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**Bridging and bonding social capital and their effects on internationalisation: an empirical study of international ‘take-off’ in Chinese SMEs**

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**ABSTRACT**

This paper is concerned with the role of social capital in effecting international take-off in Chinese SMEs. Social capital is posited as having different forms; a local bonding dimension and an international bridging dimension which spans structural holes between local networks and international opportunities. However, each of these forms is explored as having further constraining and enabling effects. This paper reports the results of a first phase investigation into 16 Chinese SMEs that have gone through the international take-off process. Interim findings suggest two stages in take-off, opportunity search and value proposition development. Initial findings report some previously under discussed constraining effects of international bridging social capital which include the constraint of non-exclusive international bridges, and the local peer pressure to continue to seek further international bridges, rather than focus on strengthening an initial bridge. Findings contribute to the strand of internationalisation literature positing the importance of network insidership in internationalisation and internationalisation as a by-product of entrepreneurial networking activities.

## INTRODUCTION

This paper is concerned with the effect of social capital on international take-off episodes amongst Chinese SMEs. Within this paper we attempt to blend theory from two distinct bodies of work, the work on social capital (Burt, 1992, Coleman, 1988) – and as deployed more recently in IM (IM) scholarship (Eklinder-Frick *et al.*, 2011; Eklinder-Frick *et al.*, 2012, 2014); and the Uppsala school of internationalisation (Johanson & Vahlne, 1977, 1990, 2009; Johanson & Wiedersheim-Paul, 1975; Vahlne & Johanson, 2013). Extant literature within IM has focused on the importance of bridging and bonding social capital in the process of innovation. However, there is limited exploration in IM of questions exploring the specific effects of social capital on internationalisation. In this paper we see the work on social capital as an important element of *contextualisation* in internationalisation studies. Contextualisation has been proposed to still be a weak area in studies of internationalisation (Jansson, 2008), and this seems particularly true in the context of SMEs in emerging economies. Whilst work within IM has posited both the enabling and constraining effects of relational and social capital and has in addition considered relational isolation as a form of contextual constraint to strategic progress (Eklinder-Frick *et al.*, 2012; Nicholson *et al.*, 2013), exploration of social capital as enabling and constraining internationalisation seems largely absent. A key contribution of this paper is therefore to gain insight into the context of social capital in affecting internationalisation. Our contribution therefore joins a stream of research stemming from Johanson and Vahlne's (2009) contention that internationalization can be a by-product of a manager's positioning within networks. Later authors have developed this contention by proposing internationalisation as an intentional or unintentional entrepreneurial process. Like Schweizer, et al. (2010: 344),

“...we contribute to the literature on firm internationalization processes in general and to a more recent stream of research that sees such processes as a by-product of the attempts of managers and entrepreneurs to identify and develop business opportunities in their networks.”

The paper also addresses a further area of neglect within the internationalisation literature. Within the tradition of the Uppsala internationalisation stage-model, only limited work has made detailed examination of the pre-internationalisation and early internationalisation phases. This contextually constrained movement from domestic to international interaction therefore appears as a significant weakness in the current body of work examining internationalisation as an entrepreneurial process. This moment has been referred to as international *take-off* (Jansson & Söderman, 2012), and is the specific focus of the analysis in this paper. We find no studies that specifically examine the contextually constraining and enabling forces of social capital on international take-off and our second area of contribution to offer insight into this process.

The specific socio-political context of our study is that of Chinese SMEs. However, due to disadvantages of geographic distance and other factors, Chinese SMEs find it difficult to connect with international markets and customers. Evidence seems to allude to a fact that Chinese SMEs do not typically follow a *stage-model* path to internationalise incrementally (Cao, 2011; Child and Tse, 2001). Equally, on the other hand, due to certain contextual factors, we posit that Chinese SMEs do not seem easily to be able to follow the route described as *Born-global* model (Oviatt & McDougall, 1994). In this paper we visualize social capital as having different bridging and bonding forms, which can be both constraining and enabling in different ways. The research approach, whilst qualitative is influenced by increasing use of theoretical approaches capable of visualising the interaction between

agency and structure. These approaches have becoming increasingly accepted in the IM literature and include the theories of structuration (Nicholson *et al.*, 2013) and critical realism (Ehret, 2013; Harrison & Easton, 2002; Khan & Nicholson, 2015; Peters *et al.*, 2013; Ryan *et al.*, 2012; Van Bockhaven *et al.*, 2013). Rather than simply concerning ourselves with agency, we also attempt to identify the underlying causal mechanisms that constrain and enable take-off. In addition to identifying several areas of neglect in current literature, in this paper we attempt to contribute to discussion by assimilating different bodies of work and to some extent challenge the underlying assumptions of these pieces of work.

