



## LBS Research Online

S Prashantham and [J Birkinshaw](#)

MNE-SME cooperation: an integrative framework

Article

This version is available in the LBS Research Online repository: <https://lbsresearch.london.edu/id/eprint/1069/>

Prashantham, S and [Birkinshaw, J](#)

(2020)

*MNE-SME cooperation: an integrative framework.*

Journal of International Business Studies, 51 (7). pp. 1161-1175. ISSN 0047-2506

DOI: <https://doi.org/10.1057/s41267-019-00214-y>

Palgrave Macmillan (part of Springer Nature)

<https://link.springer.com/article/10.1057/s41267-0...>

---

Users may download and/or print one copy of any article(s) in LBS Research Online for purposes of research and/or private study. Further distribution of the material, or use for any commercial gain, is not permitted.

**MNE-SME COOPERATION:  
AN INTEGRATIVE FRAMEWORK**

Shameen Prashantham  
China Europe International Business School  
699 Hongfeng Road  
Shanghai 201206  
China  
sprashantham@ceibs.edu

Julian Birkinshaw  
London Business School  
Regent's Park  
London  
United Kingdom  
jbirkinshaw@london.edu

12 December 2018

Accepted at *Journal of International Business Studies*

We greatly appreciate Alain Verbeke's editorial guidance and encouragement throughout the process of writing this paper, and acknowledge the valuable reviewer feedback we received. A special word of thanks to Stephen Young for his help over the years with the development of these ideas on MNE-SME cooperation.

**MNE-SME COOPERATION:  
AN INTEGRATIVE FRAMEWORK**

**ABSTRACT**

Although international business scholars have begun to recognize the division of entrepreneurial labor between MNEs and SMEs, there is a fragmented understanding of the different forms MNE-SME cooperation can take. We develop a typology that takes into account not only complementarity of capabilities but also, crucially, the *compatibility of intent* between MNEs (exploration versus exploitation) and SMEs (international versus domestic orientation). The framework offers a novel way to understand the forms and dynamics of MNE-SME cooperation. We also show how it can be applied more broadly, by considering its application to societal challenges, such as achieving the United Nations' Sustainable Development Goals (SDGs).

## **MNE-SME COOPERATION: AN INTEGRATIVE FRAMEWORK**

It has long been recognized in the international business (IB) literature that multinational enterprises (MNEs) engage in a variety of ways with small- and medium-sized enterprises (SMEs)<sup>1</sup> in host country markets. One useful way to frame these relationships is in terms of a division of entrepreneurial labor (Buckley and Prashantham, 2016), whereby MNEs and SMEs generate interdependencies that arise from their complementary competences. This concept builds on the broader notion of MNEs as orchestrators of interfirm networks (Buckley & Ghauri, 2004; Cantwell, 2013; Doz, Santos & Williamson, 2001; Rugman & D’Cruz, 1997). In this view, not only are MNEs engaging with their dispersed subsidiary units (Bartlett & Ghoshal, 1989), they also work with other organizations, as suppliers, customers and partners, in their host markets. SMEs are often part of the network of actors with which the focal MNE has privileged relationships.

However, our understanding of the different types of relationships that exist between MNEs and local SMEs is fragmented. Researchers have tended to focus on one particular form of engagement between the two sets of parties – sophisticated innovation-related collaboration (e.g. Monteiro & Birkinshaw, 2017) or basic manufacturing linkages (UNCTAD, 2010) – rather than simultaneously giving consideration to both forms of cooperation. There is thus scope to develop a more comprehensive – and even-handed (Reuber, Knight, Liesch & Zhou, 2018) –

---

<sup>1</sup>Consistent with some IB studies (e.g. Brouthers & Nakos, 2004; Liesch & Knight, 1999; Lu & Beamish, 2001), we adopt the broader SME label as opposed to a more narrow focus on new ventures or startups, a subset of the SME population, since older small firms can also be part of MNE networks.

understanding of the various forms that MNE-SME relationships can take.

While this is useful in its own right, i.e. as a means of shedding light on important aspects of how the MNE operates on a global basis, it is also useful for elaborating on some of the ways that MNEs are responding to broader societal goals pertaining to sustainability (Kolk, 2016; Narula & Pineli, 2018). As argued by Buckley, Doh and Benischke (2017), there is value in IB research addressing grand challenges – ambitious but achievable aims – associated with broader societal goals. Such a focus, they argue, will enable IB research to become more inclusive (of other disciplinary work) and impactful in contributing to real world outcomes.

The purpose of this article is therefore to develop a typology of MNE-SME cooperation covering both the MNE's supply chain and innovation networks, and to apply this thinking to addressing broader societal goals. We focus on one specific challenge that IB scholars have spoken about (Buckley et al, 2017; Lundan, 2018: 9), namely “resolving the grand challenges of this era...as captured by the Sustainable Development Goals (SDGs) of the United Nations”. The way MNEs interact with external market and non-market actors, in developing countries in particular, can significantly influence the level of sustainable development in those countries (Buckley et al., 2017: 1059).

We contribute to the literature in two important ways. First, we make a conceptual contribution through our characterization of MNE-SME cooperative relationships. Our typology builds on the notion of a division of entrepreneurial labor between MNEs and SMEs, and specifically to the idea that the two parties have

important differences not just in capabilities but in intentions (Buckley and Prashantham, 2016; Casson, 1982). We characterize MNE intentions in terms of the choice between exploration and exploitation, and we characterize SME intentions in terms of their orientation towards international growth versus domestic stability. By considering how these intentions interact we identify four scenarios, and we consider the dynamics of the MNE-SME relationship in each case. A key insight we provide through our discussion of these dynamics is that there is no single pathway to resolution of the tensions encountered in MNE-SME cooperation. In so doing, we take a preliminary step towards addressing Verbeke and Ciravegna's (2018: 392) call for "a better understanding of cooperative interactions in search of complementary FSAs between established MNEs and younger or smaller firms with international expansion ambitions, and the longer run dynamics thereof".

Second, we make a broader contribution to the growing interest in societal goals in IB studies by linking our analysis of MNE-SME relationships to the conversation on sustainable economic development. We consider how each of the four scenarios of MNE-SME cooperation identified in our typology might play out in response to the accentuated challenges experienced in less developed markets. We suggest conditions under which sustainable development, broadly defined, may be achieved – such as the pursuit of social innovation and inclusive supply chains. We then draw upon anecdotal evidence to provide a sense of how proactive initiatives by MNEs, in conjunction with creative interventions by actors such as United Nations agencies, may play a part in fruitfully addressing the SDGs via MNE-SME cooperation.

## **TYPES OF MNE-SME COOPERATION**

While there are several different theoretical perspectives on the nature of the MNE, there is an emerging consensus that it is useful to view the MNE as some sort of interfirm network rather than an atomistic actor. Researchers building on transaction cost theory acknowledge the ways MNE often externalize economic activity while resource-based scholars recognize the value of network resources (Rugman and Verbeke, 2001). For example, Buckley (2009) developed the notion of the global factory – whereby MNEs integrate their global strategies through a combination of innovation, distribution and production of both goods and services – as a reflection of this line of thinking. Similarly, Rugman and D’Cruz (1997: 403) drew attention to the interfirm networks orchestrated by MNEs through the notion of the flagship firm, “a multinational enterprise which has taken on the strategic leadership of a business network consisting of four other partners: key suppliers, key customers, selected competitors and the non-business infrastructure”.

Parallel streams of research have explored an interorganizational perspective on MNEs. Early work in this domain modelled MNEs as differentiated networks (Ghoshal & Bartlett, 1990), focusing mainly on within-firm ties embedded in a wider set of relationships. Subsequent studies took a more inclusive view of the networks of actors with which MNEs acted in host countries, focusing in particular on the ways subsidiaries became embedded in their local networks of suppliers, customers and partners (Forsgren and Johanson, 1992; Forsgren, Holm and Johanson, 2005). There was also applied research examining the ways MNEs sought to tap into pockets of

innovation and market knowledge from their contacts around the world (e.g. Doz, Santos & Williamson, 2001).

