Mohan, 2016; Williams & Vorley, 2015).

Following Yin (2013) and Eisenhardt and Graebner (2007), we triangulated data sources from primary and secondary sources. We, therefore, complemented the 53 interviews with owners, founders, and managers of privately owned, export-oriented SMEs in the garment industry (Table 1) with 17 additional interviews with expert informants (Table 2). These experts included industry specialists, policy experts, government officials, and representatives from local and international NGOs. Interviews with local experts conducted following an emic approach, enhanced research contextualization, and improved understanding of the nature and complexity of institutions. This approach enabled us to gain an in-depth understanding of indigenous knowledge, practices, and the complexities of the local business environment. Secondary sources included official documents from governmental agencies and international NGOs.

A purposive sampling approach was utilized to identify firms in the garment industry. The essential selection criterion was that firms had to export garment products. Suitable firms were initially identified through databases of registered firms held by the Ministry of Economy and national business associations. The snowballing technique was subsequently used to expand the pool of respondents. In practice, all identified participants were owners, founders, or managers of privately owned, export-oriented SMEs. Most firms were based in the capital city of Bishkek and its periphery, where the garment manufacturing sector is largely concentrated. Some interviews were conducted in the southern city of Osh during the first fieldwork. A summary profile of the SME exporters in our sample and their export destinations, as well as the profile of our expert informants, is provided in Tables 1 and 2:

Interviews lasted up to 150 min and were conducted primarily in Russian by one of the authors, and occasionally in Kyrgyz with the assistance of an interpreter. Interviews explored the same themes across both fieldwork sites to ensure consistency and enable longitudinal analysis. The themes explored during the interviews included questions about business experiences and various aspects of the Kyrgyz formal and informal institutional environment. Further questions sought to uncover how these experiences influenced decision-makers' behavior within firms when accessing international markets.

**Table 1** Profiles of interviewed Kyrgyz SME exporters

| Firm No | No. of workers | Export markets | Interviewee position |
|---|---|---|---|
| 2011 fieldwork | | | |
| Firm 1 | 11–50 | Russia | Owner |
| Firm 2 | 11–50 | Russia, Switzerland, Kazakhstan | Owner |
| Firm 3 | 51–250 | Russia, Kazakhstan | Owner/manager |
| Firm 4 | 11–50 | Russia | Owner |
| Firm 5 | 11–50 | Russia, Latvia | Owner |
| Firm 6 | 51–250 | Romania, Sweden, Russia | Owner/manager |
| Firm 7 | 51–250 | Russia, Turkey, China | Owner/manager |
| Firm 8 | 51–250 | Russia | Owner/manager |
| Firm 9 | 51–250 | Russia, Turkey, China, Sweden, Iran | Owner |
| Firm 10 | 51–250 | Switzerland, Germany, Russia | Owner |
| Firm 11 | 11–50 | Kazakhstan, Turkey | Owner |
| Firm 12 | 51–250 | Russia, Kazakhstan, Belgium | Owner/manager |
| Firm 13 | 11–50 | Russia, Turkey, Germany | Owner/manager |
| Firm 14 | 11–50 | Russia, Kazakhstan | Owner/manager |
| Firm 15 | 11–50 | Russia, Kazakhstan, Belgium | Owner/manager |
| Firm 16 | 11–50 | Russia, Kazakhstan, Tajikistan | Owner |
| Firm 17 | 51–250 | Russia, Lithuania, Estonia, Latvia | Owner/manager |
| Firm 18 | 51–250 | Russia, Kazakhstan, Tajikistan | Owner/manager |
| Firm 19 | 11–50 | Russia, Kazakhstan, | Owner |
| Firm 20 | 11–50 | Kazakhstan, Russia, Tajikistan | Owner |
| Firm 21 | 1–10 | Russia | Owner |
| Firm 22 | 11–50 | Russia, Uzbekistan, Kazakhstan | Owner |
| Firm 23 | 51–250 | Russia, Kazakhstan | Owner |
| Firm 24 | 1–10 | Russia, Belarus | Owner |
| Firm 25 | 51–250 | Russia, Kazakhstan | Owner |
| Firm 26 | 11–50 | Russia, Kazakhstan, Uzbekistan | Owner/manager |
| Firm 27 | 1–10 | Russia, Tajikistan | Owner |
| Firm 28 | 11–50 | Kazakhstan, Tajikistan | Owner |
| Firm 29 | 11–50 | Russia | Owner |
| Firm 30 | 51–250 | Russia, Kazakhstan | Owner/manager |
| Firm 31 | 11–50 | Russia, Kazakhstan, Belarus | Owner |
| Firm 32 | 11–50 | Russia, Uzbekistan | Owner |
| 2018 fieldwork | | | |
| Firm 33 | 11–50 | Russia, Kazakhstan | Founder/manager |
| Firm 34 | 11–50 | Russia, Kazakhstan, Uzbekistan, Tajikistan | Owner/manager |
| Firm 35 | 51–250 | Russia, Kazakhstan, Uzbekistan | Owner/manager |
| Firm 36 | 51–250 | Russia, Kazakhstan, Uzbekistan, Tajikistan | Owner/manager |
| Firm 37 | 51–250 | Uzbekistan, Kazakhstan, Russia | Owner/manager |
| Firm 38 | 51–250 | Russia, Kazakhstan, Germany, Mongolia | Owner/manager |
| Firm 39 | 11–50 | Kazakhstan, Tajikistan, Russia, Uzbekistan | Owner/manager |
| Firm 40 | 51–250 | Russia | Managing director |

**Table 1** (continued)

| Firm No | No. of workers | Export markets | Interviewee position |
|---|---|---|---|
| Firm 41 | 250+ | Kazakhstan, Russia | Founder/manager |
| Firm 42 | 1–10 | Kazakhstan | Owner/manager |
| Firm 43 | 51–250 | Kazakhstan, Russia | Managing director |
| Firm 44 | 11–50 | Russia | Owner/manager |
| Firm 45 | 11–50 | Russia, Kazakhstan | Owner/manager |
| Firm 46 | 11–50 | Kazakhstan, Russia, South Africa | Owner/manager |
| Firm 47 | 1–10 | Kazakhstan | Owner/manager |
| Firm 48 | 11–50 | Russia | Owner/manager |
| Firm 49 | 11–50 | Russia, Kazakhstan, Armenia | Managing director |
| Firm 50 | 1–10 | Russia, Kazakhstan, UAE, EU | Owner/manager |
| Firm 51 | 250+ | Russia, Kazakhstan | Owner/manager |
| Firm 52 | 11–50 | Russia, UAE, EU | Owner/manager |
| Firm 53 | 11–50 | Russia | Owner/manager |

### 4.3 Data Analysis and Theorization

Our data analysis followed a consistent inductive approach, allowing researchers to develop theory from qualitative data (Eisenhardt & Graebner, 2007; Welch et al., 2011). To do so, we first translated the data from interviews and secondary sources verbatim. Then, data were organized into relevant first-order themes and coded accordingly in NVivo to ensure a thorough thematic data analysis, as reflected in the code structure and the different titles of the findings section (Klag & Langley, 2013). Data from the two fieldwork phases were compared. In addition, the longitudinal analysis shows that changes in both sets of formal and informal institutions were clearly identified by the respondents, allowing a reflection on the role played by those changes on their practices (interviews with business owner-managers) and on observed practices and behaviors of economic actors (interviews with expert informants) regarding export activities. These first-order themes on changes in institutional settings and economic practices reveal, for example, how the strengthening of formal institutions facilitates access to international markets (finding 1). These themes served as a basis for further theorization (Welch et al., 2011) and were subsequently organized into aggregate theoretical themes (Klag & Langley, 2013), leading to the proposed framework (see Fig. 2 in Section 6.1). The framework links the mechanisms identified in the data and the interplay between institutional change and economic behavior. It theorizes the importance of institutional changes and their influence on SMEs' access to international markets in the garment sector (Eckhardt & Poletti, 2018; Mohan, 2016).

