



SME Internationalisation: The Relationship Between Social Capital and Entry Mode

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Abstract

The literature has assessed the social capital of internationalised SMEs, but not how SME social capital affects entry mode and the mechanisms involved in the effect. Case data from 35 SMEs which have internationalised to China were analysed to identify how SME social capital affected entry mode. Weak relational and structural social capital were found to provide network resources, information and entry mode opportunity identification which affected entry mode, but later became path dependent on the entry mode due to its effect on the context for the social capital. This internal and external context resulted from specialised organisational resources, institutional forces and market conditions and influenced the types of social capital. Political social capital was found to be weaker in its effect on entry mode than business social capital. Expectations of future social capital were influenced by initial social capital and some SMEs selected their entry mode to create a context that supported social capital. Several mechanisms of affect were identified, including using trust to support social capital development, a reduction in the resources required to maintain social capital over time due to intentional manipulation of context and a reduction in the focus on developing weak ties as part of social capital over time.

Keywords Social capital · SMEs · Entry mode · China · Context · Trust · Path dependency · Temporal effects

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1 Introduction

The extant small to medium (SME) internationalisation literature is currently investigating the factors affecting the type, extent and process of SME internationalisation (Lindstrand and Hånell 2017; Presutti et al. 2016; Tian et al. 2018). The factors affecting entry mode are an important part of this investigation as entry mode is a major determinant of the demands placed upon scarce SME resources and can affect the long-term success of international SMEs (Game and Apfelthaler 2016; Gao et al. 2016; Tian et al. 2018). The literature, however, has not considered all of the important factors likely to affect SME entry modes (Game and Apfelthaler 2016). It has also given very limited consideration to their effect in the important context of psychically distant markets (Gao et al. 2016; Presutti et al. 2016), instead focusing primarily on psychically similar markets. In addition, SME entry modes are not usually fixed (Chetty and Agndal 2007; Clarke et al. 2016) and future changes in entry mode can influence other aspects of an SME's internationalisation (Ciravegna et al. 2014). To date, however, SME entry modes have generally been considered as static, rather than dynamic (Kontinen and Ojala 2011; Tian et al. 2018). Subsequently, the dynamic nature of the relationship between SME entry mode and the factors which affect it is an important, but incomplete, area of the literature.

Social capital is important for operations in psychically distant markets and is likely to possess dynamic characteristics (Lew et al. 2013). Whilst the SME social capital literature mainly focusses on the types of social capital adopted by SMEs, it has also found that social capital can affect SME entry mode through serendipity and efficacy (Kontinen and Ojala 2011) and knowledge (Lindstrand et al. 2011), although the mechanisms for this effect are poorly explained in the literature. Social capital, which can be viewed as a resource supporting entry modes (Kwon and Adler 2014), can also be categorised as structural, relational and cognitive (Nahapiet and Ghoshal 1998). Of the six SME social capital studies which have considered entry mode to date, three have considered dynamic interactions—Kontinen and Ojala (2011); Lindstrand et al. (2011); Chetty and Agndal (2007). These studies have not, however, identified the mechanisms behind the dynamic effect of social capital on SME entry mode. Furthermore, the SME social capital literature has only infrequently considered the context of large psychic distances where social capital will have a greater effect (Gao et al. 2016; Ojala 2009). Examining the effect of social capital in the context of large psychic distances has the benefit that the mechanisms behind the effect will be more evident (Kontinen and Ojala 2011). Studies at the intersection of theory from these two literatures are now needed to identify the effect of social capital on entry mode and its related mechanisms from a dynamic perspective. This approach has the potential to explain the mechanisms behind the dynamic relationship between SME social capital and entry mode, significantly extending these literatures.

The extant SME social capital literature has focused on relational social capital, examining the effect of structural and cognitive social capital to a lesser extent. This literature has determined that relational social capital between agents

of SMEs internationalising from an emerging to a developed country will increase the likelihood of a high investment commitment entry mode (Lindstrand et al. 2011; Prashantham 2011). In addition, relational social capital with host country businesses has been found to increase the adoption of an export entry mode for SMEs internationalising from emerging to developed economies by increasing trust and learning (Gao et al. 2016; Ibeh and Kasem 2011; Zhang et al. 2012). Even weak tie relational social capital was found to effect entry mode decisions when the countries were psychically similar (Kontinen and Ojala 2011). The most significant contribution to the SME literature examining the intersection between the social capital and entry mode, however, was Chetty and Agndal's (2007) study which determined that weak relational social capital could be an enabler of changes in entry mode for psychically similar countries. They also found that strong relational social capital could become a liability for SMEs that attempted to change entry mode. This study did not consider the mechanisms creating this social capital or the effect of entry mode on future social capital.

To better integrate the SME entry mode literature and social capital literature, research is needed to identify how context affects social capital, how social capital affects entry mode and how these interact dynamically. This study presents the analysis of case data from 35 SMEs which have internationalised in China to answer the question, "What are the dynamic mechanisms through which social capital affects SME entry mode?". Nahapiet and Ghoshal's (1998) three categories of social capital will be used as the theoretical framework for the study. The literature has already indicated a need for further studies of the effect of social capital ties on entry mode (Kontinen and Ojala 2011), the influence of social capital on the speed of entry mode development and long-term studies of the dynamics of entry mode (Meng et al. 2016) and how business networks and social capital are developed during internationalization (Prashantham et al. 2015; Tian et al. 2018).

The literature review following examines the relevant SME social capital literature and SME entry mode literature to further position this study in the extant research. The methodology adopted, the data collection process and the findings are then presented, structured using the theoretical relationships identified in the literature review. The findings and discussion compare the mechanisms involved in the effect of social capital on SME entry mode. These findings are then considered in relation to theory and represented in diagrammatic form. This is followed by an assessment of the limitations of this study, suggestions for future research and a conclusion.