All these views recognize the prospect of large MNEs working with smaller firms, among others. However, we currently have a fragmented picture of the different forms of cooperation that take place between MNEs and SMEs. While there are potentially many ways that MNE-SME relationships might be modelled, we propose that it would be useful to consider the compatibility of their *intents*, rather than just their market positions or capabilities, because this provides insight into how such relationships might evolve over time. Indeed, our central argument is that the extent to which MNE-SME cooperation is at equilibrium or not is a function of the compatibility between the intents of these disparate sets of firms.

Before proceeding, it is worth noting that we focus on *cooperation*, which relates to activities where actors have a common goal (Jarillo, 1988). Interorganizational cooperation stems from a division of labor among actors, thus representing an alternative to internalized activity in the MNE that requires different organizational processes and structures from those of a purely unitary firm (Contractor, 1990). Given our interest in encompassing a wide range of MNE-SME relationships, our notion of cooperation could connote behaviors ranging from casual short-term joint activity to long-term committed collaboration (Grant & Baden-Fuller, 2004)<sup>2</sup>.

In considering compatibility of intent, a useful starting point is the MNE's

---

<sup>2</sup> A similarly broad-based understanding of interorganizational cooperation can be found in the description of the Strategic Management Society's Cooperative Strategy Interest Group: "Cooperative arrangements include inter-organizational alliances, joint ventures, federations, constellations, networks, vertical buyer-supplier relations, franchises, community service collaborations, public-private partnerships, corporate board interlocks, etc." (SMS, 2018).



orientation towards exploration versus exploitation activities as their objective in building relationships with local actors (March 1991). Network-based conceptualizations of MNEs such as the global factory (Buckley & Ghauri, 2004), flagship firm (Rugman & D’Cruz, 1997) and metanational (Doz et al., 2001) typically build on the notion of global value chains (Gereffi & Fernandez-Stark, 2016), which include both exploitation-focused supply chains and exploration-oriented innovation networks (Adner, 2017; Dhanaraj & Parkhe, 2006). At the risk of oversimplifying, exploration-related innovation activities have tended to be concentrated in advanced markets whereas exploitation-oriented supply chain activities have moved over time to lower-cost emerging markets (Baldwin, 2016). From a governance perspective, innovation network activities may benefit from relational governance that facilitates embedded ties whereas arm’s-length relationships may suffice in a number of supply chain relationships – although certain suppliers are likely to be more closely linked to the focal MNE (Kano, 2018).

However, it is not sufficient to consider the MNE’s intent alone; the SME’s perspective should be taken into account as well. One important dimension in this regard is the extent to which the SME exhibits an international orientation (Knight & Kim, 2009), in other words whether it is seeking to grow into overseas markets, or whether it prefers to consolidate its position in its local domestic market. International entrepreneurship research shows that tapping network relationships is an important means through which smaller firms overcome their resource constraints. MNEs represent attractive partners for internationally minded SMEs as distribution conduits

to international markets (Acs et al., 1997) and sources of learning about internationalization (Prashantham & Dhanaraj, 2015). But of course it is not only internationally-minded SMEs that engage with MNEs; there are many domestically-focused SMEs playing a role in global supply chains (UNCTAD, 2010).

Taking into account the contrasting intents of MNEs (exploration versus exploitation) and SMEs (international versus domestic) yields a 2x2 typology (see Figure 1) which we discuss below.

-----  
Insert Figure 1 around here  
-----

### **Equilibria in MNE-SME Cooperation**

*MNEs in exploitation mode with domestically-oriented SMEs.* When exploitation-focused MNE activities entail cooperation with domestically oriented SMEs (Quadrant 1), there is likely to be equilibrium. In this scenario, there is mutual understanding that the joint activities are of a lower risk-reward profile than innovation activities, and both parties are comfortable with this state of affairs. From the MNE's perspective, the value of such relationships lies primarily in their efficiency benefits (Gereffi & Fernandez-Stark, 2016). Indeed, MNEs have been globalizing their value chains over the past three decades, in order to combine the effectiveness of advanced markets (competence advantage) with the efficiency of emerging markets (cost advantage). This has led to offshoring and outsourcing of value chain activities (Doh, 2005). From the host country's perspective, this is often welcomed as a means of generating employment and (perhaps unintended) knowledge spillovers (Gereffi & Fernandez-Stark, 2016; Mudambi, 2008; UNIDO, 2015).

In terms of governance, these supply-chain relationships typically have lower levels of interdependence than those discussed above, and often operate at arms-length, especially those with SMEs – such as manufacturing firms in China or services firms in India – that are relatively anonymous. Inevitably MNEs have greater bargaining power vis-à-vis SMEs (Morya & Dwivedi, 2009; Strange & Humphrey, 2018). Efficiency arises from developing well-functioning interorganizational routines, which also enable the orchestrating MNE to monitor the performance of its suppliers (Kano, 2018). While it is in the MNE's interests to ensure that its SME-suppliers remain up to speed with the latest technical expertise required to carry out its tasks, it may in fact suit the needs of the MNE if the SME does not have ambitions to become international itself. There is equilibrium in such a relationship because neither party is seeking substantial changes to the status quo.

Numerous instances of such relationships can be found, and in certain emerging markets there is a strong policy emphasis on encouraging MNE-SME manufacturing linkages (UNCTAD, 2010). In some cases, the SMEs may be subcontractors or tier two suppliers (once removed from a direct relationship with the MNE) of large suppliers to the MNE (Gereffi & Fernandez-Stark, 2016). Even so, many host country governments (notably in emerging markets) are keen to attract MNE investment in manufacturing activities, partly in the hope that knowledge spillovers will accrue to the benefit of the local setting (UNIDO, 2015). As long as the MNE is able to undertake reliable operations efficiently, this will likely be tolerated. As such, given that neither party is looking for significant advancement or progress, this form of

MNE-SME cooperation around global supply networks will tend to be stable and at equilibrium, and may well represent the default situation for most MNE-SME cooperation.

*MNEs in exploration mode with internationally-oriented SMEs.* When exploration-focused MNE activities involve cooperation with internationally oriented SMEs (Quadrant 3), there is likely to be a mutuality of interests, in terms of joint value creation, and therefore some form of equilibrium. The MNE potentially benefits from competence creation and innovation output, as does the SME, and with the added dimension of potentially increasing its internationalization prospects (directly, through its innovation output, or indirectly through the MNE's incorporation of the SME's innovation into its offerings). An SME with ambitions to take on the challenge of internationalization is more likely to be willing to make the requisite efforts and have the ability to do so, relative to an SME that is content with a domestic focus. Such MNE-SME cooperation will often take place within the ambit of the MNE-orchestrated innovation network which may include distributed R&D activity and open innovation activity (Cantwell, 2013; Dhanaraj & Parkhe, 2006).

MNEs working with internationally ambitious SMEs in exploration mode are likely to adopt a relational governance approach (Kano, 2018), resulting in the types of embedded relationships associated with innovation partnerships (Uzzi, 1997). From the MNE's point of view, the emphasis is largely on cultivating a network of complementors (Buckley & Prashantham, 2016). However, as Doz (1988: 332) first pointed out, the asymmetry in scale between MNEs and SMEs poses challenges in

forming and developing such relationships, and creates the need for a coherent interface between the two: “The two organizations are quite different, have no common language, no way to comprehend each other’s operating mode, and no understanding of managers’ roles and position in the other organization. Given these differences in starting points, an unprepared interface might lead to disastrous results.”

