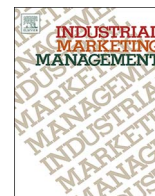




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## The interplay between social capital and international opportunities: A processual study of international ‘take-off’ episodes in Chinese SMEs

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## ABSTRACT

The paper presents a processual analysis of international take-off episodes in Chinese SMEs. In considering the dynamics of pre-internationalization, the paper posits four temporally finer-grained, *phases* based on an actor's orientation towards international opportunities. Based on a sample of twenty Chinese SMEs, the paper theorizes 12 temporally fine-grained take-off *episodes*, or which appear in practice as a series of tactical moves through which Chinese SMEs advance through the four phases in the longer pre-internationalization of the process. By considering the multi-dimensional nature of social capital in international take-off, the findings contribute to a greater understanding of how forming international relationships work in the context of pre-internationalization in SMEs, also adding insights into the dynamics of internationalization as an entrepreneurial and networked endeavour.

### 1. Introduction

In the extant internationalization literature, there is only a limited amount of work examining early internationalization and there is a general lack of true processual studies investigating and conceptualizing its dynamics over time (Welch & Paavilainen-Mäntymäki, 2014). Instead, most studies view internationalization as a linear and regular phenomenon (Vissak & Francioni, 2013). Welch and Paavilainen-Mäntymäki (2014) highlight the existence of this weakness and find that many studies and scholars use the term ‘process’, but do not empirically study the process as it unfolds over time. A recent special issue of Management International Review (Welch, Nummela, & Liesch, 2016) tries to fill the gap, but it is surprising that to date, the majority of studies using the two main versions of the Uppsala School of Internationalization (Johanson & Vahlne, 1977, 2009) have underemphasized process in their conceptualizations.

We address this neglect by building on the models suggesting that the main process during internationalization takes place in network of relationships with various actors in the foreign market (Johanson & Vahlne, 1990, 2009), and where a continuous interaction between the firm's position in the network and opportunity development drives the process. In order to understand the network process we turn to the specific stream of network studies building on social capital

theory. This conceptual body of work has previously been applied in several studies (e.g., Agndal, Chetty, & Wilson, 2008; Lindstrand, Melén, & Nordman, 2011; Prashantham, Dhanaraj, & Kumar, 2015), but without a focus on process. Consequently, we blend theory from two distinct bodies of ideas, first, the work on social capital (Burt, 1992; Coleman, 1988) – and as deployed more recently in Industrial Marketing (IM) scholarship (Eklinder-Frick, Eriksson, & Hallén, 2011, 2012, 2014); and second, the later versions of the Uppsala School of Internationalization (e.g., Johanson & Vahlne, 2009; Vahlne & Johanson, 2013) and specifically the more recent work examining pre-internationalization activity of small firms – referred to as take-off episodes (Jansson & Söderman, 2012) developed under the assumptions of this later theorizing.

At the intersection of these two bodies of work lies our interest in the interplay between social capital and international take-off. We contend that opportunity development is not only a question of identifying and/or creating an opportunity, but that in deploying a processual lens further requires considering the absorbing, integrating and rejecting of international opportunities (Agndal et al., 2008). We agree with Ellis (2011:101) when he notes that “the question of how international opportunities are identified remains under-explored.” He remarks on the importance of social networks in the innovative identification of international opportunities. We are interested therefore in

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how social capital dynamically affects and is in turn recursively affected by international opportunity identification and creation.

Taking into account the dynamics and turbulence of emerging economies, they seemed to make up a suitable context for our study and we selected SMEs for the empirical study. Work considering the institutional context of emerging economies has discussed how entrepreneurs overcome weak formal institutions with reference to informal networks of relationships (Tracey & Phillips, 2011). Our choice of peripheral regions of China is therefore purposeful to maximise the potential of gaining insight into the role of informal (social) mechanisms over formal mechanisms in the process of international take-off. The key contribution of this paper is therefore to gain insight into how social capital interacts with international opportunity development in SMEs' international take-off episodes and we join a stream of processual research stemming from contention that internationalization can be a by-product of a firm's 'positioning' and opportunity recognition within networks. Based on these observations, we identify several gaps, which we aim to close.

*First*, we find no processual studies that specifically examine the interplay between social capital and international opportunity identification and creation in international take-off. Although change of the nature is a common topic (e.g., Chetty & Agndal, 2007; Lindstrand et al., 2011), process as a flow of folding and unfolding episodes and sequences, where social capital is both influencing and is influenced by internationalization, seems absent in the literature. We focus on the process of *becoming* aware of international opportunities.