The research follows a qualitative approach. The available cases were selected according to the definition of ‘SME’ in China as being less than 2000 employees. Theoretical sampling was carried out to maximize opportunities of data collection in the chemical and engineering sectors. This paper includes the results of an initial phase of 16 interviews from mainland China collected between January 2008 and July 2014. In all interviews, respondents stated their business practices and also explained the reason why they carried out the activities, such as motives, constraints and incentives. They also discussed their understanding markets and possible opportunities of expansion in international markets.

We therefore pose the following research questions. 1) What are the constraining and enabling forces of social capital in respect of international take-off? and 2) How does the network context of Chinese SMEs influence international take-off.

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 internationalisation approach and developments, and move to propose our conceptual framework. After briefly outlining our methodological approach we present our findings, structured around the four quadrants of our conceptual framework. We then present the interim findings of the study conducted so offer views on the possible directions for the next phase of research and possible outcomes.

## LITERATURE REVIEW

### 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 (O’Brien *et al.*, 2005; 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 to refer to the overall pattern of connections between actors in networks. The strength of ties 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 the relational embeddedness (relational dimension) of actors in networks and the kinds of personal relationships that individuals collectively build with each other through historical interactions (see the seminal work of Granovetter, 1973, 1985, 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 coordinated action. 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. This perspective on social capital underpins much of the discussion involving externalities and the development of clusters (Huber, 2009). Also grounded (although seldom acknowledged as so) in this dimension are specific cultural perspectives on social capital such as discussion of *guanxi* in China (Barnes, *et al.*, 2011; Brunner *et al.*, 1989; Chung, 2011; Lee & Dawes, 2005; Theingi *et al.*, 2008), *blat* in Russia (Puffer *et al.*, 2009) or *wasta* in the Middle-East (Khakhar & Rammal, 2013). However, this work has largely, and rather paradoxically been studied as detached from context, being largely grounded in cause and effect modelling.

A further and underutilised point of analysis of social capital is the *actor-oriented* dimension (Eklinder-Frick *et al.*, 2014; Huber, 2009). 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 internationalisation – as the individual actor may often represent an entire organisation. Any analysis however, must be inherently multidimensional, but we argue, can be approached with a focus on one dimension in juxtaposition to the others.

#### Bridging and bonding social capital

Putnam (2000) suggests that there are two specific forms of social capital, *bridging* and *bonding*. Bonding social capital supports cooperation by the prevalence of close-knit structures in a network that enhances the systemic capacity to detect and quickly punish defection by individual actors (Berardo, 2014). Berardo and Scholz (2010) explore the socio-economic rationale of improving the quality of relations through bonding social capital which creates an advantage to the members of a society and decreases the risk associated with unmonitored behaviour. Therefore, bonding social capital plays an important role in community cohesion – such as in creating trust and security between people, solidarity and support among members to enhance community capacity (Jin and Lee, 2013), as well as the basis for launching development initiatives (Woolcock, 1998: 175). Granovetter (1985) applies the notion of embeddedness to market societies and suggests that rational economic exchanges are influenced by pre-existing social ties and embedded in networks of strong personal relations. Since bonding linkages based on social capital exhibit connections established primarily or entirely due to close ties among members of the same group, bonding social capital concerns the nature of internal social relationships within a collective (Payne *et al.*, 2011). It has been observed that to “improve the quality of information available to each of them about what others in the group are likely to do in specific situations” (Berardo, 2014: 200). This means that bonding social capital is a mechanism that helps individual actors in society to collaborate better with each other (Adler and Kwon, 2002). Newell *et al.* (2004) conclude that bonding social capital is necessary for knowledge integration when they develop *strong* relationships internally to enhance quality of information and knowledge. They believe that where this strong bonding social capital does not exist, the team members are unlikely to feel limited normative commitment to using their bridging social capital connecting with external actors. However, these perspectives seem of less value in the SME as they are likely to have fewer redundant ties at the individual level to the networked or social-economic dimensions of social capital. From this perspective, the more ubiquitous advantages of bonding social capital are more likely to accrue to large firms rather than small

firms. The advantages accrued to small firms from social capital seem significantly underexplored.