An example of successful engagement between an MNE and host market SMEs can be seen in Monteiro and Birkinshaw’s (2017) account of the scouting activities of a European MNE in Silicon Valley resulting in multiple partnerships with innovative small firms including startups. An important insight from this study is that the MNE is likely to have to engage in effortful boundary-spanning to reach prospective partners – and subsequently span boundaries within the MNE to appropriately absorb and deploy the external knowledge. From the Silicon Valley firm’s point of view, the latter process is also significant as a means of internationalizing its innovations. With aligned interests and high aspirations, a case of MNE-SME cooperation such as this is relatively stable. It seems plausible for such scenarios to also arise in other innovation hotspots around the world (Prashantham & Yip, 2017).

### **Tensions in MNE-SME Cooperation**

While the above two types of MNE-SME cooperation are characterized by compatible intents between the two sets of firms, we will only get a fuller picture if we consider two other cases where this is not so.

*MNEs in exploitation mode with internationally-oriented SMEs.* An

internationally ambitious SME will likely find it frustrating to work with an MNE on activities that are solely exploitation-oriented (Krishnaswamy, Mathirajan & Subramanya, 2014). Even if the MNE is seeking to incorporate high-quality partners into its global supply network and is willing to make relationship-specific investments, its focus is on strategy execution not competence creation. Therefore the SME's "upgrading" agenda is unlikely to receive support from the MNE, that may prefer it to "stay on the farm" or in "a golden cage", such that it fulfils a subservient but reliable role<sup>3</sup>. Barrientos, Gereffi and Rossi (2011), for example, have argued that MNEs are not always interested in supporting supply chain partners' desire to upgrade, and seek to maintain the status quo with their suppliers. Local SMEs' interest in upgrading can thus make things problematic vis-à-vis cooperating with exploitation-oriented MNEs.

For the SME, without a suitable MNE-SME interface (Doz, 1988) to give expression to its greater ambitions, there is likely to be frustration since one party (the SME) is likely to seek relational governance and embedded relationships while the other (the MNE) will likely prefer hierarchical governance and arm's-length relationship. From the SME's perspective, engaging with MNEs in the process of upgrading is desirable especially because it often lacks the market-facing capability to sell into international markets. Thus SMEs in this position may wish to leverage the MNE partner directly or indirectly to reach international markets. But if the MNE is uninterested, then the SME may not be sufficiently motivated to continue to cooperate with the MNE on the narrower set of opportunities it has been offered (Terjesen et al.,

---

<sup>3</sup> We thank Anthony Goerzen for these colorful turns of phrase.

2008).

Examples of this situation can readily be found in emerging markets, notably within clusters that have specialized in a particular value chain activity or industry (as is the case in many provinces and cities in China). Prashantham and Dhanaraj (2015) describe the case of Skelta, a Bangalore-based software services SME that upgraded its technological capabilities to build intellectual property in the form of software products. When it initially sought to engage with Microsoft in India, it was not able to get the level of support it desired because Microsoft India was at that point much exploitatively oriented. Such a scenario creates some level of tension between the parties, as the entrepreneurial capabilities of the SME end up being underutilized. Of course, the possibility always exists that a firm in a non-equilibrium situation will seek to change this, a prospect we consider in the next section on relational dynamics.

*MNEs in exploration mode with domestically-oriented SMEs.* A domestically oriented SME operating within the orbit of an MNE seeking to undertake exploration activities may lack requisite capabilities or may resist deepening an arm's-length relationship with an MNE, owing to a trust deficit. Reflecting the underlying asymmetry in power, such relationships have been variously described as “swimming with sharks” (Katila, Rosenberg & Eisenhardt, 2008), “dancing with gorillas” (Prashantham & Birkinshaw, 2008), and “surviving bear hugs” (Vandaie & Zaheer, 2014).

Unlike the established global supply chain case (Quadrant 1), in this scenario the MNE is in exploration mode, for example seeking to enhance its activity base in some

way (e.g. gaining access to a high-quality accessory). However the SME may not be sufficiently motivated to engage in this way. Equally, there may be trust problems: as O'Dwyer and O'Flynn (2005) note, a lack of engagement may have less to do with the SME's ability (absorptive capacity) to learn from alliances with MNEs, and more to do with its willingness or motivation. In the absence of an interface that facilitates cooperation around innovation (Quadrant 3) or interorganizational routines that aid cooperation in supply chains (Quadrant 1), a key problem is insufficient trust between the actors.

Examples include those of MNE subsidiaries in a setting which is strong in local human capital yet mostly associated with low-level manufacturing. For example Scotland has historically represented a relatively affordable milieu for historically exploitation-oriented activities (such as manufacturing) although there is scope for more exploration-oriented activities (such as innovation). As research has shown, entrepreneurially-minded MNE subsidiaries often seek to work with local SMEs to pursue joint activity, yet local firms are sometimes suspicious of the MNE's motives (Prashantham & McNaughton, 2006; Young, Hood & Peters, 1994). This creates tension, because one party is seeking advancement opportunities while the other is not. We discuss an example of a boundary-spanning mechanism that could be an antidote to this problem of underutilized MNE entrepreneurship in the next section.

### **DYNAMICS OF MNE-SME COOPERATION**

A key implication of this typology is the potential for the nature of MNE-SME engagement to shift over time. In particular, we are interested in how tensions



inherent in certain relationships may be resolved towards some form of equilibrium.

There are of course differing responses that both MNEs and SMEs may adopt in relation to the tensions encountered. Three broad options facing dissatisfied actors: showing “loyalty” despite the lack of an ideal situation thereby preserving the status quo, “exit” or withdrawing from the situation, and using one’s “voice” to effect a change through dialogue and persuasion (Hirschman, 1970)<sup>4</sup>.

Considering each option in turn, loyalty manifests itself as either the SME’s acceptance of the extant MNE value chain, or the MNE’s acceptance of the status quo in a given milieu, resulting in the equilibrium depicted in Quadrant 1. In other words, even if the SME seeks to expand internationally (Quadrant 2) or the MNE has the ambition for greater innovation (Quadrant 4), there will be instances when these intentions are subordinated to an acceptance of the current situation; a pragmatic view of what is realistic. These “downhill” paths to equilibrium thus involve movement towards a low-value (supply chain) equilibrium rather than a high-value (innovation network) one. Looking at Figure 1 and Table 1, Path A would involve pressure from the MNE on the SME to fit with its exploitation-oriented agenda, while for Path B there would be pressure from the MNE’s headquarters on its local subsidiary to curtail its initiative, thereby squashing its exploration-oriented activities.

However, in other situations exit or voice will be the chosen courses of action.

Both of these options involve the MNE or SME exhibiting deliberate action to address

---

<sup>4</sup> We thank Alain Verbeke for the insight that crying curves in international business – the reduction of value creation and capture by the MNE owing to neglected complementarities, insufficient firm specific advantages around network governance and excessive transaction or related costs (Buckley & Verbeke, 2016) – could represent a fourth option (albeit more as a failure of implementation).

what they perceive as an unsatisfactory current relationship (Prashantham & Birkinshaw, 2008). Exit in this context means finding another partner or set of partners that offer a better fit. For the MNE this might mean relocating its operations to a more conducive milieu, where SMEs are more ambitious and capable. For the SME this might involve switching from one MNE interfirm network to another because of better prospects to fulfil its objectives (Buckley & Prashantham, 2016).

The final option – voice – is the path with the greatest potential growth for both parties, as it is about shifting to a form of cooperation involving MNE exploration and SME internationalization (Paths C and D in Figure 1). It is a demanding option, in that it requires individuals in the SME or MNE subsidiary to be entrepreneurial and to engage in boundary-spanning behavior (Monteiro & Birkinshaw, 2017). From the SME's perspective this may mean reaching out, beyond their existing relationships, to other parts of the MNE – say, a different subsidiary or even the headquarters itself – that are more amenable to cooperating in a way that supports its international growth ambitions<sup>5</sup>. From the MNE's standpoint, this may involve demonstrating deeper commitment to the local milieu such that local SMEs' concerns are allayed, thus motivating them to cooperate on higher value-adding activities. While this will not be appropriate in all circumstances, there are evidently benefits to multiple stakeholders if the potential of globalization is harnessed in this entrepreneurial manner. Table 1 summarizes the dynamics associated with Paths A, B, C and D.