2 Literature Review

Social capital was first defined by Hanifan (1916) as "tangible assets that count most in daily lives of people: namely, goodwill, fellowship, mutual sympathy and social intercourse among a group of individuals and families who make up a social unit..." (p. 130). Later definitions have been more transactional (Bourdieu 1980; Burt 1992), such as: "an investment in social relations with expected returns" (Rodrigues and Child 2012, p. 25). The OECD (2001, p. 41) defined it as "networks together with

shared norms, values and understandings that facilitate cooperation with or among groups which enable individuals and groups to trust each other and work together.” It is generated by the actors involved and is affected by their location in the network (Burt 1992). Social capital can be formed internally or externally, resulting from internal bonding (network closing) or external bridging (gap spanning) networks (Adler and Kwon 2002; Jimenez et al. 2019). Social capital can be considered to have a relational dimension, which represents the content of relationships (Chetty and Agndal 2007; Nahapiet and Ghoshal 1998); a structural dimension which includes the network of relationships between actors (Coleman 1988), their embeddedness (Granovetter 1985) and breadth of relationships; and a cognitive dimension which represents the creation of shared values through knowledge (Gooderham et al. 2011). Organisations with access to a social network’s collectively owned capital have been found to perform more strongly than those without (Lin 1999; Nahapiet and Ghoshal 1998) because it provides access to network resources, information and a cooperative business environment (Adler and Kwon 2002; Tsai and Ghoshal 1998). Social capital is regulated by behavioural norms, including values, trust, commitment, reciprocity, reputation and mutual recognition, as well as governance systems (Bourdieu 1986; Coleman 1988; Gooderham et al. 2011). It is affected by complimentary capabilities (Adler and Kwon 2002) and provides the legitimacy (credibility and reputation) necessary to access network resources (Lin 1999).

2.1 Structural Social Capital

The structural dimension of social capital can be defined as the interpersonal network of connections between people or social units, including the presence of network ties between these actors (Nahapiet and Ghoshal 1998). It is affected by context. The context affecting structural social capital is the type and number of actors who become involved (Lindstrand et al. 2011). In the international context, external structural social capital development is influenced by differences in cultural and business systems (Gesthuizen et al. 2013; Presutti et al. 2016). Structural social capital also varies due to internal effects, including the effect of disconnections between individual agents and because ties between actors, including trust-based ties, are not always perceived by other actors in the network (Coleman 1988).

In China, guanxi has a significant contextual effect on structural social capital development and creates differences in structural social capital development to those in western countries. This is because guanxi is connected with Confucian cultural values not present in non-Confucian countries (Chen and Chen 2004). Guanxi is a rule-based process for developing external social capital and is central to China’s socio-cultural processes (Li et al. 2008; Yang and Wang 2011). It functions through the exchange of personal information and gift-giving to develop trust (Chen et al. 2013). Interestingly, this means that the state of relationships with one actor in a network affects the relations of other actors in a guanxi network (Avery et al. 2014). By comparison, in western countries, social capital is more strongly influenced by individual behaviour. Guanxi also has some parallels with social capital development in other countries. For example, both guanxi in China and the strong bonds influencing

social capital in western countries require frequent social interactions to maintain their effectiveness (Berger and Herstein 2012; Granovetter 1973).

2.2 Relational Social Capital

The relational dimension of social capital is the strength of relationships within a network (Tian et al. 2018). It can be viewed as the capacity of actors to access network resources through membership (Adler and Kwon 2002; Bourdieu 1986; Tacon 2016). It includes relational embeddedness, types of personal relationships, social engagement, respect, friendship, trust, closeness and communication in a network (Doornich 2018; Hakansson and Snehota 1995; Hannan and Freeman 1984; Nahapiet and Ghoshal 1998). As it requires similar values and perspectives, it is negatively affected by psychic distance (Presutti et al. 2016). Relational social capital development is considered to be the product of structural and cognitive social capital (Tsai and Ghoshal 1998).

Relational social capital between actors develops from distance to personal familiarity, reliability and, ultimately, dependability (Moran 2005). Consequently, relational social capital is affected by the frequency of social interaction and levels of trust achieved. This results in complex relationships, which are characterised by high levels of interdependencies and increase the relational social capital developed (Li et al. 2010; Moran 2005). Interlocking ties also contribute to relational social capital, connecting different social capital networks and leading to higher levels of trust between the networks (Lai et al. 2019).

Building and maintaining relational social capital is resource intensive. High levels of relational social capital have been found to direct organisational resources away from international investment (Lai et al. 2019). Relational social capital can also have a temporal characteristic. Granovetter (1985) observed that actors have a preference for conducting business transactions with actors with whom they have conducted prior transactions, suggesting that prior interactions will affect future interactions (Coleman 1988). In China, relational social capital is influenced by harmony and face (Chen et al. 2013; Liu et al. 2005). This suggests that relational social capital in China is also cumulative (a result of the acquisition of face legitimacy) and path dependent (as a result of achieving harmony through balance).

2.3 Cognitive Social Capital

The cognitive dimension of social capital is based on the perspective of a socially constructed reality and shared mechanisms such as language and narratives, which create a shared cognitive frame and a subsequent transfer of knowledge (Doornich 2018; Nahapiet and Ghoshal 1998). This shared knowledge results in increased levels of reciprocal cognitive identification between network actors (Presutti et al. 2016). Cognitive social capital leads to task cohesiveness (Chang 2017) because the shared norms resulting from cognitive social capital subordinate individual interests to create voluntary cooperation in networks (Paldam and Svendsen 2001). In the

Chinese context, Confucianism represents a form of cognitive social capital through shared values.

Over-embeddedness resulting from high levels of cognitive social capital can reduce the ability for new ideas to be accepted (Adler and Kwon 2002), due to increased levels of heterogeneous information. The literature is in some disagreement over this, however, with another finding suggesting that entrepreneurial orientation is low for intermediate levels of cognitive social capital, but high for high levels of cognitive social capital because of coordination effects and also high for very low levels of cognitive social capital due to exposure to diverse knowledge (García-Villaverde et al. 2018).

This paper will consider the effect of the three forms of social capital, which are summarised in Table 1.

2.4 Extant Social Capital and Entry Mode Literature

The extant literature suggests that the effect of social capital on entry mode can be viewed as the development of relationships to provide access to the network resources, knowledge and opportunities required to successfully internationalise. Social capital is important for internationalising SMEs as the liability of smallness (Stinchcombe 1965) limits their access to the network resources necessary to support entry (McNaughton and Bell 1999). The effect of SME organisational resource scarcity is compounded by the fact that structural, relational and cognitive social capital are all required for entry mode decisions (Lindstrand et al. 2011). A review of the literature was conducted to identify the status of the extant SME entry mode literature addressing the effect of social capital. The principal papers from the last 15 years are summarised in Table 2 below. Due to the limited number of studies examining this relationship, papers have been included in Table 2 which examine the effect of either social capital or entry mode and discuss the relationship between SME entry mode and social capital, even though they have not produced findings on this relationship, to demonstrate the nature of the related literature.