**Table 2** Profile of interviewed experts in Kyrgyzstan

| Expert No | Position/organization | Expertise/rationale for inclusion in the study | Experience |
|---|---|---|---|
| 2011 fieldwork | | | |
| 1 | Specialist in trade and customs issues, International NGO | Provided expert opinion on trade issues and customs procedures | Over 15 years |
| 2 | Government advisor on trade and customs issues, Ministry of Economic Regulation of the Kyrgyz Republic | Provided expert opinion on trade issues and customs procedures, and the role of informal institutions in the activities of SME exporters | Over 20 years |
| 3 | A former government Minister of the Kyrgyz Republic | Provided extensive knowledge about the business environment, in particular about the role of informal institutions in doing business | Over 25 years |
| 4 | Senior international consultant on trade facilitation issues, International NGO | Provided expert opinion on trade issues and institutional barriers to value chain entry from the supplier-country perspective | Over 15 years |
| 5 | Senior cotton and garment sector expert, Ministry of Agriculture of the Kyrgyz Republic | Provided extensive knowledge about the current trends and the structure of the cotton and garment industry in Kyrgyzstan | Over 30 years |
| 6 | Managing director, International non-profit think-tank | Provided expert opinion about the institutional environment and the role of informal institutions in SME development | Over 8 years |
| 7 | Senior export development Specialist, International NGO | Provided expert opinion on the role of formal and informal institutions in accessing international markets | Over 15 years |
| 8 | Senior agribusiness expert, International NGO | Provided expert opinion about the main challenges of doing business in the garment and textile sectors | Over 15 years |
| 9 | Independent agricultural consultant, Affiliated with several international NGOs as an external consultant | Provided expert opinion about the role of formal and informal institutions in doing business in the agricultural industry | Over 20 years |
| 10 | Cotton and textile industry consultant, International NGO | Provided important insights into the cotton and textile sector, and the major challenges of doing business in/entering this sector | Over 15 years |
| 2018 fieldwork | | | |
| 11 | Director of a major national business association for firms in the garment industry | Provided extensive knowledge about the business environment, barriers to the garment industry, and lobbying efforts to alleviate them | Over 18 years |
| 12 | Senior economic advisor and SME finance expert, a major international development organization | Provided extensive knowledge and expertise on various efforts and interventions to support private sector development in Kyrgyzstan | Over 20 years |

**Table 2** (continued)

| Expert No | Position/organization | Expertise/rationale for inclusion in the study | Experience |
|---|---|---|---|
| 13 | Director of a consulting firm supporting early-stage SMEs in the garment industry | Provided expert knowledge on export-related barriers and opportunities for Kyrgyz SMEs in regional and international garment markets | Over 10 years |
| 14 | Private sector development consultant, an international NGO | Provided expert opinion about the effectiveness of government support to foster private sector development in the country | Over 7 years |
| 15 | Independent consultant on political economy and SME finance, affiliated with several international NGOs | Provided expert opinion about the state of sociopolitical reforms and institutional changes, and their perceived impact on firms | Over 10 years |
| 16 | Director of a significant business association for both national and international firms | Provided expert opinion on the attractiveness of the Kyrgyz business environment to both local and international investors | Over 8 years |
| 17 | Government official, Ministry of Economic Regulation of the Kyrgyz Republic | Provided insights into the effectiveness of institutional reforms and various efforts to support entrepreneurship and business growth | Over 15 years |

## 5 Empirical Findings

As detailed below, this study's findings demonstrate how Kyrgyz garment SMEs have navigated and strategically leveraged institutional change to access international markets. Our findings indicate that such access is not solely a result of top-down institutional reforms but is also shaped by bottom-up behavioral responses and the strategic agency of SMEs. The analysis highlights the dynamic interplay between the strengthening of formal institutions, particularly taxation and customs reforms, and the subsequent reshuffling of informal institutions, including the weakening of legacy practices like informal relations and hostility toward private enterprise. These changes unfolded over time and prompted active recalibration by SMEs, who formalized, scaled, and realigned their operations to meet international market requirements.

Importantly, although these firms initially started as exporters to neighboring markets, their engagement with intermediary buyers in GVCs became increasingly evident over time. Kyrgyz SMEs upgraded their skills and began to align their processes with specifications and standardization practices, as well as with customer–buyer interactions in product design and development. Our findings indicate that changes in local institutions have facilitated greater access for local SMEs to international markets.

This section is structured around two core pillars of institutional transformation that enable such access: first, the formalization and procedural simplification of the business environment; and second, the erosion of informal, extractive norms that had historically constrained private sector growth. In both cases, we trace the policy shifts and how SMEs interpreted, mobilized, and translated them into tangible competitive advantages and new avenues for accessing international markets.

### 5.1 Strengthening of Formal Institutions, Transitional Effects, and SME Behavioral Responses

Our findings on the formal institutional framework focus on the influence and consequences of change in two areas: (i) the taxation system and (ii) the export and customs regime. We explain key institutional changes in each area, outline their role in garment SMEs, and discuss the consequences of access to international markets.

#### 5.1.1 Taxation Reforms and Formalization

While Kyrgyzstan, as an early reformer, adopted a program of market-oriented changes in the mid-1990s, its implementation accelerated in the mid-2000s, and notable progress was made in key areas, including the reformation of the taxation system. Interviews with business owners and experts highlighted the positive effects of these reforms. Respondents noted the improved current situation in Kyrgyzstan compared to the pre-reform era, when the taxation system posed a significant

regulatory hurdle due to the high costs of tax compliance and associated corruption. For instance, one firm owner described the situation as follows:

> In the beginning, in the early 2000s, it was really difficult to operate, we had inspections from everywhere, fire inspectorate, financial police, but worst of all were tax inspectors, they always wanted money in their pockets [bribes]… This was before the patent system, so calculating how much tax you owed was complicated, and hence, there were lots of inspections. But, as soon as the patent system was introduced, inspections were really reduced. We have been working for so many years now, and they have indeed disappeared; it is a much more stable environment now. Tax inspectors still come and visit us sometimes, but they come to give guidance. They would say do it this way. This is the proper way of doing it. (Firm 34).

In support of this point of view, another firm manager stated the following:

> Before it was different; the tax official would come and bluntly ask us to make official tax payments, as well as unofficial payments to him and his superiors… Before the system allowed the inspector to look at our paperwork and point at something, the [old] system itself encouraged bribery (Firm 12).

Our interviews revealed positive perceptions and outcomes from the general trend toward reform and simplification of the country's taxation system. The introduction of the patent law in 2006 is a key example of such a change. This new tax law, specifically designed for small firms in certain industries, including garments and textiles, effectively merged various types of taxes into one, allowing SMEs in the garment sector to pay income and sales taxes under a new simplified patent system. From our data, we identified and delineated three beneficial effects of the aforementioned tax reforms on garment SMEs. Firstly, the reforms lowered firms' direct tax costs through the implementation of the simplified patent system and the reduced VAT rate. Secondly, simplifying the tax system and patent process, removing discretionary elements from the tax code, and limiting the powers of tax inspectors significantly reduced compliance costs for firms. SMEs faced fewer disruptions from tax inspections and no longer required specialist accountants for advice and tax submissions.