---

<sup>5</sup> While not easy or straightforward to achieve, anecdotal evidence such as that of Bangalore-based Skelta (see subsection on “ecosystem-based boundary-spanning”) indicates that it is not impossible. In Skelta's case, of great value were “people within pipelines” – coethnic (fellow-Indian) managers working for the MNE-partner (Microsoft) in the US. These individuals championed Skelta's cause with other Microsoft managers and helped this Indian venture to span boundaries from Microsoft's India subsidiary to that MNE's headquarters (see also Prashantham, Kumar & Bhattacharyya, 2018).

-----  
Insert Table 1 around here  
-----

For such shifts to occur, substantial boundary-spanning efforts are likely to be needed since, as previously noted, the asymmetry between MNEs and SMEs typically requires partnering interfaces to bring about meaningful cooperation (Doz, 1988; Prashantham & Birkinshaw, 2008). The need for understanding better such boundary-spanning mechanisms is an important research implication of this essay. To stimulate thinking in this area we highlight two such mechanisms: ecosystem -based boundary-spanning and non-market intermediation.

***Ecosystem-based boundary-spanning.*** Many large MNEs are engaging in the development of new business models, and in particular the notion of a platform-based model, that provides access to large numbers of offerings from smaller providers, is becoming well established (Thomas, Autio & Gann, 2014; Zahra & Nambisan, 2012). In the context of this paper, a platform-based ecosystem is one mechanism for allowing SMEs with internationalization ambitions to overcome tensions when their ambitions outstrip the intent of the MNE. The case of Skelta, referred to earlier, is instructive. As previously noted, this Bangalore-based SME had initially positioned itself as a supplier of offshored software development services, but later worked on raising its game to become an international provider of genuine intellectual property in the form of software products. It sought to partner with Microsoft, the US-based MNE, and was able to eventually do so successfully *because* the latter developed a platform-based ecosystem strategy, whereby Skelta's innovation was a complement to the MNE's core platform technology, and paved the way for technical and business

collaboration. This included several joint sales efforts in international markets involving Microsoft or its partners (Prashantham & Dhanaraj, 2015).

It is worth also noting, in this case, that considerable initiative was shown by Skelta's CEO and top management team in spanning boundaries beyond the Microsoft India subsidiary that it initially engaged with. Its boundary-spanning strategy included reaching out to co-ethnic managers working for Microsoft in the US with whom it was relatively easy to build rapport, and cultivate some of them as valuable internal champions for it (the SME) within the MNE. Consistent with Buckley and Prashantham's (2016) division of entrepreneurial labor, the shift to cooperation around innovation (Quadrant 3) is likely to require effortful action from both MNEs and SMEs.

*Non-market intermediation.* Another mechanism that may be relevant here is the role of non-market intermediaries to address trust deficits between SMEs and MNEs. Note that while SMEs may worry about misappropriation of their IP (Alvarez & Barney, 2001; Katila et al., 2008), the MNE might have difficulties of its own, especially with the search process since their ability to discern the appropriate SME(s) to partner with may be limited. Prashantham and McNaughton (2006) document the role of a non-market intermediary, Scottish Technology and Collaboration (STAC), set up in the UK with local government support, that enabled host market SMEs to collaborate with the local subsidiaries of foreign (mainly US-based) MNEs. This mechanism resonates with Rugman and D'Cruz's (1997) description of non-business intermediaries that help a flagship MNE engage more extensively with its network of

preferred suppliers.

The STAC example shows the particular relevance of non-market intermediaries in settings outside established clusters such as Silicon Valley. These intermediaries are useful both in brokering specific relationships between MNEs and SMEs, and also in legitimizing the broader notion that there is a potential mutuality of interests between the two sets of players. Furthermore, as noted in Kano's (2018) insightful analysis of relational governance in MNE-orchestrated global value chains, the effective use of such actors – both MNEs and SMEs – can enable the transformation of arm's-length relationships into more embedded ones. Again, agency on the part of both sets of actors is likely required to ensure that these efforts are fruitful.

In summary, Hirschmann's (1970) exit, voice and loyalty framework provides a useful way of thinking about the different choices facing SMEs and MNEs when their intentions are not aligned, and it helps us identify mechanisms for increasing the ability of the SME or MNE's 'voice' to be heard. There is scope for future research to develop these arguments further, and to examine how exit, voice and loyalty interact with one another. For example, it is possible that voice is more successful from a position of loyalty (i.e. voice-utilizing actions are more effective when there is underlying loyalty towards the other partner), but it is also possible that voice is more successful once there is a credible threat of exit (e.g. from a prior relationship).

### **MNE-SME COOPERATION AND SUSTAINABLE GOALS**

Buckley et al. (2017) have argued that virtually from its inception, the field of International Business has been concerned with the role of MNEs vis-a-vis wider

societal concerns, but they also acknowledge that IB research has often been somewhat inward looking and lacking in practical impact. They therefore call for IB research to focus on what they refer to as societies' grand challenges. One direction they point to is promoting sustainability and societal impact. In similar vein, Kolk (2016: 31) has called for "specific attention to other activities, labeled here as pro-poor, increasingly undertaken by MNEs, individually or via partnerships, usually on a much smaller scale". The relevance of this to our ideas on MNE-SME cooperation stems from the prospect that SMEs in less developed countries contribute to poverty alleviation by generating employment, which in turn requires higher levels of productivity (Maksimov, Wang & Luo, 2017). The odds of local actors contributing to societal goals are arguable higher when they are able to meaningfully engage with MNEs (Ghauri, Fu & Väättänen, 2017).

As a specific example of societal issues that IB research ought to engage with, Buckley et al. (2017) draw attention to the United Nations' Millennium Declaration of 2000, which articulated eight grand challenges – referred to as Millennium Development Goals (MDGs) – to end extreme poverty by 2015, and its successor, a more comprehensive set of 17 objectives referred to as Sustainable Development Goals (SDGs). While some attention has rightly been paid to interactions between MNEs and NGOs in global governance and value creation (e.g. Teegen, Doh, & Vachani, 2004), engagement between MNEs and SMEs has yet to receive close attention in relation to its wider societal impact. The relevance of MNE-SME cooperation to research on grand challenges, such as the Sustainable Development

Goals, is thus potentially useful as a specific way to respond to Buckley et al's (2017) call for reorienting future IB research.

In the second part of this paper, we therefore consider an application of our analytical framework to the role of MNEs in helping to achieve the SDGs. As observed by Jeffrey Sachs (2018), MNEs can potentially contribute to societal transformations such as improved skills, healthcare access, energy supply, sustainable agriculture and inclusive urbanization. He noted the role that business has to play in facilitating these transformations through improved and novel business models, practices and laws, an important channel of which is the effective functioning of global value chains. A similarly optimistic view is expressed in a media report: "The important [thing] for business is that their role has been recognized. They are not considered the bad guys any more. The discourse has changed – seeking to make profit is not seen as [incompatible] with development" (Smedley, 2015).