Table 2 shows that there have been a few studies over the past 15 years that contribute to the intersection of these literatures. Many of these studies consider only a single social capital dimension and few forms of entry mode, or entry mode antecedents, such as entry opportunity identification. As a result, empirical research has not yet fully explained how social capital affects SME entry mode (Chetty and Agndal 2007; Meng et al. 2016; Zhang et al. 2012), especially in relation to comparing the effect of each dimension of social capital (Lindstrand et al. 2011). Table 2 also shows that there is inconsistency in the findings of this literature. For example, (Kontinen and Ojala 2011) found that structural social capital had the greatest effect on entry mode, but (Ibeh and Kasem 2011) found that relational social capital had the greatest effect, while (Chetty and Agndal 2007) found that both had a strong effect in the context of a developed country market. In addition, Tian et al. (2018) found that both bonding and bridging social capital affected entry mode supporting knowledge, whilst Meng et al. (2016) found that only relational social capital affected this knowledge.

Table 1 Dimensions of social capital included in this study

Social capital dimension	Social capital element	References
Structural	Networks	Burt (1992); Coleman (1988); Granovetter (1973); Lindstrand and Hånell (2017); Nahapiet and Ghoshal (1998); Tian et al. (2018)
Relational	Structural embeddedness	Granovetter (1985); Meng et al. (2016)
	Internal/external	Jimenez et al. (2019); Lew et al. (2013); Meng et al. (2016)
	Trust	Chetty and Agndal (2007); Lai et al. (2019); Tian et al. (2018)
	Reciprocity	Adler and Kwon (2002); Tacon (2016); Tsai and Ghoshal (1998)
Cognitive	Relational embeddedness	Doornich (2018); Presutti et al. (2016); Tian et al. (2018)
	Shared values	Chang (2017); Doornich (2018); Gooderham et al. (2011); Paldam and Svendsen (2001)
	Knowledge	García-Villaverde et al. (2018); Liu et al. (2018); Nahapiet and Ghoshal (1998); Ortiz et al. (2016)
	Reciprocal cognitive identification	Chang (2017); Landry et al. (2002); Nahapiet and Ghoshal (1998); Presutti et al. (2016)

Table 2 Extant SME social capital—entry mode literature

Variables in study	Relationship	Method	Location ^a	Finding	References
Bridging and bonding social capital and entry opportunity identification	Social capital effect on opportunity identification (not entry mode)	Thematic analysis of 20 exporting Chinese SMEs	Mixed	Bonding and bridging social capital both identify entry opportunity identification	Tian et al. (2018)
Relational social capital knowledge, international relationships, entry opportunity identification	Relational social capital effect on entry opportunity identification (not entry mode)	Regression analysis of 99 exporting Chinese SMEs	Mixed	Relational social capital knowledge affects international relationships	Meng et al. (2016)
Relational social capital, gatekeeper's role, trust and knowledge	Relational social capital effect on gatekeeper's role (not entry mode)	Case study of a single NZ SME exporting to China.	Single distant	Gatekeepers increase trust between social capital to increase knowledge	Gao et al. (2016)
Decision-makers' commitment and investment intensity	Effect of host country culture knowledge on management commitment to entry mode (not social capital)	Regression analysis of 224 Canadian SME manufacturers exporting or with high investment entry mode	Mixed	Knowledge of culture from network affects management commitment to a high investment entry mode.	Game and Apfelthaler (2016)
Business and political relational social capital and degree of export internationalisation	Effect of relational social capital on degree of export activity	Regression analysis of 117 exporting Chinese SMEs	Mixed	Business relational social capital positively affects exporting	Zhang et al. (2012)
Structural, social and cognitive social capital, network resources and continuity of internationalisation	Effect of social capital on funding, knowledge and growth (not entry mode)	Content analysis of Swedish biotech SME 14 case studies	Multiple similar	Structural social capital affects funding and knowledge, relational and cognitive social capital affect growth	Lindstrand et al. (2011)
Bridging social capital and entry mode	Effect of bridging structural social capital on entry mode decisions and development	Thematic analysis of eight Finnish SME internationalising to France case studies	Single similar	Weak ties affect entry mode decisions, strong ties affect internationalisation development	Kontinen and Ojala (2011)

Table 2 (continued)

Variables in study	Relationship	Method	Location ^a	Finding	References
Relational and structural social capital and entry mode.	Effect of relational and structural social capital on export/licensing entry decision	Thematic analysis of six case studies of Syrian SME software exporters and licensors	Multiple distant	Relational social capital affected entry decision, structural social capital affected scale	Ibeh and Kasem (2011)
Bonding social capital and export/investment entry mode	Effect of bonding social capital on entry mode decision	Regression analysis of 102 Indian software SMEs	Multiple distant	Bonding social capital positively affects entry mode investment intensity	Prashantham (2011)
Guanxi and investment mode	Effect of entry mode on guanxi	Regression analysis of 276 Taiwanese SMEs investing in China	Similar	SME joint ventures positively affect guanxi networks, but not WFOEs	Huang et al. (2010)
Cultural differences, experience, JV entry mode and profit	Relationship between cultural differences and joint venture performance (fixed entry mode)	Content analysis of 650 overseas Korean SME construction project reports	Mixed	Larger cultural distances positively affect international profit	Jung et al. (2010)
Bridging and relational social capital and entry mode decision.	Effect of relational social capital as network resource access on entry mode identification	Case content analysis of 26 NZ and 10 Swedish SMEs	Multiple similar	Weak relational and bridging social capital affect entry mode identification, strong relational social capital is a future liability	Agndal et al. (2008); Chetty and Agndal (2007)

^aLocation refers to the host country, although the exporting SME literature does not represent studies of significant investments in the host country. Mixed applies to exporting SMEs and means that the company's foreign markets were in a large number of different countries

This literature does consistently draw some conclusions, however. Firstly, context does affect social capital through the network actors it introduces, institutional conditions, the internal risk propensity of decision-makers, market knowledge and internal organisational skills and resources (Chetty and Agndal 2007; Game and Apfelthaler 2016; Huang et al. 2010; Lindstrand et al. 2011; Kontinen and Ojala 2011). This effect was also identified in the non-SME social capital literature (Hadjikhani et al. 2014; Lindstrand and Hånell 2017). Subsequently, context may affect SME entry mode through its effect on social capital. From a dynamic perspective, past studies agree that the actors involved in an SME's social capital create a dynamic context effect because they change as the market and firm evolve (Gao et al. 2016; Huang et al. 2010; Lindstrand et al. 2011; Zhang et al. 2012). This literature has also found that SMEs establish weak ties with actors through sources such as public events which are developed into strong ties through social interaction (Chetty and Agndal 2007; Gao et al. 2016; Kontinen and Ojala 2011). The network actors relevant to SME internationalisation are agents, distributors, suppliers, professional and industry associations, customers, multinational enterprises, universities, governments and competitors (Prashantham 2011; Zhang et al. 2012). Some of these actors may be internal, permanent or temporary SME employees (Chetty and Agndal 2007; Yli-Renko et al. 2002). The multinational corporation literature also found that social capital provides information which affects board of director decisions regarding entry mode (Lai et al. 2019).