Thirdly, and perhaps most significantly, the reduced complexity, the removal of discretionary elements, and especially the restrictions on tax inspectors' powers markedly decreased firms' exposure to opportunistic behavior by tax officials, eliminating the need to pay frequent bribes and resulting in substantially lower informal costs. Several respondents noted that during the pre-reform era (i.e., before 2006), garment firms were routinely subjected to frequent, troublesome visits by tax inspectors, who would exploit the complexity of the tax code and their discretionary power to impose fines or extort unofficial payments. Under the new system, firms are shielded from this type of behavior. Our fieldwork interviews from 2011 and 2018 consistently indicate that garment SMEs have enhanced perceptions of the taxation system, particularly in fostering greater predictability and highlighting its crucial role in engaging with formal activities, notably in international markets.

### 5.1.2 SME Responses to Taxation Reforms and Formalization

The chief consequences of these specific effects on Kyrgyz garment firms' access to international markets were twofold, both signaling a reduction in regulatory entry barriers for local firms. First and most notably, the decrease in direct tax costs, tax compliance costs, and informal payments significantly enhances the overall export competitiveness of Kyrgyz garment firms, enabling them to secure orders from foreign buyers and retailers. Second, reforms to the tax system made it less burdensome and costly for firms to operate in the formal economy, thereby making them appear more credible suppliers. These reforms did not merely incentivize formalization; they empowered SMEs to make deliberate, strategic choices to transition into the formal economy. Many interviewed SMEs described how they actively leveraged the new regulatory environment to reduce operational uncertainty, formalize their businesses, and scale operations.

Several firms that had initially functioned informally seized this policy window to legitimize their enterprises, while others were newly established in direct response to the reduced costs of formal participation. As one expert informant emphasized, approximately 90% of garment firms had once operated informally, and the reforms effectively catalyzed a wave of voluntary formalization, revealing the critical role of SME agency in shaping the post-reform industrial landscape:

> …until 2005 ...around 90% of the textile businesses worked informally. Later, when the rules and regulations became less burdensome, especially with the taxation, and when exporting became easier, they came out of informality… (Expert 6).

SME interviewees highlighted how the reformed tax regime empowered them to enter the garment sector with greater confidence and lower operational risk. Many SMEs seized the opportunity presented by a more coherent and predictable taxation environment to formalize their businesses and scale operations. One firm owner observed:

> Five-ten years ago, the taxation system was a mess… look around now, there are so many textile exporters like us in Bishkek alone, and this is because, from a regulatory point of view, it is no longer difficult to enter this industry (Firm 13).

Respondents cited the visible proliferation of garment firms across the capital not just because of reforms but as a testament to entrepreneurs' willingness to mobilize under improved conditions. Official statistics corroborate this wave of entrepreneurial activity: the recorded value of Kyrgyz garment production more than doubled from $55 million in 2005 to $116 million in 2006 following the introduction of the patent law (Eggart, 2023; OECD, 2014). Rather than waiting for incentives, SMEs interpreted the new taxation framework as a catalyst, actively formalizing their operations and entering international markets to take advantage of them.

Crucially, SMEs recognized that formalization was not merely a compliance issue but a strategic move to unlock higher-value opportunities in international

markets by complying with buyers' requirements and control mechanisms. Many SMEs deliberately shifted from informal to formal operations to establish direct relationships with foreign buyers and access international markets. One respondent, whose firm had operated informally until the patent law was introduced, emphasized that official registration allowed them to bypass domestic subcontracting chains and negotiate directly with international clients:

> Before the patent law, I had only 10 employees. Conditions were poor. Working hours were long, and pay was low as we produced garments mainly for other factories that paid half the value of our work because of our [unofficial] status… also, as we officially did not exist, we could not work with foreign buyers. But now I employ 30 people. I get orders directly from foreign buyers, which means I get paid the full price for every order. This is why I can pay my workers over $300 a month, whereas back then, it was between $100 and $150. But back then, it was the only way for us to work, and I was not the only one; I think there were more factories in the informal sector than in the formal. If you wanted to become formal, you had to pay part of your profit to tax authorities formally, and the rest of it informally because they could interpret the rules in any way they wanted to extract bribes from you. (Firm 25).

This strategic repositioning enabled SMEs to retain a greater share of value, enhance labor conditions, and offer competitive wages, tangible outcomes tied to their proactive formalization. As more firms followed suit, the garment sector experienced intensified competition, with SME owners attributing this shift to the reduced regulatory hurdles introduced by the patent law. Thus, Kyrgyz garment SMEs leveraged policy change to enhance international competitiveness.

### 5.1.3 Export and Customs System Reforms

Another significant area of formal institutional change in our fieldwork involves reforms aimed at streamlining export rules and customs procedures. A notable example is the "Single Window" initiative, an automated customs system. Our findings indicate that key positive outcomes for garment firms include reduced red tape, standardized documents, an automated trade submission system, shorter clearance times, a single low export duty of 0.15% of goods' value, and improved transparency and predictability in customs processing. It also encouraged SMEs to engage in direct relations and adopt more transparent procedures with international buyers, including by establishing clearer, more formal contracts for specific tasks.

Streamlining export procedures significantly shaped the regulatory environment for Kyrgyz garment exporters, reducing bureaucratic burdens for SMEs and enhancing transparency. The OECD and the WTO (2013) noted that these reforms helped Kyrgyz firms cut export documentation by 60%. An international expert outlined the benefits of this reform for Kyrgyz firms in enabling exporters.

> To fill and submit all the necessary documents for exports and imports at a single-entry point through the internet. This is really important, because it…

> will not only be a significant money saver, but it will also cut corruption… (Expert 4).

Firm owners noted the simplification of customs procedures, faster clearance times, and reduced transaction costs as key benefits of the reform. They reported significant improvements in their customs experiences due to more effective policy interventions. For instance, one firm owner stated the following:

> …to some retailers, we export ourselves, without intermediaries, and it is not a big deal. I mean, as long as we have all the relevant export documents...there is no problem with exporting. On the contrary, our export conditions have really improved... Think about it, if export conditions were difficult, then we wouldn't have such a large garment and textile sector, I think the largest in Central Asia, which is almost entirely export-oriented. It is because exporting became so easy that all these new firms are entering the sector… (Firm 14).

Most respondents recognized the simplicity and effectiveness of export procedures as vital for the growth of the SME-dominated garment industry. However, our 2018 observations revealed that reforms took time to yield results, with cross-border trade still hindered by bureaucratic inefficiencies, corruption, and vested interests. One firm owner highlighted:

> Yes, exporting, especially from the documentation and customs points of view, has become straightforward. It is really not a problem anymore, definitely not like before. But this did not happen overnight. The new electronic system did not immediately solve all the problems. It took time… (Firm 40).