Perhaps one reason that private sector involvement in achieving the SDGs has become widely called for is the large number of people lifted out of poverty, notably in China and India, as a result of economic growth (Baldwin, 2016) contributing to the partial achievement of the Millennium Development Goals<sup>6</sup> (2000-2015). Of course, not all MNEs will pursue socially relevant goals with enthusiasm: Markman et al. (2016: 674) observe that "Even with a heightened awareness of and commitment to Sustainable Development Goals (SDG), 17 goals (and 169 accompanying targets) that the UN expects to achieve by 2030, most corporations prioritize economics first,

---

<sup>6</sup> Unlike its predecessor (the Millennium Development Goals of 2000-2015), SDGs apply not only to developing countries; however the bulk of the effort is likely to be focused on poorer nations.

followed by social and ethical issues, and then the environment”. Notwithstanding these concerns, it is useful to consider the ways in which MNEs might engage constructively with local SMEs, and our framework is potentially helpful in this regard (see Figure 2).

-----  
Insert Figure 2 around here  
-----

***Inclusive supply chains (Quadrant 1).*** The default case of MNE-SME cooperation in many cases will be supply chain-related linkages. Such relationships can be valuable in terms of societal benefits such as the employment generated and the generation of knowledge spillovers, especially so in less developed parts of the world (McDermott & Pietrobelli, 2017; UNCTAD, 2010). However, financial and nonfinancial constraints (e.g. insufficient expertise) faced by SMEs in these settings may impede their participation in MNEs’ supply and distribution chains (Fernandez-Stark & Gereffi, 2012). Thus SDGs are more likely to be accomplished when an MNE’s supply chain in less developed countries operates on the principle of inclusivity (UNIDO, 2015) which may involve, *inter alia*, widening the opportunity set for local SMEs, providing scaffolding to help them build requisite capabilities, and adopting a more equitable distribution of the gains (Porter & Kramer, 2011). It may also include legitimizing the inclusive behaviors of GVC partners, an example of which is Microsoft recognizing a Kenyan IT company, TechBrain, with an excellence award for helping underprivileged youth gain employment.

***Local capability utilization (Quadrant 2).*** Our framework suggests a scenario of underutilized SME entrepreneurship in Quadrant 2. But the problem is qualitatively



different in less developed settings that suffer from a relative lack of entrepreneurial talent and capacity as well as MNE presence (Buckley, 2009). At the same time there is a much higher need than in advanced economies for ingenuity and frugality to profitably address social problems (Prahalad, 2004; Radjou & Prabhu, 2014). Thus while the situation represented in this quadrant may be less prevalent empirically, it is potentially even more consequential, in less developed settings. Even if there are enterprising individuals, including returnees, interested in creating social impact through entrepreneurship (Zahra et al., 2009), there may be a missed opportunity due to the unavailability of engagement around social innovation with MNEs.

Mechanisms such as ecosystem-based boundary-spanning may manifest somewhat differently in less developed contexts, for instance as corporate social responsibility (CSR) activity. For example, a particularly impactful initiative was launched by Microsoft South Africa for a select group of innovative Black-owned software SMEs with the explicit goal of supporting them to become global companies over time (Prashantham & Yip, 2017). The end-result can nonetheless be effective.

*Social innovation (Quadrant 3).* Arguably, the opportunities for joint value creation in ways that promote sustainable goals are the highest in this quadrant. Indeed, the last of the seventeen SDGs (SDG 17) relates to “partnerships for the goals”, and it is plausible that MNEs operating in explorative mode and internationally minded SMEs – especially those in host markets where addressing SDGs is a pressing concern – could combine complementary assets to address societal needs in a way that is also economically viable. Such relationships may be

particularly fruitful when the SME has adopted, wholly or partially, some form of social entrepreneurship (Zahra, Gedajlovic, Neubaum & Shulman, 2009). To illustrate, Microsoft<sup>7</sup> has partnered with the United Nations Development Program (UNDP) in Egypt to support a “social innovation hub” for women entrepreneurs that has generated social ventures such as an app to help people locate pharmacies in the vicinity (United Nations, 2016). Such initiatives simultaneously address multiple SDGs including those pertaining to gender equality (SDG 5), good jobs (SDG 8) and innovation (SDG 9).

***Local capacity building (Quadrant 4).*** Our framework indicates a tension in Quadrant 4 relating to underutilized MNE entrepreneurship. Although an MNE may typically be averse to undertaking exploration-oriented activity in less developing contexts, it may yet be willing to invest in anticipation of the region becoming the next frontier of future growth (Mol, Stadler & Ariño, 2017). However, for such firms, the deficiency of human capital and entrepreneurial skill (Fu, Essegbey & Frempong, 2017) magnifies the difficulty of cooperating with local SMEs. MNEs that are ambitious enough to seek a shift to social innovation-based activity but also conscious of the weak institutional support available to local SMEs (Buckley, 2009) are thus left with the task of facilitating the development of an enabling environment for host market SMEs. The Microsoft4Afrika initiative, launched in 2013, is a case in point. Its stated aims are “delivering affordable access to the internet, developing skilled workforces and investing in local technology solutions”, Such actions are unlikely to

---

<sup>7</sup> In this section, we follow the advice of an anonymous reviewer to select one large MNE (in this case, Microsoft) and use it to illustrate all four quadrants. We note that we have come across several other examples from multiple MNEs (e.g. Bayer, 2017; Unilever, 2018).

be entirely altruistic; they are intended to have a direct bearing on the MNE's revenues in the long term. Nevertheless the benefits in terms of uplifting SMEs' capabilities seem plausible given the low likelihood that human capital in SMEs will be nurtured in such settings (Narula, 2018).

## **DISCUSSION**

In this essay, we have sketched out a framework that covers a range of ways in which MNEs cooperate with SMEs as a specific type of host country business stakeholder. Our approach to MNE-SME cooperation based on the partners' intent fits well with the network-based view of the MNE encapsulated in theories of the global factory and flagship firm, but also highlights that not all types of cooperation are stable or at equilibrium. Below we discuss some contributions and future research directions arising from our article.

### **Contributions**

In developing an integrative framework to analyze the various approaches MNEs use to cooperate with host country SMEs, we contribute to IB studies in two main ways. First, we offer a more comprehensive understanding of the forms that MNE-SME relationships take. Prior work has not got to grip with sources of *tension* between these disparate entities. Distinguishing between relationships that tend towards equilibrium from those that do not calls for a better understanding of the differing *strategic intents* of MNEs and SMEs in different circumstances, and the conditions under which stable relationships arise.

Importantly, the framework also draws attention to dynamics in MNE-SME

cooperation. Our typology helps to unpack some relational governance considerations – not merely in a static sense but also in a dynamic way that acknowledges the prospect of shifts from one type of relationship to another. In engaging with their wider interfirm network, a recurring challenge for MNEs is determining appropriate ways of dealing with relational governance (Kano, 2018), which is not straightforward since MNEs and SMEs are not always aligned in their strategic intent. And even when they are, the asymmetries between these actors makes it difficult for fruitful relationships to be forged and nurtured (Prashantham & Birkinshaw, 2008). By recognizing alternative responses to tensions through exit, voice and loyalty (Hirschman, 1970), we shed useful light on multiple pathways – rather than a single one – for resolving the tensions encountered in MNE-SME cooperation.

Second, given the importance in contemporary discourse of sustainable development (Buckley et al., 2017; Lundan, 2018), our framework provides the basis for examining how MNE-SME relationships could contribute to not only economic but also social outcomes. As Jeffrey Sachs (2018) commented, MNEs can contribute to the United Nations' Sustainable Development Goals (SDG) through, inter alia, fostering sustainable global value chains and economically viable digital solutions to address social ills. The framework thus provides a basis for considering social and sustainability-related issues in the context of MNE-SME cooperation.

### **Future Research**

Our article also points to a few areas for future research. First, it would be valuable for empirical studies to uncover in greater depth the conditions under which

different types of MNE-SME cooperation arise and transform from one to another. It would also be valuable to unpack the differential performance implications (for both parties) of different types of cooperation, as well as their social impact.