This literature indicates that all information affecting SME entry mode may not be available at the time of entry as the SME may not have developed the social capital necessary to access this information by that stage (Game and Apfelthaler 2016; Tian et al. 2018). This could be described as a lag in information derived from social capital (Doornich 2018). The knowledge-based view of internationalisation suggests that this could lead to future changes to entry mode and create an interaction between social capital and entry mode (Chetty and Agndal 2007). This effect is also likely to be stronger in SMEs as their organisational resource scarcity will slow the conversion of weak ties to strong ties (Meng et al. 2016). Internal and external context factors, such as managerial perceptions, cultural and institutional conditions, also affect social capital (Tian et al. 2018; Welch et al. 2016). The literature has provided some evidence for the effect of SME social capital on SME entry mode and the influence of context on this relationship. Other factors may also influence this relationship. In addition, the findings in the literature are fragmented and few mechanisms explaining these influences have been identified. This study contributes to this literature by identifying which factors affect this relationship and the mechanisms associated with those effects.

3 Method

This study focuses on identifying the effect of social capital on SME entry mode and the mechanisms of this relationship. The literature review determined that path dependencies, entry mode investment intensity and context affected the relationship between social capital and entry mode. The function and the direction of these

effects in the international SME context are, however, unknown and the literature does not explain whether this relationship is static or dynamic. The level of uncertainty about the mechanisms of this effect, therefore, requires inductive research to resolve their structure and form of effect (Jimenez et al. 2019; Lai et al. 2019). The use of an inductive analysis will enable the context, path dependencies and entry mode investment intensity interactions to be identified with the detail necessary to make a valuable contribution to the literature (Berg and Lune 2012; Creswell and Poth 2017).

The uncertain nature of the relationship between SME social capital and entry mode requires a qualitative methodology (Lindstrand and Hånell 2017). Yin (2017) suggests that a case based thematic research should be used for this type of data and analysis objective. The data for this study was collected from 35 SMEs which had entered China from a psychically distant country. To ensure that the context differences were controlled, only SMEs which had internationalised from the same home country were considered. Australia was selected as the SME home country because of the very large number of SMEs which have internationalised to China from Australia, providing a sample frame of 15,000 SMEs (Keating 2014).

Although the population size was easily identified, contacting these SMEs was more challenging. After determining that no public domain databases listing Australian SMEs operating in China existed, the Australian Chambers of Commerce in Shanghai, Hong Kong and Guangzhou were approached and invitation email lists were purchased. The lists provided contact details for Australian SME organisations from their region. In addition, the Australian Export and Trade organisation was also approached, and more lists were purchased for these regions. The lists were filtered to only include companies with 1–200 employees. This process identified a total of 2000 companies from the lists provided. Email invitations were sent to the CEO of each of these companies to explain the project and request an interview. Plain language statements and consent forms were included with the documentation along with the ethics approval number for the project.

Responses were received from over 100 organisations interested in the project. Over the next 6 months, predominantly email and telephone-based conversations were held with these companies. As a result, 52 companies agreed to participate. The principal researchers conducted all the site visits, along with assistants, comprising teams of two people. Travel constraints and participant availability ultimately reduced the number of companies available to participate when the team was in their region over the period October 2013–February 2014 to 41 companies.

Appointments were made with each of the 41 companies and the research teams visited the company to collect the data. Each company was provided with an interview guide to enable them to prepare for the visit, which also included tours and discussions with different staff members. Last-minute unavailability of the senior management teams at some companies caused the cancellation of some visits. The cancellations and rejection of case studies where the information collected was of poor quality reduced the total number of cases used for the data analysis to 35. In addition to materials gained during the visits, company reports and web materials were incorporated into the case study data. This data, along with the interview and observation data were used to compile an initial case study. The participants were