In contrast to the value obtainable through close ties, Burt (1992) identified the inherent value of non-redundant ties or what he refers to as structural holes. In contrast to bonding social capital, bridging social capital (capital that closes or spans a structural hole) is mainly considered to create ties that extend beyond members' close set of acquaintances, and connect them to other groups with whom they had little no contact up to that point (Ahn, 2012; Eklinder-Frick *et al.*, 2012; Kavanaugh *et al.*, 2005). It is often discussed in conjunction with the notion of weak ties (Granovetter, 1973; Hansen 1999; Gargiulo and Benassi, 2000). Callois and Aubert (2007) imply that bridging social capital is essential for bringing in new ideas and opportunities, but the potential resources it carries can be much less reliable. While bonding social capital can solve agency and collective agency problems, it also fosters redundancy of information, low incentives, collusion and discrimination. Other recent studies posit that bridging social capital produces new potentialities while bonding social capital actualises them (Johannisson and Olaison, 2007; Edwards and Onyx, 2007).

There are also studies positing interesting relationships between bridging and bonding social capital. For example, Halpern (2005) argues for a positive relationships between bridging and bonding social capital in circumstances where an actor who wants to become more strongly bonded and has low bridging capital, and a second actor who is well bonded and is and capable of providing indirect bridging. Uhlaner *et al.* (2015) also examine the relationship between bridging and bonding social capital and have found positive effects of bonding social capital on bridging social capital. Leonard and Bellamy (2010) also offer a moderate positive relationship between bonding and bridging social capital, with a higher level of bonding associated with a higher level of bridging social capital.

It is therefore possible to consider social capital as having different forms, having both a bonding (multiple redundant ties) and bridging (few or unique non-redundant ties bridging structural holes). Eklinder-Frick *et al.* (2011; 2012; 2014) have discussed this differentiation but also further discuss the possible positive and negative consequences of both forms of social capital. In Putnam's (2000) view, bonding social capital is unequal because it excludes those outside the community residing in other communities but at the local community level it is inclusive (Leonard and Onyx, 2003). A number of other authors discuss over-embeddedness in spatially bounded networks (Eklinder-Frick *et al.*, 2014; Maskell *et al.*, 2004; Molina *et al.*, 2007). Chetty and Agndal (2007) also classify the roles of social capital in terms of positive and negative influences on business activities, in which the efficacy and serendipity roles exemplify the positive aspects, while the liability role of social capital is interpreted as less liquid and more 'sticky'. Light and Dana (2014:1) also summarise several bodies of work that suggest that social capital can in fact:

“...protect mediocrity [...] reduces objectivity [...] imposes mental conformity on whole groups [...] inhibits escape from failing allies and partners,” and can suppress entrepreneurship by members of minority groups”.

Within the entrepreneurial literature, authors have discussed *over-trust* as a construct defining almost an irrational trust above and beyond that demanded based on any calculative assessment (Goel & Karri, 2006; Sarasvathy & Dew, 2008). Such over-trust can also constrain an actor from detaching themselves from poorly functioning relationships with familiar potentially co-located actors in their networks (Adler & Kwon, 2002). We propose that the constraining and enabling aspects of social capital are causal mechanisms (structures)

grounded in collective notions of social capital but which affect in the individual actor who is a member of the collective. In this sense, this effect can be non-ubiquitous.

Starting from an actor-oriented perspective, we can therefore visualise two further sub-levels of examination of our research questions. First, how does bonding social capital constrain and enable Chinese SMEs, and second, how does bridging social capital constrain and enable Chinese SMEs. However, we apply these to a specific context of internationalisation, or what we will define in the next section as the “take off” process. We therefore further develop these research questions through the next section.