Second, in focusing on cooperation, even though we highlight the prospect of tensions, we have downplayed the possibility of outright competition between MNEs and SMEs (Etemad, 2005). As a broader point, anti-globalization sentiments mean that MNEs' global value chains are not viewed favorably by all, and this could mean a harder competitive edge in dealing with local stakeholders in host markets, including SMEs.

Third, while our framework points to potential temporal dynamics, it may be worth also noting the prospect of spatial shifts: there is anecdotal evidence of efforts by Western MNEs to engage with SMEs, particularly startups, in emerging markets, with some innovation network activity shifting from advanced to emerging markets (Prashantham & Yip, 2017). Conversely, in terms of supply chains, there is some evidence of reshoring of previously offshored manufacturing and business processes, perhaps partly in response to anti-globalization sentiments.

Fourth, when we talk about MNEs, consistent with the empirical focus of much of the literature, we focus on large firms. However it is conceivable that small firms also engage with other small firms in overseas markets. We acknowledge that we have left these out of the scope of our present article, focusing mainly on asymmetric relationships. Moreover, many of the relationships that are already studied in international entrepreneurship fit the category of SME-SME ties, and future research

could contrast MNE-SME cooperation with that between small firms.

Fifth, future research could examine the microfoundations of MNE-SME cooperation, including the behaviors of individuals on each side of the dyad. Part of the asymmetry between these disparate sets of firms relates to the differences between managers in MNEs and entrepreneurs in SMEs; the former optimize controlled resources while the latter assemble resources in pursuit of opportunities (Stevenson & Jarillo, 1990). Hence the process of boundary-spanning among individuals from MNEs and SMEs represents a fascinating area for research. More generally, there is scope to dig further into the microfoundations of economic transactions (Kano & Verbeke, 2018), including in relation to the bounded reliability of the actors involved (Verbeke & Greidanus, 2009). Future research could usefully delve into the influence of actors' (un)reliability in fostering equilibrium states versus tensions, and exploring further the governance of cooperative relationships (Kano, 2018).

## **Conclusion**

In this article we have sought to provide a broad overview of the division of entrepreneurial labor between MNEs and SMEs stemming from their complementary capabilities (Buckley & Prashantham, 2016; Prashantham & Birkinshaw, 2008). By bringing to this discussion the additional aspect of compatibility of intent, we identify different types of MNE-SME cooperation, and highlight that some types of cooperation are at equilibrium while others are fraught with tension. As a result, there may be dynamic shifts across cooperation types. We also show many MNE-SME cooperation opportunities might have important implications for the achievement of

sustainable development goals (SDGs). It is our hope that our framework will stimulate future work that will contribute to a deeper understanding of the network-based MNE in general and MNE-SME cooperation in particular.

## REFERENCES

- Acs, Z., Morck, R., Shaver, J. M., & Yeung, B. 1997. The internationalization of small and medium-sized enterprises: A policy perspective. *Small Business Economics*, 9(1): 7-20.
- Adner, R. 2017. Ecosystem as Structure: An Actionable Construct for Strategy. *Journal of Management*, 43(1).
- Alvarez, S. A. & Barney, J. B. 2001. How entrepreneurial firms can benefit from alliances with large partners. *The Academy of Management Executive*, 15(1): 139-48.
- Baldwin, R. 2016. *The Great Convergence: Information Technology and the New Globalization*. Cambridge, MA: Belknap Press.
- Barrientos, S., Gereffi, G., & Rossi, A. 2011. Economic and social upgrading in global production networks: A new paradigm for a changing world. *International Labour Review*, 150(3 - 4): 319-40.
- Bartlett, C. A. & Ghosh, S. 1989. *Managing across borders: The transnational solution*. Boston: Harvard Business School Press.
- Bayer. 2017. Bayer, 2017. The doctor in your pocket.  
<https://www.research.bayer.com/en/healthcare-app-diagnosis-smartphone.aspx>
- Brouthers, K. D. & Nakos, G. 2004. SME entry mode choice and performance: A transaction cost perspective. *Entrepreneurship theory and practice*, 28(3): 229-47.
- Buckley, P. J. 2009. The impact of the global factory on economic development. *Journal of World Business*, 44(2): 131-43.
- Buckley, P. J., Doh, J. P., & Benischke, M. H. 2017. Towards a renaissance in international business research? Big questions, grand challenges, and the future of IB scholarship. *Journal of International Business Studies*, 48(9): 1045-64.
- Buckley, P. J. & Ghauri, P. N. 2004. Globalisation, economic geography and the strategy of multinational enterprises. *Journal of International Business Studies*, 35(2): 81-98.
- Buckley, P. J. & Prashantham, S. 2016. Global Interfirm Networks: The Division of Entrepreneurial Labor Between MNEs and SMEs. *The Academy of Management Perspectives*, 30(1): 40-58.
- Buckley, P.J., & Verbeke, A. 2016. Smiling and crying curves in international business. *International Business Review*, 25: 749-752.
- Cantwell, J. 2013. Blurred boundaries between firms, and new boundaries within (large multinational) firms: the impact of decentralized networks for innovation. *Seoul Journal of Economics*, 26(1): 1-32.



- Casson, M. 1982. *The entrepreneur: An economic theory*. Totowa, NJ: Barnes & Noble Books.
- Contractor, F. J. 1990. Contractual and cooperative forms of international business: Towards a unified theory of modal choice. *MIR: Management International Review*: 31-54.
- Dhanaraj, C. & Parkhe, A. 2006. Orchestrating innovation networks. *Academy of Management Review*, 31(3): 659-69.
- Doh, J. P. 2005. Offshore outsourcing: Implications for international business and strategic management theory and practice. *Journal of Management Studies*, 42(3): 695-704.
- Doz, Y. L. 1988. Technology Partnerships between Larger and Smaller Firms: Some Critical Issues. *International Studies of Management & Organization*, 17(4): 31-57.
- Doz, Y. L., Santos, J., & Williamson, P. 2001. *From global to metanational: How companies win in the knowledge economy*: Harvard Business Press.
- Etemad, H. 2005. SMEs' Internationalization Strategies Based on a Typical Subsidiary's Evolutionary Life Cycle in Three Distinct Stages. *Management International Review*, 45(3): 145-86.
- Fernandez-Stark K., Bamber P. and Gereffi G. 2012. *Inclusion of small- and medium-sized producers in value chains*. Durham, NC: Duke University Center on Globalization, Governance & Competitiveness.
- Forsgren, M., Holm, U., & Johanson, J. 2005. *Managing the embedded multinational: A business network view*. Northampton, MA: Edward Elgar.
- Forsgren, M. & Johanson, J. 1992. *Managing Internationalization in Business Networks*: Gordon & Breach
- Fu, X., Essegbey, G., & Frempong, G. 2017. MNEs and Capabilities Building in Ghana. In P.N. Ghauri, X. Fu & J. Väätänen (Eds.) *Multinational Enterprises and Sustainable Development*, Bingley, UK: Emerald. pp.173 – 193
- Gereffi, G. & Fernandez-Stark, K. 2016. *Global value chain analysis: a primer*. Durham, NC: Duke University Center on Globalization, Governance & Competitiveness.
- Ghauri, P. N., X., F., & Väätänen, J. 2017. *Multinational enterprises, sustainable development*. London: Oxford University Press.
- Ghoshal, S. & Bartlett, C. A. 1990. The multinational corporation as an interorganizational network. *Academy of Management Review*, 15(4): 603-25.
- Grant, R. M. & Baden - Fuller, C. 2004. A knowledge accessing theory of strategic alliances. *Journal of Management Studies*, 41(1): 61-84.