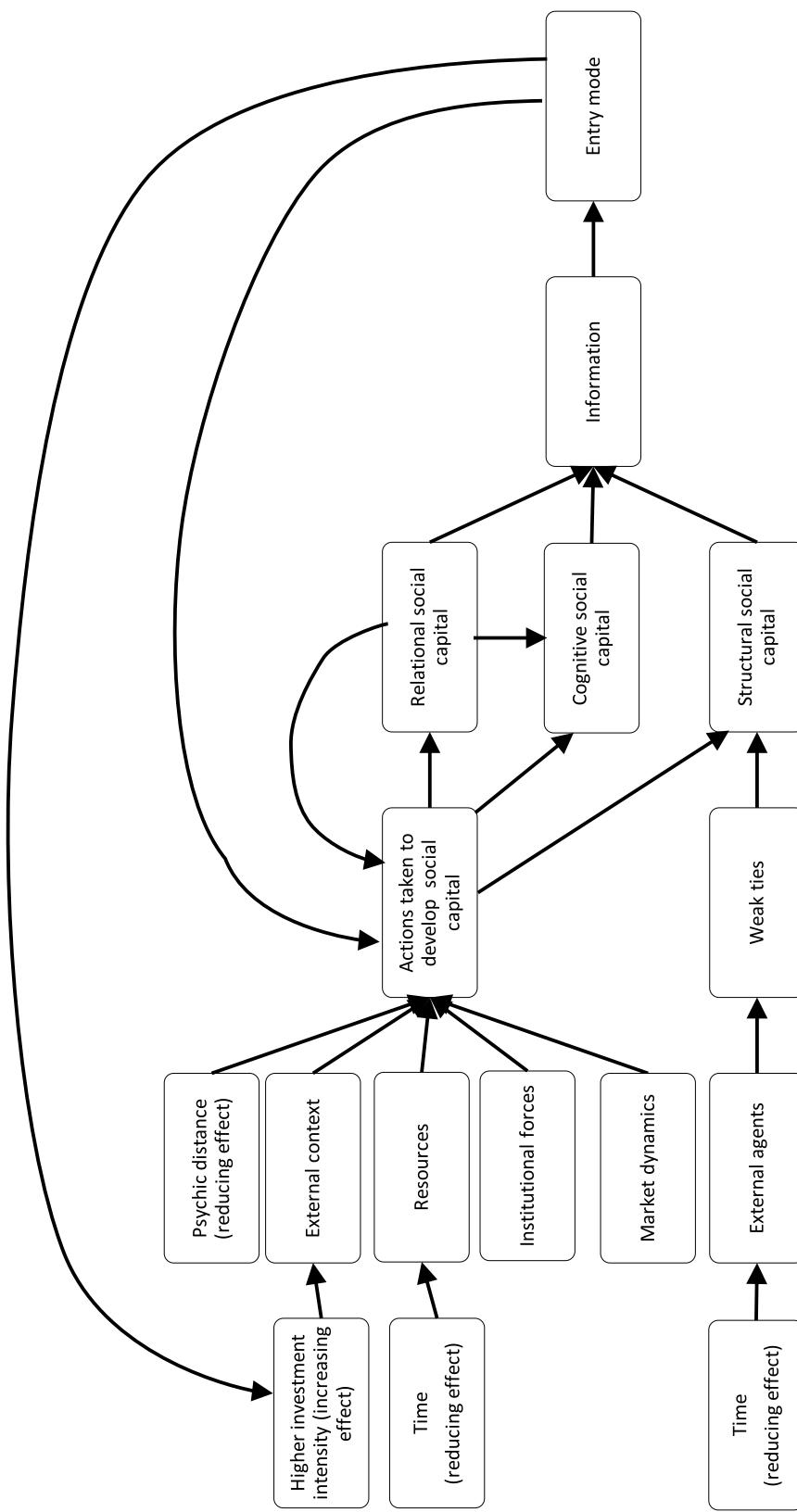


Fig. 1 Relationships between SME social capital and entry mode

then contacted again with individualised questions to enable the case study to be completed.

NVivo was used to search for themes relating to social capital development, entry mode and their interaction. An iterative process of coding was utilised for the analysis, in which the initial coding structure was developed from a priori inspection of the interview transcripts. Data were initially reviewed and then reread line-by-line, coding quotes, sentences and paragraphs relevant to social capital and entry mode (Dey 1993). The data were independently coded by three researchers, the results compared and discussed until consensus about the coding was achieved. Anonymity was ensured by changing the names of SMEs to pseudonyms. The identified themes were compared to the literature and then refined with replication logic. All case data was subsequently reviewed to verify the presence of these themes (Eisenhardt 1989). A filter was applied, requiring the theme to be identified in at least five individual cases and represent at least three significantly different industries. All the findings significantly exceeded this minimum criterion, however, and so no findings were removed as a result of this filter. The finalised coding map was then used to create a diagram representing the relationships identified by the participants, which is shown in Fig. 1.

4 Findings and Discussion

Appendix 1 provides a summary of the demographics of the SMEs. It shows that three of the SMEs in the study internationalised by importing from China, four by exporting to China, eighteen as Wholly Foreign Owned Entities (WFOEs), and ten as Born in China (BIC) SMEs. The term BIC was adopted to represent SMEs that were established in China by foreign nationals. The industries represented were Wholesaling and Retailing, Manufacturing, Technical Services, Biotechnology, Business and Property Services, Building and Construction, Manufacturing and Agriculture. All case organisations complied with the selection criteria. The case organisations had an average employment level of 55 staff and operated in China between 2 and 29 years, with an average of 8 years. They were located in Shanghai, Beijing, Guangzhou and Hong Kong. Collecting data from SMEs operating in large cities may have introduced unknown confounding effects, however, the very low density of Australian SMEs operating outside of these cities made physical data collection from these organisations impractical. The findings below describe the mechanisms associated with each of the relationships resulting from the thematic analysis. Article length limitations have constrained the number of quotations which could be included to demonstrate the identified mechanisms.

4.1 Social Capital Effect on Entry Mode

The initial social capital developed was found to affect the SMEs' entry mode by providing access to network resources, information and internationalisation

opportunities. Whilst both social capital conditions and entry mode were also affected by other factors, social capital was described as the factor which had the foremost effect on the entry mode in 32 of the 35 cases, as the following quote indicates:

Basically you've just got to use network groups to get contacts to get involved and there is no straight way of jumping into the market. It's not what you know, it's who you know. (C5, ManControlCo)

Network resources provided by social capital included specialised knowledge, contacts and legitimacy. Information included market, business and political information. Entry mode opportunity identification resulted from representative agent activities and contract negotiation, as the following quotation indicates:

They would be the agents and they would take you to some Chinese factories and show you around and all that sort of thing. You needed those people in China. (C1, FurnitureCo)

Each SME's sources of social capital provided different network resources, information and information opportunities and resulted in the following effects on entry mode. The sources of structural social capital included internal and external structural social capital and created individual mechanisms through which social capital affected entry mode. Internal bonding social capital was used to inform the entry mode and after entry. This bonding social capital resulted from engaging senior managers in internationalisation, developing interest amongst the home country staff in internationalisation and increasing the international orientation of the SME.

External bridging social capital was used to fill in structural holes in existing networks by attending trade missions, industry shows, conferences and business events. These approaches produced weak ties due to the organiser's lack of strong ties and the brevity of the trade missions, which was described as 'speed dating for international business', as this quotation demonstrates:

We used the Austrade [Federal Government] mission, but didn't find that it developed a strong enough connection for what we needed, but we did develop a few contacts which was helpful (C9, Biotech2).

The exporters and WFOEs adopted these approaches, especially government trade missions, but did not describe them as having a direct effect on entry mode. This is because the weak ties required conversion to strong ties before they provided the network resources, information and entry mode opportunity identification which affected entry mode. Twenty of the cases indicated that ties generated from Chinese government run networking conferences did not convert into strong ties as the following quotation indicates:

We go to conferences, but do you really get the decision-makers there and I feel a lot of it is a top-down approach and you don't get it at a high enough level (C16, ProcessingCo).

This was an interesting finding which suggests that these politically generated (weak) bridging ties did not directly affect entry mode in the Chinese context and provides an opportunity to extend the literature. A detailed review determined that no comprehensive explanation for this finding exists in the SME internationalisation literature. The literature does, however, provide several empirical findings and suggest several mechanisms than can form the basis of a theoretical explanation. Bell and Cooper (2018) found that Canadian SMEs in China were also unable to establish bridging ties with any political actors that provided more product regulation information than was available through government websites. Regulatory information affects the entry mode of foreign psychically distant SMEs into China (Haritz and Xiaokang 2017) because it informs the SME about the match between their resources and regulatory constraints. French foreign SMEs in China that were able to gain useful information from political social capital were all found to be experienced, aggressive and pragmatic network developers (Goxe 2010). It is not known, however, whether this information affected their entry mode. Somewhat surprisingly, Huang et al. (2010) found that political social capital did not even effect the entry mode for (psychically similar) Taiwanese SMEs internationalising to China.