#### 5.1.4 SME Responses to Export and Customs System Reforms

Our data from 2011 and 2018 provide compelling, consistent evidence that this formal institutional change significantly streamlined regulatory barriers to exporting and improved domestic regulatory conditions, thereby enabling SMEs to effectively engage with international buyers. Kyrgyz garment SMEs strategically responded to these reforms, leveraging the simplified regulatory environment to become more competitive. First, the reduction in informal transaction costs was a systemic improvement and a lever actively utilized by SMEs to enhance their export readiness. Firms reported securing more orders and demonstrating greater reliability in meeting buyers' quality and delivery expectations—capabilities they consciously developed in response to the new institutional landscape. As one firm owner put it:

> I really don't have any problems with customs procedures now. Yes, sometimes you may still have to make some informal payments here and there, but this is nothing in comparison to a few years ago… Your shipment could easily be delayed in customs because there were so many inspectors and officials who had to put their seal of approval, and often you had to

> bribe them all. Of course, there was no real reason. The system was simply very ineffective, very bureaucratic, and very corrupt. It was a really tense process back then and risky too, because, as you know, in international business, your orders depend on your reliability. When I started exporting in the early 2000s, one of my shipments arrived in Russia 4 weeks later than planned, and that retailer never worked with me again. But the government realized these issues and placed a lot of emphasis on solving them. (Firm 18).

This reliability reinforced their reputation among foreign buyers and retailers.

Second, the reform helped diminish long-held perceptions that customs procedures were prohibitively burdensome and expensive. More importantly, SME entrepreneurs interpreted these changes as a window of opportunity to scale their operations and enter international markets more directly, engaging in contracted activities beyond exporting. As one firm owner put it:

> Things have improved. Informal costs have gone down, but also the (government's) attitude has improved; they see our sector as an important one, and they listen to us. So, we invested in new facilities… and we are no longer second-tier suppliers… Now I can invite buyers to visit my factory, which makes a big difference. I can negotiate with buyers directly, and in the future, I think we can even enter the market with our own brand because we can produce our own products with our own designs. We can make agreements with retailers, give them their share and sell under our own brands in their stores too… that is for the future…. (Firm 36)

Interviewees emphasized how they seized this shift to bypass intermediaries, take control of buyer relationships, and expand their international engagement. As one firm owner put it, "*It is because exporting became so easy that all these new firms are entering the sector…*" (Firm 14). SMEs actively restructured their internationalization behavior by embracing the new procedural simplicity, aligning themselves more closely with international buyers, and capturing greater value. These strategic responses indicate that regulatory reforms were crucial for SMEs to navigate and leverage institutional change, ultimately channeling it into economic outcomes.

### 5.2 Reshuffling of Informal Institutions as a Contributing Factor to Accessing International Markets

This section examines changes in the informal institutional environment in two areas: (i) the weakened prominence of informal relations and (ii) the reduction in hostile attitudes and practices toward SMEs. The reshuffling of informal institutions entails dismantling outdated extractive systems and replacing them with more equitable and inclusive ones for private firms. Evidence suggests that these changes significantly reduced local entry barriers to accessing international markets, providing fairer access to essential resources and services while minimizing arbitrary impediments

to enhanced participation in the garment sector. Importantly, through institutional changes, Kyrgyz SMEs gained new capabilities and became more credible partners in the eyes of international buyers, enabling them to engage in more complex tasks within GVCs.

### 5.2.1 The Weakened Prominence of Informal Relations and Its Effect

A notable change was the decline in using informal relations to access key resources. In post-Soviet countries, this informal institution is associated with *blat*, which symbolizes extractive institutions and the informal acquisition of public resources through personal connections (Boettke, 2020). SME managers compared recent experiences with earlier ones, distinguishing between pre-revolution and post-revolution periods. They noted that during the 1990s and 2000s, informal connections were seen as a barrier to internationalization, heavily influencing access to bank loans, state contracts, real estate, and export permits. For example, before the 2005 Tulip Revolution, firms connected to influential officials easily navigated bureaucratic obstacles, while those without such ties faced tougher export conditions. As one firm owner described:

> One of the biggest obstacles back then was to find financial capital. It was just impossible to secure a loan without connections. … More recently, connections started to play a less prominent role for things like this… doing business through connections is no longer a trend… (Firm 42).

It was also indicated that firms with informal connections had better access to loans and more favorable terms, as indicated in the following statement:

> …I also know that informal connections were important in obtaining loans; if I had a relative or a good friend working in some bank, then I am sure that I could obtain a loan on more appropriate terms. This is a fact because I know several people who have done so. Officially, they say that no, they pay around 25%, whereas, in fact, they pay less than 20% annual rate. (Firm 13).

This system personalized transactions, granting businesses with ties to the political elite significant advantages in accessing export resources and services, while restricting opportunities for others. Consequently, informal institutions undermine market principles, creating an inequitable competitive environment through arbitrary rule administration and preferential treatment from state banks and agencies. These barriers discourage new market entrants due to high operating costs, limiting many nascent garment SMEs to local and small-scale activities and preventing them from engaging with international markets. An expert from an international NGO shared this insight:

> I would definitely say that informal connections were very important a few years ago when Akaev and Bakiev were presidents. Informality was very widespread during those times, especially during the Bakiev time. ... But now it has changed, it has changed dramatically… Competition is relatively

free now, which is why we have such a thriving garment SME export sector. (Expert 8).

Interviewees highlighted progress in the government's efforts to address these detrimental legacy institutions and the transitional effects of these efforts. The most striking revelation was that institutional corruption, such as the informal patronage arrangements, became less prominent and less important in Kyrgyzstan following the crucial Tulip Revolution of 2005 (see Fig. 1), thereby diminishing the prospects and utility of previously dominant informal relations for advancing business needs. Indeed, the findings suggest that since the popular uprisings that led to the overthrows of Presidents Akaev and Bakiev in 2005 and 2010, respectively, the use of corrupt informal institutions, such as blat/svyazi, has gradually declined. For instance, one firm owner stated the following:

> Why do you think we had the two revolutions [regime overthrows of 2005 and 2010]? Because of widespread favoritism, nepotism, and increasing pressure on firms. …state officials are becoming more cautious. If people discover that they are playing the favoritism game again, it can lead to more protests and instability… As I said, personally, I have strong connections in the government, but I do not involve them unless I experience a significant illegal pressure (Firm 14).

This observation was also supported by one of the expert informants, who stated the following:

> You may call me a strongly optimistic person, but I believe that blat, bribery, and informality, in general, are diminishing, and there is a gradual process towards making things more formal in this country. And the important thing is that the business community is beginning to understand this… I think it is because we are learning painful lessons from recent uprisings. Favoritism is dangerous in a free-market system. Hence, businesses are beginning to understand that only by strengthening the formal regulatory environment can we build a stable and competitive economy… (Expert 13).

This observed change was further exemplified by a firm owner who said that "*…everyone should have an opportunity to do business, not only those who have influential uncles*" (Firm 7).

The effects of the weakened prominence of informal relations were visible in terms of improved equitability and enhanced opportunities for market participation among Kyrgyz SMEs. As the reliance on informal patronage networks (*blat/svyazi*) declined, so too did the discretionary allocation of business opportunities and public services based on personal connections rather than merit. This shift effectively leveled the playing field, particularly for smaller and newer entrants into the garment sector who previously lacked access to influential gatekeepers or elite networks. Reforms dismantled entrenched informal hierarchies and opened the regulatory and commercial space for a broader base of SMEs to export and engage more directly in international markets through new interactions with

international buyers on design and production of new products enabled by such institutional changes:

> Of course, we could not work directly with overseas buyers a few years ago… there were so many barriers, so much pressure on SMEs, and the costs were so high. And when you are in the shadow economy you can't work directly, you rely on other local companies giving you orders or you rely on selling your goods in Dordoi, but the margins are minimal this way, you are earning just enough to survive… reforms and reduction of corruption allowed us to work more transparently because real money is when you work directly with foreign buyers and retailers. (Firm 46)

Importantly, this newfound equitability also translated into tangible improvements in distributing resources and services such as customs facilitation, export permits, and financial incentives. Whereas once informal relationships and rent-seeking behavior shaped access to these mechanisms, firms increasingly gained access based on procedural compliance and business merit. This reduced transaction costs and boosted SMEs' trust in informal institutions, encouraging more firms to transition from informal to formal operations and invest in long-term export strategies.