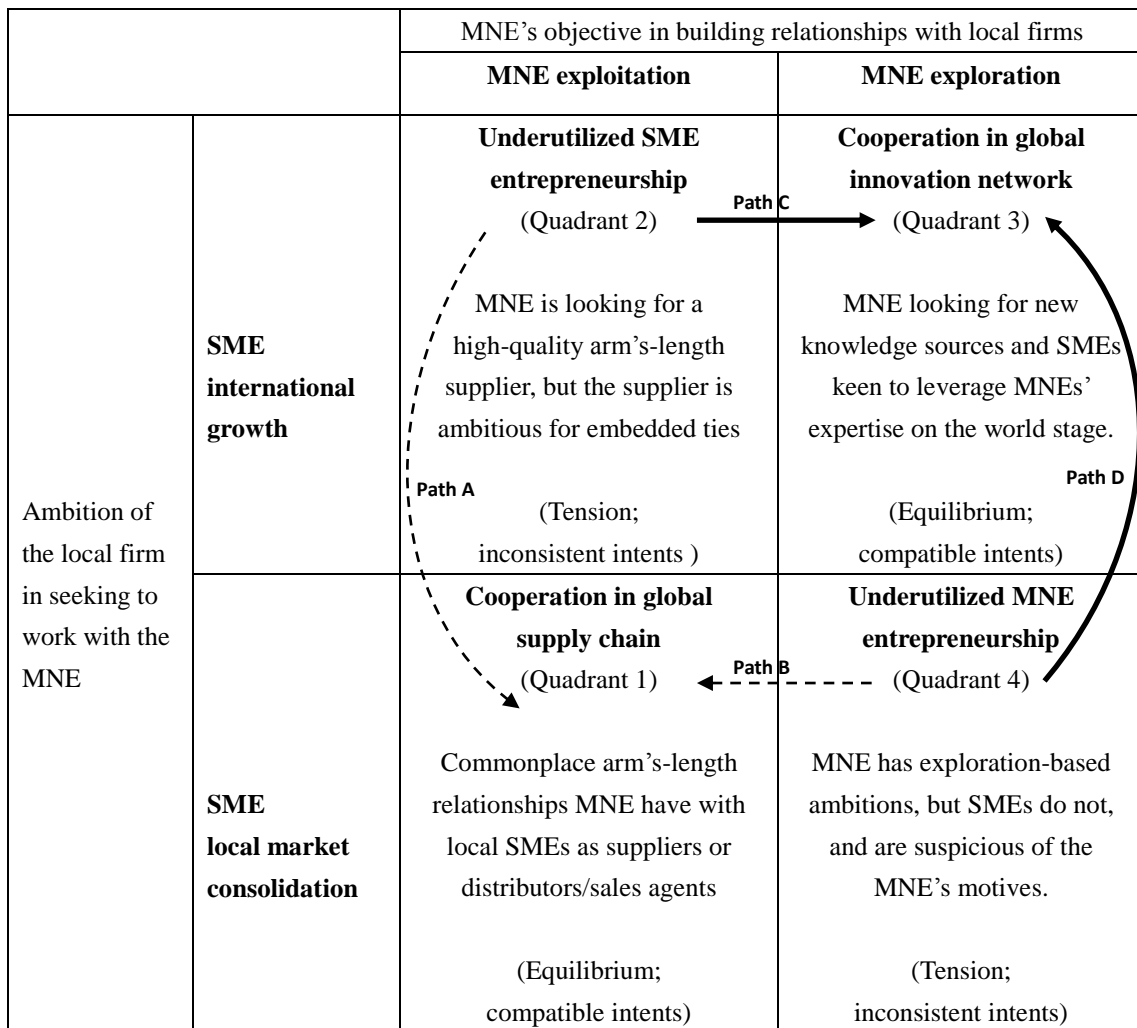
- Hirschman, A.O. 1970. *Exit, voice and loyalty. Responses to decline in firms, organizations and states*. Cambridge, MA: Harvard University Press.
- Jarillo, J. C. 1988. On strategic networks. *Strategic management journal*, 9(1): 31-41.
- Kano, L. 2018. Global value chain governance: A relational perspective. *Journal of International Business Studies*, 49(6): 684-705.
- Kano, L., & Verbeke, A. 2018. Theories of the multinational firm: A micro-foundational perspective. *Global Strategy Journal* (forthcoming).
- Katila, R., Rosenberger, J. D., & Eisenhardt, K. M. 2008. Swimming with Sharks: Technology Ventures, Defense Mechanisms and Corporate Relationships. *Administrative Science Quarterly*, 53(2): 295-332.
- Knight, G. A. & Kim, D. 2009. International business competence and the contemporary firm. *Journal of International Business Studies*, 40(2): 255-73.
- Kolk, A. 2016. The social responsibility of international business: From ethics and the environment to CSR and sustainable development. *Journal of World Business*, 51(1): 23-34.
- Krishnaswamy, K.N., Mathirajan, M., & Subrahmanya, M.H.B., 2014. Technological innovations and its influence on the growth of auto component SMEs of Bangalore: A case study approach. *Technology in Society*, 38: 18–31.
- Liesch, P. W. & Knight, G. A. 1999. Information internalization and hurdle rates in small and medium enterprise internationalization. *Journal of International Business Studies*, 30(2): 383-94.
- Love, K. 2016. Meet the Larry Page of Ghana. *Forbes*, 7 Jul: Available at <https://www.forbes.com/forbes/welcome/?toURL=https://www.forbes.com/sites/katherinlove/2016/07/07/meet-the-larry-page-of-ghana/&refURL=https://cn.bing.com/&referrer=https://cn.bing.com/>.
- Lu, J. W. & Beamish, P. W. 2001. The internationalization and performance of SMEs. *Strategic Management Journal*, 22(6 - 7): 565-86.
- Lundan, S.M. 2018. Engaging international business scholars with public policy issues. *Journal of International Business Policy*, 1: 1–11.
- March, J. G. 1991. Exploration and exploitation in organizational learning. *Organization Science*, 2(1): 71-87.
- Markman, G. D., Russo, M., Lumpkin, G., Jennings, P. D., & Mair, J. 2016. Entrepreneurship as a platform for pursuing multiple goals: A special issue on sustainability, ethics, and entrepreneurship. *Journal of Management Studies*, 53(5): 673-94.

- McDermott, G.A., & Pietrobelli, C. 2017. Walking before you can run: The knowledge, networks, and institutions for emerging market SMEs. in T. Pedersen, T.M. Devinney, L. Tihanyi & A. Camuffo (Eds.) *Breaking up the Global Value Chain*. Bingley: Emerald, pp.311 - 332
- Microsoft. 2018. Microsoft, 2018. Microsoft4Afrika: Our story. <https://microsoft.com/africa/4afrika/about-us.aspx>.
- Mol, M.J., Stadler, C., & Arino, A. 2017. Africa: The new frontier for global strategy scholars. *Global Strategy Journal*, 7(1): 3-9.
- Monteiro, F. & Birkinshaw, J. 2017. The external knowledge sourcing process in multinational corporations. *Strategic Management Journal*, 38(2): 342-62.
- Morya, K. & Dwivedi, H. 2009. Aligning interests of SMEs and a focal firm (MNE) in a global supply chain setup. *Journal of Supply Chain Management*, 6(1): 49-59.
- Mudambi, R. 2008. Location, control and innovation in knowledge-intensive industries. *Journal of Economic Geography*, 8(5): 699-725.
- Narula, R. 2018. Multinational firms and the extractive sectors in the 21st century: Can they drive development? *Journal of World Business*, 53(1): 85-91.
- Narula, R., & Pineli, A. 2018. Improving the developmental impact of multinational enterprises: policy and research challenges. *Economia e Politica Industriale*, in press. <https://doi.org/10.1007/s40812-018-0104-2>
- O'Dwyer, M. & O'Flynn, E. 2005. MNC–SME strategic alliances—A model framing knowledge value as the primary predictor of governance modal choice. *Journal of International Management*, 11(3): 397-416.
- Porter, M.E., & Kramer, M.R. 2011. Creating shared value. *Harvard Business Review*, 89(1/2): 62–77.
- Prahalad, C. K. 2004. *The Fortune at the Bottom of the Pyramid*. New York: Wharton School Publishing.
- Prashantham, S. & Birkinshaw, J. 2008. Dancing with gorillas: How small companies can partner effectively with MNCs. *California Management Review*, 51(1): 6-23.
- Prashantham, S. & Dhanaraj, C. 2015. MNE ties and new venture internationalization: Exploratory insights from India. *Asia Pacific Journal of Management*, 32(4): 901-24.
- Prashantham, S., Kumar, K., & Bhattacharyya, S. 2018. International new ventures from emerging economies: Network connectivity and legitimacy building. Working paper.
- Prashantham, S. & McNaughton, R. B. 2006. Facilitation of links between multinational subsidiaries and SMEs: The Scottish Technology and Collaboration (STAC) initiative. *International Business Review*, 15(5): 447-62.