A number of factors may reduce the effect of political social capital on entry mode identified in this study. Hilmersson and Jansson (2012) suggested that the limited politically derived information that foreign SMEs could access in China reflects political dynamism, rather than political voids. Power relationships may also be a contributing factor. Paik (2019), for example, suggested that foreign SMEs in China were being excluded from political relationships in recent times due to the decision by local governments that local demand for their assets exceeded the value of their FDI. Finally, resource scarcity may negatively affect the relationship between political social capital and entry mode decisions. Chan et al. (2016) observed that there is a significant heterogeneity in the political systems across China, which requires a high degree of political system knowledge (Gao et al. 2016) and which may exceed the capabilities or resources of foreign SMEs.

The observations in the literature and the findings from this study suggests that limits to the information resulting from the political social capital of foreign SMEs in China and the resources required to develop and maintain effective political social capital are the reasons that political social capital was not developed to the point at which it had an effect on entry mode in this study. The psychic distance, political dynamism and power distance between the government and the foreign SMEs and the resources required to overcome these barriers means that there were insufficient commonalities for network closure and the establishment of ties that would convey information valuable enough to influence entry mode.

By comparison, business social capital events, such as tradeshows, resulted in the development of stronger ties, as there were no significant barriers. The following quotation provides an example:

We will go to Canton Fair and visit anything up to 50–60 curtain manufacturers in the space of three-to-four days. Depending on the company; our feel and understanding for them will influence whether we visit their factory or not (C1, FurnitureCo).

These findings lead to the proposition that:

Proposition 1: Weak structural and relational social capital, developed early on, affects entry mode by providing network resources, information and entry mode opportunity identification, however, weak political social capital may not convert into strong ties as easily as weak business social capital and is likely to have less effect on entry mode.

4.2 Entry Mode Effect on Social Capital

The data indicated that entry mode created internal and external context that affected the SMEs' social capital by introducing specialist organisational resources, institutional forces and market conditions that influenced the bonding and bridging social capital. The effect of entry mode on each aspect of context will now be described. Organisational resources formed the internal context, whilst market conditions and institutional forces formed the external context affecting social capital. The entry mode effect on organisational resources influenced social capital by introducing specific resource bearing actors that affected structural, cognitive and social capital. Different entry modes introduced different actors (exporting, for example, introduced host country agents). These actors included partners, agents and home and host country employees. The following quotation indicates the internal context effect on social capital which results from a high investment intensity entry mode:

My advice for dealing with guanxi would be don't even waste your time trying to work it out. Get a good Chinese manager and say look at this target, let him run with it, let him solve the issue (C13, VehicleCo).

As a result of the effect of entry mode on internal context, the social capital developed after entry was path dependent upon the entry mode. For example, one WFOE stated that (as a result of its high investment intensity entry mode which enabled it to build a reputation in the market through dedicated local resources) it was able to use its organisational resources, rather than social events, to develop strong tie social capital:

With architecture, it's usually a contact is made where somebody perceives you have an expertise...and we grab a hold of that opportunity and work on it. Some people develop things by being social, they make friends and those friends employ them. That's not really how we've done it (C19, ArchitectureCo1).

The finding that internal context resulting from the entry mode will affect social capital was predicted by Lai et al. (2019). The change that entry mode brings to context, changes the context in which the entry originally occurred and suggests a mutual interdependence, which can lead to a dynamic relationship (Nahapiet and Ghoshal 1998). This is the first component of the explanation of the dynamic relationship between SME entry mode and social capital.

Market conditions were one of the significant external contexts resulting from entry mode which affected social capital. Different entry modes were found to introduce different market conditions by allowing access to different segments of the market and different geographical locations within China. The Chinese market conditions vary widely by location due to variations in economic conditions across the country (Huang et al. 2010). In addition, the state-owned company market segments will only deal with high investment entry mode foreign companies, as the technology companies in the study indicated. Other segments of the market, such as domestic consumers, preferred to deal with exporters, as the food companies in the study indicated. The case study organisations identified the market conditions from network agents at China business networking seminars, discussions with customers, previous experience in China and social interaction with staff from other SMEs operating in China. This information also created expectations about which type of entry mode was required. This finding parallels Hadjikhani et al.'s (2014) study of Swedish international banks which also found that path dependencies result from social capital generated expectations.

The institutional forces affecting the SMEs were influenced by entry mode because the importing and exporting entry modes isolated the participants from some Chinese institutional forces, whereas the WFOE and BIC entry modes exposed the SME to all the China institutional forces. The institutional context resulting from high investment intensity entry modes could have a positive effect on bridging social capital, as the following quotation indicates:

Finding the network and connections here, that's really of absolute importance... When you tap into the AustCham network you meet all these amazing people... Once you've tapped into that you're OK (C24, MilkCo).

These findings explain Lew et al.'s (2013) observation that context had a strong effect on the social capital of large technology sector companies because external institutional context has a strong effect on bridging social capital which is important for technology organisations. This finding also indicates that the effect of context on social capital increases over time as the organisation adapts to the institutional conditions. This extends findings such as Clarke and Liesch's (2017) observation that the Brazilian business context affected SME internationalisation with the concept that this effect is dynamic.

As the examples above demonstrate, the higher investment intensity entry modes lead to future social capital having a stronger path dependency on entry mode. The data indicated that future relational social capital developed more quickly for these entry modes as a result of the increased cultural sensitivity that this generated. This was also identified by Chen and Chen (2004) for large businesses. For example, the WFOEs and BICs hosted extravagant meals and symbolically demonstrate business success which increased their legitimacy with Chinese social capital actors and resulted in a greater rate of relational social capital development. The effect of this type of social capital development context (simple and dense) has been found to develop social capital more quickly in China than weak or bridging ties (Xiao and Tsui 2007), as the following example indicates for a SME which changed to a high investment intensity mode:

We sponsor some conferences and customers would come. We rarely ever considered government assistance. We contract some consultants to do market studies for us and then we'll go and target customers that are identified. After you've met the customers a few times and developed a rapport over a few meetings and dinners, then they're comfortable doing business. (C15, ResourcesCo).

These findings lead to the propositions that:

Proposition 2: Social capital developed after entry is path dependent on the entry mode, due to the effect of entry mode on internal and external context, which was comprised of internal resources, institutional, and market conditions, creating the conditions for a dynamic relationship between entry mode and social capital.

4.3 Dynamic Interactions Between Entry Mode and Social Capital

As noted above, the SMEs' entry mode related context affected social capital, which was predicted by Tian et al. (2018). The SMEs were aware of this relationship and, to create the context necessary to build social capital, some SMEs initially entered through partnerships and joint ventures, as the following quotation indicates:

When we set up in 2004, we set up a joint venture specifically ... we didn't need a joint venture but we opted that way because it helped us be in the market for SOEs (C17, MetalFrameCo).