*Second*, there are no studies with the explicit focus on early internationalization as an emergent, entrepreneurial process. Some early work in the Uppsala tradition examined pre-internationalization behaviour (Johanson & Wiedersheim-Paul, 1975), but little work has subsequently revisited this area of study (Tan, Brewer, & Liesch, 2007). We feel this is due to the highly subjective and largely undocumented (often serendipitous) nature of its formation. It is here we particularly see a potential in exploring the interplay between local bonding and international bridging social capital. Jansson and Söderman (2012) discuss this process of transformation from indigenous to international as international *take-off*.

*Third*, although social capital theory has previously been applied in the internationalization literature (e.g., Lew, Sinkovics, & Kuivalainen, 2013; Prashantham & Birkinshaw, 2015), we find only one study (Lindstrand et al., 2011) that has considered social capital as a multi-dimensional concept in the process of internationalization, but this study was conducted in a developed economy and did not explicitly address pre-internationalization activity. Neither did this study discuss the role played by bridging and bonding forms of social capital. Usually, social capital is defined as a type of tie; for instance, ethnic and non-ethnic ties, host-country and home country ties, family members' and directors' relationships while another stream analyses the relational, structural and cognitive dimensions of social capital.

*Fourth*, with few exceptions (Zaefarian, Eng, & Tasavori, 2016), studies do not link social capital to emerging opportunity creation, rather than only opportunity identification during international take-off as an interactive, emergent and episodal process. We contend that process entails finding, not finding and rejecting already found opportunities – such as rejecting domestic opportunities in favour of international opportunities. Based on the four gaps presented above, this paper serves to analyse how the multi-dimensional aspect of bridging and bonding social capital affects the process of opportunity development in the internationalization take-off episodes of Chinese SMEs.

The paper is structured as follows. First, we outline the nature of social capital and explore it as a multi-dimensional concept. We next briefly explicate the principles of the Uppsala internationalization approach and developments. Subsequently, we discuss social capital and opportunity development in relation to internationalization. After briefly outlining our methodological approach we present our findings, structured around the four identified phases of pre-internationalization.

We then present the findings of the study utilizing narrative, temporal bracketing and visual process mapping approaches to process theorizing.

## 2. Literature review

We next outline the principles of the two bodies of work on which we base our contributions, social capital and incremental internationalization.

### 2.1. The multi-dimensional nature of social capital

The concept of social capital has been at the core of social science theory and research for several decades (Hewapathirana, 2014). However, the body of work has been criticised as still lacking definitional coherency (Huber, 2009) and being prone to conflating analysis at different levels, or for mixing findings contained in different dimensions of social capital (Eklinder-Frick et al., 2014). Nahapiet and Ghoshal (1998:244) propose that social capital is a concept describing the "impersonal configuration of linkages between people or units," in which they define a *structural* dimension of social capital as the overall pattern of relationships between actors in networks. The strength of relationships within these networks indicates relational quality or proximity manifested in more micro-level embedded dyads (Larson, 1992). This is a dimension in which Nahapiet and Ghoshal (1998) further discuss as relational embeddedness (a relational dimension) of actors in networks and the kinds of personal relationships that individuals collectively build with each other through historical interactions (see Granovetter, 1992).

A further dimension also takes in a *socio-economic* perspective (institutional dimension) which considers the broader aspects of society and spatially embedded relations (Eklinder-Frick et al., 2014). Coleman (1988) and Putnam (2000) suggest that social capital as a resource in this dimension is ubiquitous – that it is open to all groups and communities to accrue benefit from. Indeed, Hewapathirana (2014) also propose that social capital is a public good to support social integration, social cohesion, shared norms and values that develop trust among co-located citizens. However, other studies argue that institutions differ between markets and from this it follows that social capital to some extent differs and that a firm's strategy is network-dependent (Jansson, Johanson, & Ramström, 2007). Thus, even if firm's act in markets with a network structure, the socio-economic dimensions in a specific market may cause them to act differently in networks. They further highlight that business networks in western market economies differ in terms of structure and dynamics from networks in emerging markets like China and Russia, but, in addition, relationships in China and Russia may play roles and fulfil functions which are absent in western market economies. As a consequence, the planning and time horizons of firms, as well as how they develop and maintain social relationships are dissimilar. This, in turn forces firms to pay vicarious attention to being patient, suspicious and performance-oriented in these markets. Consequently, the socio-economics dimension of social capital is likely to influence internationalization as an opportunity process.

A further and underutilised point of analysis of social capital is the *actor-oriented* dimension (Eklinder-Frick et al., 2014). In this dimension of consideration, social capital is exploited by an individual to obtain knowledge, information and relevant support. Due to an individual actor's position in networks and embedded relationships, information and knowledge can be favourably obtained (Eklinder-Frick et al., 2014). Hassink and Klaerding (2012) recently attempt to reintegrate the individual actor into studies of economic space, and we see this perspective as particularly helpful in exploring the role of social capital in SME internationalization – as the individual actor may often represent an entire organization. Any analysis however, must be inherently multidimensional, but we argue, can be approached with a focus on one dimension in juxtaposition to the others.

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