- Prashantham, S. & Yip, G. S. 2017. Engaging With Startups in Emerging Markets. *MIT Sloan Management Review*, 58(2): 51.
- Radjou, N., & Prabhu, J. 2014. *Frugal innovation: How to do more with less*. London: Profile Books.
- Reuber, A.R., Knight, G.A., Liesch, P.W., & Zhou, L. 2018. International entrepreneurship: The pursuit of entrepreneurial opportunities across national borders. *Journal of International Business Studies*, 49(4): 395–406.
- Rugman, A. & D'Cruz, J. 1997. The theory of the flagship firm. *European Management Journal*, 15(4): 403-12.
- Rugman, A. M. & Verbeke, A. 2001. Subsidiary - specific advantages in multinational enterprises. *Strategic Management Journal*, 22(3): 237-50.
- Sachs, J.D. Acceptance speech - AIB Fellows John Fayerweather Eminent Scholar Award. Academy of International Business Conference, Minneapolis. Video available at <https://aib.msu.edu/events/2018/Videos/ShowSessionVideo.asp?videoid=1105>
- Smedley, T. 2015. Sustainable development goals: what business needs to know *The Guardian*, 24 Sep: Available at <https://www.theguardian.com/sustainable-business/2015/sep/24/sustainable-development-goals-business-sdg-targets>.
- Stevenson, h. H. & Jarillo, J. C. 1990. A paradigm of entrepreneurship: entrepreneurial management. *Strategic Management Journal*, 11: 17-27.
- Strange, R. & Humphrey, J. 2018. What lies between market and hierarchy? Insights from internalization theory and global value chain theory. *Journal of International Business Studies*, in press. <https://doi.org/10.1057/s41267-018-0186-0>
- Thomas, L. D., Autio, E., & Gann, D. M. 2014. Architectural leverage: putting platforms in context. *Academy of Management Perspectives*, 28(2): 198-219.
- UNCTAD. 2010. *Integrating developing countries' SMEs into global value chains*. . New York: United Nations. .
- UNICEF. 2014. UNICEF Ghana launches "iIMAGINEghana": The Social Innovators Challenge for Children. [https://www.unicef.org/ghana/media\\_9422.html](https://www.unicef.org/ghana/media_9422.html).
- UNIDO (2015). *Industrial Development Report 2016: The role of technology and innovation in inclusive and sustainable industrial development*. Vienna: United Nations Industrial Development Organization.
- Unilever. 2018. Empowering small-scale retailers for growth. . <https://www.unilever.com/sustainable-living/enhancing-livelihoods/inclusive-business/empowering-small-scale-retailers-for-growth/>.

- United Nations. 2016. 1st Social Innovation Hub in Egypt focused on women entrepreneurs opens its doors.  
<https://www.un.org/youthenvoy/2016/01/1st-social-innovation-hub-in-egypt-focused-on-women-entrepreneurs-opens-its-doors/>
- Uzzi, B. 1997. Social structure and competition in interfirm networks: The paradox of embeddedness. *Administrative Science Quarterly*: 35-67.
- Vandaie, R. & Zaheer, A. 2014. Surviving bear hugs: Firm capability, large partner alliances, and growth. *Strategic Management Journal*, 35(4): 566–77.
- Verbeke, A., & Ciravegna, L. 2018. International entrepreneurship research versus international business research: A false dichotomy? *Journal of International Business Studies*, 49(4): 387–394.
- Verbeke, A., & Greidanus, N.S. 2009. The end of the opportunism vs trust debate: Bounded reliability as a new envelope concept in research on MNE governance. *Journal of International Business Studies*, 40(9): 1471-1495.
- Young, S., Hood, N., & Peters, E. 1994. Multinational enterprises and regional economic development. *Regional Studies*, 28(7): 657-77.
- Zahra, S.A., Gedajlovic, E., Neubaum, D.O., & Shulman, J.M. 2009. A typology of social entrepreneurs: Motives, search processes and ethical challenges. *Journal of Business Venturing*, 24(5): 519-532.
- Zahra, S. A., & Nambisan, S. 2012. Entrepreneurship and strategic thinking in business ecosystems. *Business Horizons*, 55(3): 219–229.

**Figure 1. MNE-SME Cooperation: Scenarios and Dynamics**



**Table 1. MNE-SME Cooperation Dynamics: Addressing Tensions**

	<b>From Quadrant 2 to 1 (Path A)</b>	<b>From Quadrant 4 to 1 (Path B)</b>	<b>From Quadrant 2 to 3 (Path C)</b>	<b>From Quadrant 4 to 3 (Path D)</b>
<b>Situation</b>	Typically begins on a transactional basis (e.g. the SME is a supplier to the MNE), but the SME is keen to upgrade capabilities and internationalize	Typically begins on a transactional basis (e.g. the MNE takes on SME suppliers), but becomes keen to explore new capabilities via collaboration with the SMEs	Starting point similar to Path A.  One option that the actors have is to exit the relationship; below we consider the case of them using their voice.	Starting point similar to Path B.  One option that the actors have is to exit the relationship; below we consider the case of them using their voice.
<b>Complication</b>	However there is frustration for the SMEs but MNE are not keen to engage on this basis because of a lack of ability or the autonomy/appetite for a deeper engagement. The SME accepts its fate and engages in cooperation involving more basic joint activities (e.g. execution of GVC tasks).	However there is frustration for SMEs because SMEs lacking requisite capabilities and, even when there is ability, may lack the trust that they will be treated fairly. The MNE accepts the situation and restricts cooperation with SMEs to relatively low level linkages.	Recognizing that the SMEs may be engaging with MNE subsidiaries that do not have partner interfaces to support closer cooperation, they may reach out to other parts of the MNE with matching intent and partner interfaces. May be facilitated by engaging with boundary-spanning MNE managers.	Recognizing SMEs' lack of trust, subsidiaries may introduce confidence-building measures (HQ-driven or local partner initiatives with trusted third parties) that make capable SMEs less wary of working with them. And in the long-term capacity-building activity could make SMEs more capable.
<b>Resolution</b>	The relationship may continue on the basis of passive loyalty, thus less innovative activities (Quadrant 1)	The relationship may continue on the basis of passive loyalty, thus less innovative activities (Quadrant 1)	The relationship evolves to embrace more innovative activities by actors exiting or exerting voice (Quadrant 3)	The relationship evolves to embrace more innovative activities by actors exiting or exerting voice (Quadrant 3)

**Figure 2. MNE-SME Cooperation and Sustainable Development Goals**

		MNE's objective in building relationships with local firms	
		MNE exploitation	MNE exploration
Ambition of the local firm in seeking to work with the MNE	<b>SME international growth</b>	<b>Scope for local capability utilization</b> (Quadrant 2)	<b>Scope for social innovation networks</b> (Quadrant 3)
	<b>SME local market consolidation</b>	<b>Scope for inclusive supply chains</b> (Quadrant 1)	<b>Scope for local capacity building</b> (Quadrant 4)