The effect of entry mode context on social capital had several stages. The first stage for some SMEs was to change entry mode in order to change the structural social capital resulting from the original entry mode. The following example describes how a manufacturer changed from being an exporter, to project work in China, to a WOFE to change their structural social capital to different partners:

We keep changing the model about how we're going to go in, ... we believe we've got the strategy correct now, it's just a matter of finding some partners that we can successfully work with. We have provided [exported] services since 1988... sub-contracting in the early 90s ... and in 2009 we recognised that we could probably go in on our own (Case 5, ManControlCo).

The SMEs also used their entry mode to consolidate the support for their social capital, as the following quotation indicates:

[an important contact owns] a China based company ..., we've established an office in the same building on the same floor where his company is in Beijing. (C6, PneumaticCo).

In a similar vein, the importers maintained relational social capital with only their initial suppliers and customs agents/freight forwarders to support future contract agreements. The mechanisms driving this included context effects. The external context had the greatest effect on social capital prior to the initial entry and diminished

after that. One of the reasons for this was the reduction, over time, in the resources required to maintain relational social capital, as described in the following quotation:

I've found there was a real period of six months to a year where you would meet frequently and once they were comfortable with you then you could back off the number of visits, the number of face-to-face meetings, you could do things on the phone or email (C15 ResourcesCo).

This finding is particularly interesting because the literature suggests that there should be no temporal effect on relational social capital in China and that maintaining social capital generated through guanxi, for example, consistently requires frequent meetings, social interactions and the use of symbols (Chen et al. 2013). The reduction in the resources required to maintain social capital over time may reflect the SMEs' mechanisms for maintaining relational social capital. This social capital may have been more persistent than the social capital developed by local organisations in China because the SMEs could adjust their entry mode to alter the internal and external context and increase support for social capital.

In addition to context, other entry mode related factors were found to dynamically affect social capital. After entry, trust was found to increase, which changed weak ties to strong ties (relational social capital) and created new opportunities for developing structural social capital, as the following example demonstrates:

We went through all the bidding procedures and won it fair and square. We said "you can't kick us out now" and they said, ... "go and talk to Beijing". ... Austrade [Federal Government] helped us meet the Ministry of Construction. The guy looked at the guy from the Austrade [Federal Government Trade Agency] and said "if the Australian Government thinks it's important, I'll look at this very closely" and then he gave us permission to do the project (C8, MetalFrameCo).

Organisational resource scarcity caused some of the SMEs to rely on trust to increase their social capital and wait until they had developed sufficient trust, rather than change their entry mode.

You just learn to go slowly, earn people's trust and vice versa and rely on your own group in a guanxi kind of way (C28, ConsultCo).

This social capital building mechanism explains why Lew et al. (2013), found that time and trust increase internationalisation success when investment intensity was not utilised to create social capital.

The SMEs' focus on converting weak ties to strong ties also decreased over time. One of the mechanisms behind this was the cascading of structural social capital over time which increased the number of opportunities for strong tie social capital. Weak tie social capital agents, such as commercial agents, assisted with identifying customers, distributors and suppliers prior to entry, as anticipated by McEvily and Zaheer (1999). This was viewed as temporary relational social capital, as the following quotation indicates:

To start with, we very much relied on distributors/agents linked into state-owned enterprises, as we didn't know much about what was happening up here. We were very green, and since then we've come to understand what makes a successful business in China really is your presence (C24, MilkCo).

The increasing availability of relational social capital that easily led to strong tie social capital caused the SMEs to reduce their focus on weak tie social capital, weakening its effect on entry mode, as the following example explains:

The Queensland Government was very good, as they are free... trips, expos, and trade missions, but because we have been here for eight years, they tend to use us, rather than us using them! (C34, ArchitectCo3).

The effect of time on the relationship between relational social capital and entry mode confirms Hurmerinta et al.'s (2016) time-dependency proposition.

These findings lead to the proposition that:

Proposition 3: SME entry mode affects the internal and external context for social capital, allowing the consolidation of support for social capital or the reduction of the resources required to maintain social capital, over time. Trust resulting from a high investment intensity entry mode also reduces the resources required to maintain social capital over time.

5 Summary of Contributions to Theory

The context, social capital and entry mode effects identified in this study have been summarised in Fig. 1. This figure represents the interaction between social capital and entry mode including the effects of entry mode path dependency, context and time. The path dependency and contexts effects identified explain the relationships between social capital and entry mode identified in the literature, such as Chetty and Agndal's (2007) finding that social capital changed entry mode. Whilst literature has identified the effect of internal and external context on social capital, e.g., Doornich (2018) and Lindstrand and Hånell (2017), it has not connected these to the relationship between SME social capital and entry mode. The findings also indicate that the relationship between SME social capital and entry mode is dynamic, due to path dependency, context and time mechanisms, which provides empirical evidence for Lew et al.'s (2013) suggestion that social capital development has a dynamic effect and Hurmerinta et al.'s (2016) and Hadjikhani et al.'s (2014) propositions that the temporal sequencing of factors affecting entry are not coincident with entry events.

In addition to the effect of context and path dependency, entry mode investment intensity and time were also found to affect the relationship between SME social capital and entry mode, which is an important contribution to the literature. The literature has identified the general effect of time and context on internationalisation, e.g., Hurmerinta et al. (2016); Tian et al. (2018), but not their effect on the relationship between SME social capital and entry mode. This study determined that internal and external context was influenced by entry mode, affected social capital and included organisational resources, institutional forces and market conditions. The

external institutional context which was influenced by the type of entry mode (the exporting/importing entry mode partially isolated the SMEs from the China institutional environment, whereas the WFOE/BIC did not) was frequently identified as affecting bridging social capital. This suggests that external institutional context was the cause of Tian et al.'s (2018) finding that internationalisation increased external bridging social capital for exporters. The finding that business social capital weak ties converted into strong ties more easily than political social capital weak ties and so had less effect on entry mode explains why Zhang et al. (2012) found that political ties did not affect SME internationalisation. Entry mode choice was also used by the SMEs to lead to internal and external context which supported social capital. This finding creates an important intersection between the social capital context and entry mode literatures. It provides an explanation for Lindstrand et al.'s (2011) finding that various sources of social capital are required for SME internationalisation.

The study also identified several other mechanisms which further explain the dynamic relationship between social capital and entry mode, not identified in the literature. These mechanisms included the finding that the resources required to maintain relational social capital diminished over time, which was apparently a consequence of adjusting the entry mode (e.g., increasing investment intensity) to create a context which supported social capital. Another finding not identified in the literature was that increasing levels of trust in the SME after entry increased the opportunities for developing social capital. This caused organisational resource-scarce SMEs to wait for this effect, rather than changing their entry modes to better support social capital. These findings indicate that the effect of social capital on entry mode is aggregated (Hurmerinta et al.'s (2016) U model) and that the relationship between SME social capital and entry mode is dynamic because of these mechanisms.