#### 5.2.2 SME Responses to the Weakened Prominence of Informal Relations

Firms viewed the decline of Soviet-inherited, corrupt informal practices as a significant societal change that could enhance their access to essential economic resources, including capital, land, utilities, labor, export permits, government contracts, and quotas. Previously, the prevalence of informal relations created a complex, opaque, and inconsistent set of circumstances in which insider firms with strong informal ties or personalized connections to state officials or other influential individuals in the country received preferential treatment. The decline of such practices has reduced informal costs and enabled more firms to obtain key export-related resources. Subsequently, such an upgrade of their own capabilities positively impacted their performance and prospects for accessing international markets, thanks to more transparent practices. SMEs became better able to meet the requirements of global buyers, and consequently had greater export opportunities and greater ability to respond to more complex buyer specifications and standards. One participant stated the following:

> Eight to ten years ago, we were essentially contractors, more like second-tier suppliers; we were told how to do and what to do. In some cases, we worked for local Kyrgyz companies that gave us their orders. But now we produce everything ourselves—look at our facilities on the first floor, we now have a dedicated designer, a photo studio to take professional pictures of our designs, and present them to our overseas buyers directly via our online channels (Firm 52)

Global buyers often select suppliers capable of delivering large volumes of products at competitive prices to achieve economies of scale and reduce costs. Kyrgyz SMEs reported focusing more on establishing formalized relationships and partnerships with buyers than on allocating resources to overcome informal barriers and bureaucracy. This resulted in increased credibility as reliable partners in the eyes of international buyers:

> We have established a good reputation among our buyers, and it is important to us; it took time. Not only because we are capable of undertaking complex orders—for instance, we learned to make men's suits to a good standard, which is one of the most difficult products to make. (Firm 39)

With more favorable institutional conditions, SMEs enhanced their capabilities, from "*small orders to really complex orders",* and were able to respond to their precise specifications and participate in the design and production of new lines. One participant stated the following:

> Most (buyers) bring their own designs and ideas, and we execute them according to their specifications. But we are also pushing our own designs. So every season, my designers come up with new lines, we develop new catalogues, and we send these to our buyers, and many of them like this. This way we can sell more… (Firm 50)

Furthermore, due to institutional change, SMEs could invest and expand their businesses, which they previously felt were restricted by the prevalence of old informal institutions. As one firm owner put it:

> If before I wouldn't invest in expanding my firm because I feared I didn't have (informal) connections to help and protect my business, now I don't have that fear anymore. Look at my factory, we have invested in a new building which is three to four times bigger than the previous factory. Working conditions are better, we have more capacity, everything is formalized, and we even do some of the designs in our dedicated studio here. The environment has changed a lot, and I am glad that old (informal) practices are disappearing because entrepreneurs like me, a former teacher with no political connections, have a chance to do business and earn a good living, without fear and reproach. (Firm 34).

This extract from a firm owner, recorded during our second fieldwork in 2018, reflects the broader sentiment observed among SMEs in the garment industry. Many firms that previously operated in the shadow economy felt assured in formalizing their operations and responded to the changing institutional landscape by making investment commitments to upgrade and expand their capabilities. Such investment decisions are vital for enhancing SME strategic positions and capturing greater value from accessing international markets.

### 5.2.3 The Reduced Hostility Toward Private Enterprises and Its Effects

Evidence suggested that firm owners experienced the decline of another legacy informal institution, characterized by the prevailing culture of embedded hostility toward private businesses, including regular checks, informal payments, and pressure to contribute to unofficial tax budgets. Entrepreneurial coercion and systematic interference in private enterprises were previously common. One firm owner noted that, before the changes in institutional norms, SMEs felt like criminals due to hostile treatment from state officials:

> Ten-twelve years ago, the treatment of private firms was so negative by state officials, you would not believe it. And that was the norm. Honestly, the red tape we had to put up with in the past was awful because you had to fill in so many confusing and contradictory forms, and this was all just so that state officials could have an opportunity to check and create a problem, no other reason. It was just awful. You always felt like a criminal… and this made many [entrepreneurs] hide from the government (Firm 45).

This stems from the Soviet era, when private entrepreneurship was banned. Other firm owners remember increased informal costs, leading many to operate unregistered in the informal economy:

> What has really changed is the relationship, the attitude of the government and its officials towards firm owners, this has been really significant for us… they finally realized that they should leave us be and support us instead of putting sticks under our wheels because we contribute to the economy and provide people with jobs. This allowed many small businesses to work formally, which is very important if you want to export… (Firm 46).

Thence, firms used to gain limited benefits from exporting due to their unofficial status. They needed intermediaries and captured less value in the process. However, almost all respondents emphasized that significant progress has been made in recent years in the informal institutional landscape. As one firm owner put it:

> Things have changed majorly. They [officials] started to interfere less and less in our business, and this is a big step in the right direction, in my view… There were so many checks, so much pressure, and so much hostility before, it was unbelievable. And you always had to please these inspectors during their visits, often by paying them informally, because you always felt like some kind of criminal just for owning a private business, even though you did nothing wrong… As a result, our overall costs went down, and importantly, we became more confident about investing in developing our businesses. (Firm 39).

They continue by emphasizing the opportunity it provided for them to move beyond local and informal markets.

> If you want to make money in this industry, you can't rely on selling in Dordoi (local market). You have to learn to do more complex items and take on bigger orders, and not just t-shirts… and also need to have the capacity to take all the costs upfront. When buyers place an order, they pay when you deliver the goods, and for that, you need to have financial capacity to undertake the order and complete the delivery. (Firm 39).

The treatment of and attitude toward private firms have improved, with some attributing this change to enhanced formal institutions and their more effective enforcement. During our second fieldwork in 2018, respondents increasingly attributed the reshaping of the informal institutional landscape to significant transformations in the domestic political arena, which started with the ousting of presidents Akaev and Bakiev during the two revolutions in 2005 and 2010, respectively, both because of widespread public discontent with institutional corruption, inefficient government services, and lack of meaningful support to entrepreneurs. This shift helped change the status of private firms from being viewed as criminals to being recognized as important contributors to the economy through their employment and taxation. Political uprisings were frequently cited as reflecting changing societal attitudes toward outdated informal rules and norms that underpin corruption, coercion, nepotism, and the personalization of business-state interactions. These changes were viewed as factors that challenge the perceived institutional hostility toward private enterprises and alter the embedded culture of informal interference in firms' internal matters. Respondents pointed to growing societal discontent with favoritism, nepotism, and informal pressure on private firms, concluding that the use (and abuse) of informal connections to pursue business needs had become undesirable and even risky. For instance, it was stated that:

> ...if ten years ago a high official could bluntly arrange a loan to his relative, help him reduce his firm's tax payments, or even help him with getting some kind of certificate or permission, he can't act like that these days, because people can complain… it is becoming riskier to use informal connections. (Expert 15).