6 Limitations and Directions for Future Research

The propositions developed in this study were based on 35 cases and are generalisable to theory, but not to the population (Yin 2017). Future research should quantitatively test the propositions developed in this study across a larger population to demonstrate statistical generalisability. Another limitation of the study is that the data was not collected from one industry and so industry-specific relationships may not be well represented. Future research could test these relationships in a single industry. The focus on importing, exporting WFOE and BIC entry modes is also a limitation of this study which may have caused some factors affecting the relationship between SME social capital and entry mode to be overlooked. Future research identifying the relationship between SME social capital and entry mode for agreements and licensing may identify further relationships. In addition, the data analysis may also have missed some relationships. Broad and inclusive relationships can be poorly represented in qualitative data coding if the coding focus is too detailed (Maxwell and Miller 2008). As the data was independently coded and reconciled, it is unlikely that significant higher-level relationships were overlooked. Nevertheless, future projects examining the relationship between SME social capital and entry mode may identify new mechanisms affecting this relationship. Also, SME

internationalisation between other pairs of psychically distant countries may identify further mechanisms affecting this relationship. Future research could also further examine the effect of weak structural and relational social capital on SME entry mode, which was identified in this study and suggested by Xiao and Tsui (2007). Finally, future research could examine the effect of the management characteristics and organisational resource endowments which affect internal context on the relationship between SME social capital and entry mode.

7 Conclusion

This study answers the research question “What are the dynamic mechanisms through which social capital affects SME entry mode?” by determining that both weak structural and relational social capital affected entry mode for SMEs internationalising to China by providing network resources, information and entry mode opportunity identification. Entry mode influenced social capital by affecting the internal and external context which influenced social capital and resulted from organisational resources, institutional forces and market conditions. The relationship between social capital and entry mode was found to have dynamic characteristics due to lag effects and context mutual interdependence. Entry mode choice was found to be used to create an internal and external context which supported social capital. Entry mode was found to affect the internal context by introducing organisational resource bearing actors and some aspects of the external context, for example, low investment intensity entry modes such as exporting isolated the SME from some external context. The host market trust which the SME generated over time also affected social capital. Some SMEs waited until the trust that they had generated supported their social capital, rather than trying to change their context. Another interesting finding was that the resources required to maintain social capital diminished over time, reflecting social capital permanency and probably due adjusting the context to increase the support for social capital. Whilst the effect of internal and external context on social capital has been well considered in the literature, context has not previously been used to explain the effect of SME social capital on entry mode (Lindstrand and Hånell 2017). Similarly, whilst the dynamic nature of social capital had been identified in the literature (Prashantham and Dhanaraj 2010), it had not previously been extended to the effect of SME social capital on entry mode. In addition, findings such as the diminished resources required to maintain social capital and the mutual interdependence of SME social capital and entry mode are also not present in the literature. This study’s findings show that there is a strong need for further research at the intersection of SME social capital and entry mode literature.

Appendix 1

See Table 3.

Table 3 Demographic details of case study companies

Case	Pseudonym	Entry mode	Employee size	Year started	Year entered	Industry	Locations in China
1	FurnitureCo	Import	40	1997	2002	Wholesaling/retailing	Shanghai, Suzhou
2	RubberCo	Import	25	1985	2008	Manufacturing	Shanghai
3	ChemicalCo	Import/export	12	1961	2004	Manufacturing	—
4	SecurityCo	Export	42	1994	2002	Technical services	Xian, Shanghai
5	ManControlCo	Export	6	1979	1990	Manufacturing	Shanghai
6	PneumaticCo	Export	180	1985	2012	Manufacturing	Beijing
7	BiotechCo3	Export	65	2003	2008	Biotechnology	All over China
8	BiotechCo1	WFOE	200	1986	1987	Biotechnology	Mongolia, Nanjing
9	BiotechCo2	WFOE	6	2008	2010	Biotechnology	Shanghai
10	BiotechCo4	WFOE	72	2007	2007	Biotechnology	Suzhou
11	RecruitmentCo	WFOE	100	1993	2003	Bus/property services	Shanghai, Beijing
12	AccountingCo	WFOE	40	2002	2012	Bus/property services	Shanghai
13	VehicleCo	WFOE	100	1999	2013	Bus/property services	Shanghai
14	OfficeCo	WFOE	10	1998	1999	Bus/property services	Beijing, Shanghai
15	ResourcesCo	WFOE	200	2003	2008	Mining	Shanghai
16	ProcessingCo	WFOE	184	1979	2011	Mining	Shanghai, Beijing
17	MetalFrameCo	WFOE	50	1972	1984	Building/construction	Shanghai
18	BuildCo	WFOE	180	1861	1994	Building/construction	Shanghai, Beijing, Suzhou
19	ArchitectCo1	WFOE	50	1990	1998	Building/construction	Shanghai, Shenzhen
20	ArchitectCo2	WFOE	70	1998	2002	Building/construction	Guangzhou
21	BoxCo	WFOE	100	1954	2007	Manufacturing	Suzhou
22	MedicalEquipCo	WFOE	60	1998	2013	Manufacturing	Shanghai
23	PrintCo	WFOE	80	2000	2005	Manufacturing	Guangzhou
24	MilkCo	WFOE	30	2004	2007	Agriculture	Shanghai
25	MeatCo	WFOE (export)	5	1995	2007	Agriculture	Hong Kong

Table 3 (continued)

Case	Pseudonym	Entry mode	Employee size	Year started	Year entered	Industry	Locations in China
26	HRConsultCo	BIC	25	2001	2001	Bus/property services	Shanghai
27	SocialMediaCo	BIC	32	2007	2007	Bus/property services	Shanghai
28	ConsultingCo1	BIC	3	2011	2011	Bus/property services	Shanghai
29	ConsultingCo2	BIC	5	2006	2006	Bus/property services	Shanghai
30	FinanceCo	BIC	1	2006	2006	Bus/property services	Shanghai
31	ArbitrationCo	BIC	1	2011	2011	Bus/property services	Hong Kong
32	MarketingCo	BIC	10	2007	2007	Bus/property services	Hong Kong
33	InvestmentCo	BIC	5	2010	2010	Bus/property services	Hong Kong
34	ArchitectCo3	BIC	200	2001	2001	Building/construction	Shenzhen
35	ShopCo	BIC	8	2012	2012	Wholesaling/retail	Guangzhou, Shanghai

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