Such changing perceptions and attitudes, highlighting a shift away from norms of "*doing business through [informal] connections*" (Firm 42) and the culture of "*putting sticks under [entrepreneurs'] wheels*" (Firm 39), were more strongly stressed during our second fieldwork in 2018.

#### 5.2.4 SME Responses to the Reduced Hostility Toward Private Enterprises

The key consequences of reduced hostility toward private enterprises for SMEs were not merely the removal of national-level barriers, but also the empowerment of SMEs to actively pursue new pathways to international markets through exporting first, ultimately enabling further positioning within those markets. As aggression from informal institutions, such as rent-seeking authorities and patronage networks, declined, garment SMEs increasingly found themselves operating in a domestic environment that was more equitable, supportive, and responsive to their business initiatives. SMEs took the initiative to expand, formalize, and reorient their business models toward export

markets, leveraging the breathing room created by reduced informal interference to enter international markets.

First, the emergence of a fairer and more rules-based competitive environment enabled SMEs to challenge incumbents, capture new market segments, and pursue growth aspirations with greater confidence. Second, firms that had once been excluded due to a lack of informal connections could now access critical enablers of export capability, such as loans, workspaces, and export documentation, on more transparent and predictable terms. These institutional shifts notably reduced SMEs' dependency on intermediaries or power brokers to "navigate the system." With fewer unofficial gatekeepers to negotiate with, SMEs began to manage export processes, customs documentation, and even direct buyer engagement more independently. This reduced costs and delays and significantly improved firms' responsiveness to global buyers' timelines, quality standards, and customization requirements, thereby enhancing their export readiness and competitiveness. In short, as informal constraints receded, SMEs asserted their agency by building more autonomous, resilient, and international-oriented business models. These bottom-up responses translated into further exporting opportunities, the development of new capabilities and product lines, and stronger credibility and engagement with international buyers.

## 6 Discussion

### 6.1 Toward a Proposed Framework

This research, conducted in a transition economy context, demonstrates how the combined effect of formal and informal institutions matters for accessing international markets. By increasing the availability of resources due to the reduction of formal and informal institutional barriers, local exporting SMEs benefited from upgrading and gained additional capabilities, enabling them to perform more complex contracted tasks and access international markets. These findings contribute to advancing research on SMEs' access to international markets by highlighting the combined role of changing (formal and informal) institutions in shaping SMEs' behavior (Boddewyn & Peng, 2021; Dekel-Dachs et al., 2021; McWilliam et al., 2020; Mohan, 2016; Peng et al., 2009). We argue that SMEs leverage new conditions emerging from institutional change in Kyrgyzstan to access international markets. We follow others (notably Epede & Wang, 2022; Kano et al., 2020, and Liu et al., 2024) in positing that exporting was a first step toward integration into international markets. The improving nature of the formal institutional framework through key regulatory reforms, accompanied by more subtle changes to informal norms and practices, reduced market entry barriers and created a more conducive internal environment for Kyrgyz SMEs. With the changing rules of the game, more firms have gained access to key resources, enabling them to engage in a more formal, productive form of entrepreneurship. Formalizing activities enabled SMEs to access more opportunities.

Our proposed framework recommends considering context-specific institutional arrangements and the corresponding changes in SME activities. The framework

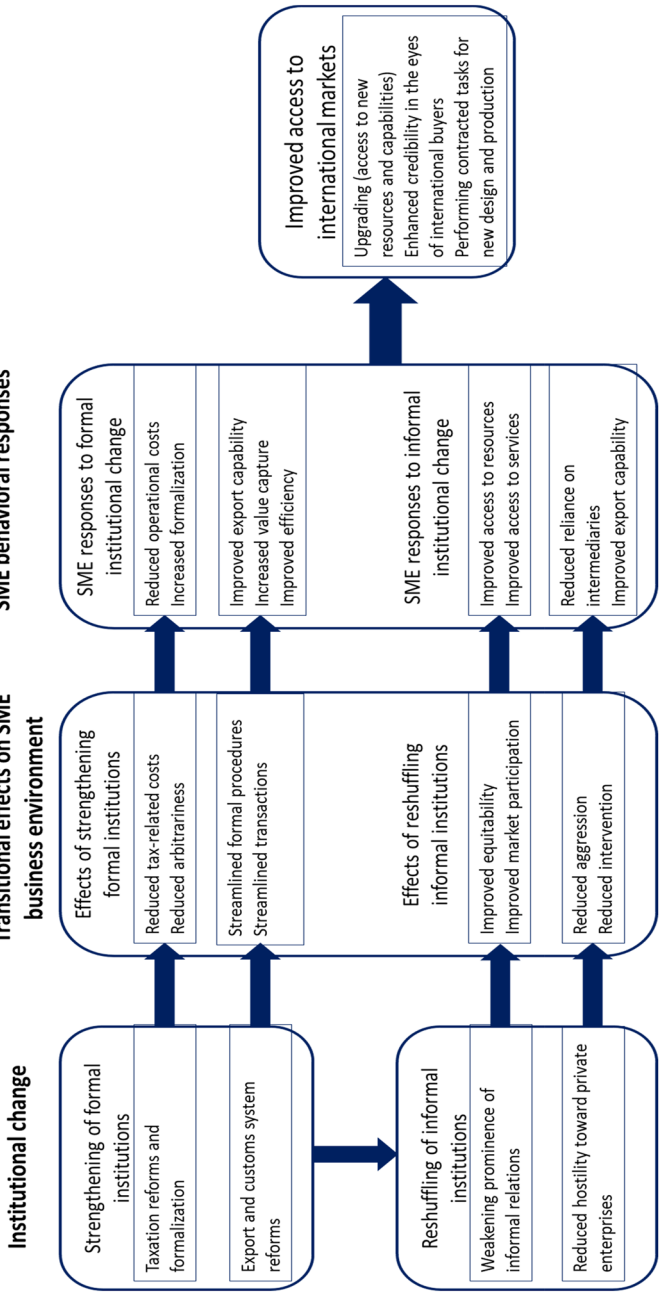


**Fig. 2** The process of institutional change and access to international markets

(Fig. 2) suggests that in a transition economy, where intrinsic institutional changes result from complex political and economic transformations after the collapse of the USSR, the combination of the strengthening of new market-oriented formal institutions and the weakening of outdated extractive and hostile norms in informal institutions played a key role in creating conducive conditions for the successful integration of garment SMEs into international markets through exporting and upgrading (Fig. 2).

The rest of this section presents and discusses this framework in relation to existing literature. The framework illustrates the process of institutional change and international market access by (a) conceptualizing the role played by the combined effect of changes in both sets of institutions on local SMEs and (b) linking improvements in the internal business environment to the ability of domestic firms to access international markets.

### 6.1.1 Formal Institutional Change and SME Responses

Our findings show that strengthening formal institutions in Kyrgyzstan improved domestic conditions and helped create clearer, more effective, and more efficient institutions for exporting SMEs, thereby facilitating their internationalization activities. These institutional changes include reforms and legislative improvements, particularly in taxation and customs, as well as reduced red tape, which reduced arbitrariness and transaction costs for domestic firms.

The transition path of Kyrgyzstan shows that, since 2011 and continuously through 2018, the reformed formal institutions have provided greater transparency and stability, reduced risk, and made firms more willing to place their trust in them. Kyrgyz SMEs gained enhanced export competitiveness thanks to greater regulatory efficiency and lower transaction costs. This enables firms to meet buyers' expectations regarding price and lead times, lower disruption risks (Tewari, 2008), and engage in more formal contracting. Such pro-market reforms of formal institutions benefit domestic firms (Kumari et al., 2025), as supply reliability is a requirement set by retailers and a key prerequisite for accessing international markets (Golgeci et al., 2021; Neidik & Gereffi, 2006; Thomsen, 2007).

Moreover, improved formal institutional conditions also contribute to the reshuffling of outdated informal institutions, namely a decreased reliance on informal relations and patronage arrangements. Since informal institutions are inextricably intertwined with, yet much slower to change than formal ones (Estrin & Mickiewicz, 2011; Williams & Vorley, 2015), it is also important to highlight informal institutional change alongside formal institutional change in our framework.

### 6.1.2 Informal Institutional Change and SME Responses

Informal institutions also matter for SMEs' access to international markets (Makhmadshoev et al., 2015). They can undermine competition, impede efficient transactions, and foster unproductive economic activity (Williams & Vorley, 2015). In transition economies, informal institutions inherited from the communist past remain relatively prevalent (Ledeneva, 2006). The reshuffling of these

informal institutions (i.e., the lesser importance being attributed to extractive and hostile informal norms and practices in regulating economic exchanges and mediating access to resources) contributes, in combination with changes in formal institutions, to provide a more transparent and conducive environment for a wider variety of economic actors (Casson et al., 2010; Welter & Smallbone, 2011). Kyrgyzstan has witnessed two revolutions—the Tulip Revolution in 2005 and the Second Kyrgyz Revolution in 2010 (Eggart, 2023)—that have highlighted endemic institutional corruption in both the public and private sectors and have affected informal practices. These events helped reduce high levels of informality and corrupt practices, especially among government officials and agencies. In Kyrgyzstan, garment SMEs are less constrained by informal nepotistic structures, blat networks, and excessive state interference in their activities than they were before. Such institutional shifts facilitate business activities for a broader group of SMEs and encourage firms to rely on more transparent institutions (Bruton et al., 2018). This reduces barriers to entrepreneurship and market access (Welter & Smallbone, 2011; Williams & Vorley, 2015) and enables and incentivizes more businesses, not just those with informal connections to government officials, to engage in formal business activities, including with international partners in the GVCs.

Due to increased transparency, the aggression and negative attitudes toward private entrepreneurs inherited from the communist era are decreasing, and trust among local economic actors is being encouraged (Welter & Smallbone, 2011). Importantly, changes in informal institutions, such as reducing reliance on informal practices, are slower to develop and require relevant changes in the context-specific formal institutional arrangements. Incremental change in informal practices at the actors' level is necessary to ensure that their persistence does not undermine the development of new formal institutions. Importantly, as noted above, it is through the combination of formal and informal institutional changes that local conditions are sufficiently altered and improved for SMEs, empowering them to adopt more formal practices. Formal and informal institutions evolve and change at different paces (North, 1990; Roland, 2004; Williams & Vorley, 2015), and neither alone can provide sufficient favorable conditions for SMEs' internationalization through access to international markets.

Moreover, our research emphasizes the need to contextualize IB research within the local institutional environment (Hong et al., 2020; Piekkari et al., 2022; Teagarden et al., 2018) from an emic perspective (Buckley et al., 2014). Post-Soviet contexts in 2011 were still characterized by a high reliance on informal institutions, which hindered access to international markets (Makhmadshoev et al., 2015). Changes in 2018 positively influenced SMEs' behavior. Importantly, these changes were not observed in many other contexts.

Therefore, we suggest that the emergence of more conducive domestic institutional environments is driven by changes in *both* formal and informal institutions. When formal regulations are reformed, informal practices often remain incompatible and dominant; this can result in improved rules on paper but not in practice (Puffer et al., 2010). As our study shows, while changes in formal institutions may

be desirable, changes in informal institutions are also necessary to encourage new SMEs' practices, such as formalization and participation in international markets.

### 6.2 Theoretical Contributions

This study advances our understanding of how institutional change influences SMEs' access to international markets and their progression from exporting to contracted participation in international markets (De Marchi et al., 2020; Dekel-Dachs et al., 2021; Thomsen, 2016). As part of this contribution, the study first reveals the combined role of formal and informal institutions and changes therein, in providing adequate conditions for local SMEs to engage in international market activities. Secondly, by emphasizing SMEs' responses to such institutional change, the study illuminates how such adaptation supports their progression from exporting toward contracted participation in GVCs.

Taken together, these insights contribute to IB research on exporting SMEs by demonstrating how changes in institutions influence SMEs' behavior toward exporting and entry into a constellation of contracted suppliers (DeRemer et al., 2025; Kumari et al., 2025). We position exporting as the on-ramp: When formal institutions are reformed and simplified, and informal institutions no longer obstruct, SMEs can upgrade and take on specification-driven tasks, helping them move from indirect sales to a constellation of contracted supplier roles in GVCs. In addition, Kyrgyz SMEs build credibility in the eyes of international buyers, which facilitates access to international markets (Bangara et al., 2012), establishes trust and relationships, and enables participation in more complex international activities (Menzies et al., 2020). Engagement with international buyers (first through exporting activities) is facilitated by improved institutions. This engagement provides the credibility and reputation that local SMEs need to access international networks and undertake more advanced contracted tasks. Our findings demonstrate how exporting SMEs, through the combination of changes in formal and informal institutions, can upgrade and respond to more complex tasks and requirements to access international markets (De Oliveira et al., 2021; Liu et al., 2024).

Importantly, our findings show that outdated informal rules often outlast formal reforms in transition economies. When such norms persist, firms face interference and hostility rooted in the socialist legacy, blunting the effects of new formal institutions. From an insider's perspective on SMEs, we document how these firms reshuffle informal practices to navigate change. This is a contextualized perspective that clarifies how formal and informal rules jointly create (or withhold) conditions for access to international markets (Mohan, 2016; Piekkari et al., 2022; Teagarden et al., 2018). This coevolution of institutions presents opportunities for local suppliers to overcome early internationalization hurdles and meet the rising demands of buyers (Selwyn, 2008). More broadly, our framework recasts institutions not only as constraints but as evolving enablers of access to international markets (Neilson & Pritchard, 2011; Thomsen, 2016).

By showing the *combined* roles of formal and informal institutions and their changes, we underscore the dynamic interaction between institutions and the need

to study them together to understand their combined roles in transition economies, where institutional change is profound (North, 1990; Rodríguez-Pose, 2013). The link between formal and informal institutions can be ambiguous, leading to widely disparate outcomes. In such situations, focusing solely on formal institutions risks neglecting subtler, potentially more consequential informal constraints and failing to account for the role of contextual specificity (Dau et al., 2022). While existing literature acknowledges the importance of institutions in access to international markets (Choksy et al., 2022; Eckhardt & Poletti, 2018; Kano et al., 2020; Mohan, 2016), our repeated fieldwork captures the evolution of formal and informal institutions over time, revealing specific tensions in terms of the interplay between the two. For instance, we identify a tension where improvements in formal institutions, such as regulatory frameworks, do not automatically translate into access to international markets due to the persistence of outdated informal practices and norms, which challenge the implicit assumption that formal institutional development and the etic view that Western MNEs lead roles are sufficient for emerging market suppliers' access to international markets. We reveal that adequate conditions for international market access can be achieved by simultaneously strengthening formal institutions and dismantling outdated, extractive informal institutions that undermine private enterprises. The evolution of formal institutions alone may not suffice; tackling entrenched, historically embedded, and detrimental informal institutions inherited from the Soviet past is crucial to overcoming barriers to the international market. Such a focus on the role of institutional change aligns with Thomsen's (2016, p. 835) recent argument of the "importance of capturing empirical change" to better understand the role of context, notably in transition economies, on IB activities. The relationship between formal and informal institutions is complex (North, 1990; Peng & Heath, 1996). The latter changes more slowly than the former (Williams & Vorley, 2015). We argue that the nature of formal and informal institutional change matters and should be examined further in relation to firms' international market activities. Thus, our study advances the application of institutional theory in the IB and GVC literature by highlighting the need for a better understanding of, and contextualization of, the interplay between formal and informal institutions and their relative evolution.

Moreover, the study contributes to understanding the role of institutions in SMEs' access to international markets by revealing how SMEs' adaptive responses support their progression from exporting to contracted participation in GVCs. The right-hand side of the model illustrates SMEs' behavior and responses, underpinned by the combined effects of formal and informal institutional change. This contributes to an improved understanding of the role of institutional evolution on SME's ability to leverage resources for internationalization (Manolopoulos et al., 2018). The study highlights that as institutions improve, SMEs are better able to leverage export-related resources and improve their exporting activity. While strengthening formal institutions increases transparency and reduces operational costs for SMEs, it also enhances international competitiveness. Improved and more equitable access to resources empowers SMEs to engage in international activities. Domestically, SME

owners are also more likely and better equipped to formalize their activities due to improved institutional arrangements and reduced asymmetries (Shahid et al., 2022). We further argue that formalization reduces reliance on intermediaries for international business expansion. By formalizing their activities, SMEs become more trustworthy partners for international buyers, who can feel reassured about the standards of Kyrgyz firms and are more likely to engage with them due to better, more transparent, and more efficient institutions. SMEs also benefit from reduced red tape and lower transaction costs, enhancing their overall efficiency and export capabilities for the first time. Together, these factors enable SMEs to gain new resources and access new capabilities, which they can demonstrate through formalized activities and more transparent contracting. This enables them to further engage in reconfiguring GVCs and to perform contract tasks, such as responding to specifications for the design and production of new product lines. Ultimately, this enables SMEs' access to international markets through distinct adaptive responses to simultaneous improvements in formal institutions and the reshuffling of informal ones. SMEs leverage institutional change through intentional behavioral responses to improve participation in international markets.

Finally, our study also makes an important empirical contribution by extending the geographical scope of the literature on internationalizing SMEs to the less-explored Central Asian periphery. Each post-Soviet country adopted a different path to transition and economic reforms (Makhmadshoev et al., 2015; Myant & Drahokoupil, 2011). Kyrgyzstan's transition trajectory, distinct in pace and sequence from other post-Soviet economies, underscores why context matters: Formal reform episodes and the erosion of socialist-era informal practices do not align uniformly across the region. As such, by documenting how local institutional histories shape SME access to international markets, we contextualize and broaden the evidentiary base of the field and encourage future work to treat transition heterogeneity as a theoretical lever rather than a backdrop.

### 6.3 Implications for Policy and Practice

Facilitating access to international markets for domestic SMEs is pivotal for the economic development of transition countries, offering a vital source of foreign currency earnings and creating employment and economic activity. While policymakers in these nations have limited influence on international barriers, this study emphasizes the paramount importance of addressing internal impediments, especially those emanating from local institutions.

For a long time, getting (formal) institutions right was seen as a cornerstone for achieving development objectives (World Bank, 2002), and the role of path-dependent informal institutions was overlooked. This research challenges the notion that enhancing formal rules alone is sufficient for fostering export-oriented industries, as entrenched informal practices can hinder progress. Changes in formal institutions must be complemented by corresponding shifts in informal practices. Otherwise, this can lead to institutional asymmetry (Williams & Vorley, 2015) and conflict between intentions and practices (Seo & Creed, 2002). Such reforms of informal

practices cannot be decided upon alone but require involving actors not only in adopting but also in actively participating in change (Dacin et al., 2002; Leca & Naccache, 2006). Institutional reforms cannot be universally applied because of the importance of local conditions and informal arrangements. While effective formal institutional design is crucial, it requires bottom-up initiatives.

The outcomes of institutional changes are context-specific and difficult to replicate; a fine-grained understanding of local institutional arrangements is required. Kyrgyzstan benefited from a degree of good fortune, as the political changes that occurred, most notably the Tulip Revolution of 2005 (Hopmann, 2025), helped undermine the influence of powerful elites and economic oligarchs, thereby facilitating change in informal institutions. As a result, the role and dominance of outdated and detrimental informal practices in governing economic activities and determining access to resources were weakened.

The political transition also made prior informal practices less appealing. However, this also relied on contextual conditions and actors' behavior and practices, local power, and legitimacy dynamics (Punjabi & Johnson, 2018; Seo & Creed, 2002). Our findings emphasize that changes in formal institutions served as an auxiliary facilitating factor in reducing the importance of informal institutions by providing a framework in which informal institutions can change. In the Kyrgyz context, efforts to enhance and reform formal rules were crucial in reducing risks, transaction costs, and regulatory obstacles, as well as in improving trust in and reliance on formal institutions for SMEs. This study cautions that improvements in formal institutions may not inherently diminish reliance on informal practices, underscoring the need for a nuanced understanding of the transition process. The proposed framework aims not to predict changes but to elucidate the mechanisms through which institutional shifts ultimately contribute to access to international markets. Future applications of institutional theory in transition economies must prioritize a nuanced understanding of local conditions, emphasizing the nature and pace of the transition process. This study highlights the importance of a comprehensive approach that encompasses both formal and informal institutions to facilitate successful economic transitions. Future research could further develop this contextualized approach by considering the potential effects of regional events, such as Russia's invasion of Ukraine, on domestic institutional arrangements in post-Soviet contexts.

## 7 Conclusions

This study examined the impact of formal and informal institutions, particularly their reform and evolution, on SMEs and their behavior. It suggests that institutional change in transition economies can significantly and multifacetedly influence opportunities (and constraints) for SMEs' access to international markets.

The analysis of Kyrgyzstan's institutional environment reveals that reforms in formal institutions reduced regulatory constraints, improved local firms' export capabilities, credibility, and competitiveness, and incentivized the formalization of many previously unregistered SMEs. Additionally, observed changes in particular

informal institutions also had a significant and complementary impact on reducing arbitrary impediments rooted in the Socialist system, consequently improving access to key resources, and contributing to a more equitable competitive environment for export SMEs. In response to the transitional effects of institutional change, SMEs adopted more formalized practices, gained access to additional resources, and developed new capabilities. The analysis thus reveals that the combined changes in institutions reduced domestic entry barriers and created more conducive conditions that facilitated Kyrgyz garment SMEs' access to international markets and enabled them to benefit from exporting opportunities. We conclude that the role and influence of domestic institutions, including changes therein, require more attention to better conceptualize and understand their implications for participation in international markets. This, in turn, contributes to a more sophisticated and contextually rich understanding of how institutions matter for the IB phenomenon.

**Funding** Open Access funding enabled and organized by CAUL and its Member Institutions.

**Data availability** Data are not publicly available due to confidentiality and ethical restrictions.

## Declarations

**Conflict of interest** None.



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