### SME internationalisation and the role of social capital

One of the most respected qualitative models that has been used to explore internationalisation is the Uppsala model (Johanson & Vahlne, 1977, 1990, 2009; Johanson & Wiedersheim-Paul, 1975; Vahlne & Johanson, 2013) or Stage-model of internationalisation. In favour to other models of internationalisation, the Stage-model has been significantly applied to explain the internationalisation of SMEs as opposed to MNEs (Etemad, 2004). Subsequent work offers significant challenge to the stage based assumptions of the Uppsala model such as rapid internationalisation, irregular internationalisation (Hadjikhani *et al.*, 2014) and the notion of a small firm’s being born global rather than going through stages incrementally (Freeman & Cavusgil, 2007; Freeman *et al.*, 2006; Knight & Cavusgil, 2004). Other work has specially explored the impact of inward internationalisation on subsequent outward internationalisation (Welch & Luostarinen, 1993). Further work has examined the local network context and the affect that local connection have on creating international connectivity (Coronado *et al.*, 2008; Khan & Nicholson, 2015; Randelli & Lombardi, 2014). In re-imagining the Uppsala framework from 2009, Johanson and Vahlne introduce the terms *network position* and *knowledge & opportunities* into the framework. This has led them, in later work (Schweizer *et al.*, 2010) to integrate the role of the entrepreneur into the identification of opportunities, not only occurring through a systematic search process, but also through a more emergent, effectuation process (Sarasvathy, 2001) – as a result of entrepreneurial alertness. Schweizer *et al.* (2010) therefore further propose the addition of *entrepreneurial capabilities* in the Uppsala model. These developments therefore firmly inculcate a notion of networkedness in internationalisation studies. We argue however, only limited understanding of the how the interplay between local and international networks affects internationalization, is available. We propose that bridging and bonding social capital are appropriate proxies to study this interplay.

Some very early work in the Uppsala tradition examined pre-internationalisation behaviour (Wiedersheim-Paul *et al.*, 1975), but very little work has subsequently revised this area of study (Tan *et al.*, 2007). We therefore note a significant gap in the current internationalisation literature pertaining to the early phase of internationalisation – specifically where a firm moves from being domestic to being internationally connected. It is here we see great potential in exploring the interplay between local bonding and international bridging social capital. Jansson and Söderman (2012:187) recently highlight this lacuna when they note that current literature concentrates on:

“...how the individual decision maker learns to export rather than on how the organization learns to internationalize, and they too often neglect to relate conditions of foreign markets to conditions of the domestic market. Instead, we define this move as a process of transforming an indigenous firm into an international firm.”

This comment also inculcates Jansson's call for more contextualisation in internationalisation studies (Jansson, 2008). Jansson and Söderman discuss this process of transformation from indigenous to international as international *take-off*. We read this process to involve both inward and outward internationalisation and in essence, to be a movement from international relational isolation to international relational proximity (Nicholson *et al.*, 2013). We postulate that it involves the movement from local bonding social capital to the attainment of foreign bridging social capital

*Contextualisation* is an important concept for social capital study (Evans and Syrett, 2007), and we choose here to deploy social capital ideas to the study of international take-off. A limited amount of research has examined how SMEs build up social networks and relationships to develop their international markets (Chetty and Campbell-Hunt, 2004; Rialp *et al.*, 2005). For example, SMEs build up social capital and relationships which may bring many advantages over competitors (Yli-Renko *et al.*, 2002; Ozmel and Gulati, 2013) such as through obtaining external sources of knowledge for exploitation (Dyer & Singh, 1998). Johanson and Mattsson (1988) further suggest that firms can often internationalise through their social networks utilising both domestic and foreign markets. In some circumstances, SMEs are located close to large or global firms. Geographic proximity allows these SMEs to take advantage of social capital (Yli-Renko *et al.*, 2002), establish greater market presence and target customers in local regions (McDougall *et al.*, 2003; O'Farrell *et al.*, 1998). In other circumstances, such as in most emerging economies, SMEs are not well connected to global markets or are embedded in an environment to supply large or global firms (Siu *et al.*, 2006).

At the intersection of the bodies of work reviewed above there seem to be several remaining areas of neglect and confusion. Firstly, the literature on social capital seems substantially to neglect the role of the individual in accruals from social capital. In Fig. 1, we posit bridging and bonding social capital on one side of the matrix. Also respecting the work that visualizes social capital as having positive and negative dimensions, we posit a second dimension on the opposing axis of Fig. 1 of constraining and enabling forces. We consider these four intersecting *quadrants* in the context of international take-off. Whilst work in the IM tradition has examined social capital in the context of innovativeness (Eklinder-Frick *et al.*, 2014), we are not aware of studies that have considered the specific impact of bridging and bonding social capital on internationalisation. Neither are we aware of studies that simultaneously examine the multi-dimensionality of social capital in the context of international take-off. Indeed studies of take-off in any context seem scarce (Jansson & Söderman, 2012). There also seems much more that can be learned about SME internationalisation in emerging

economies.

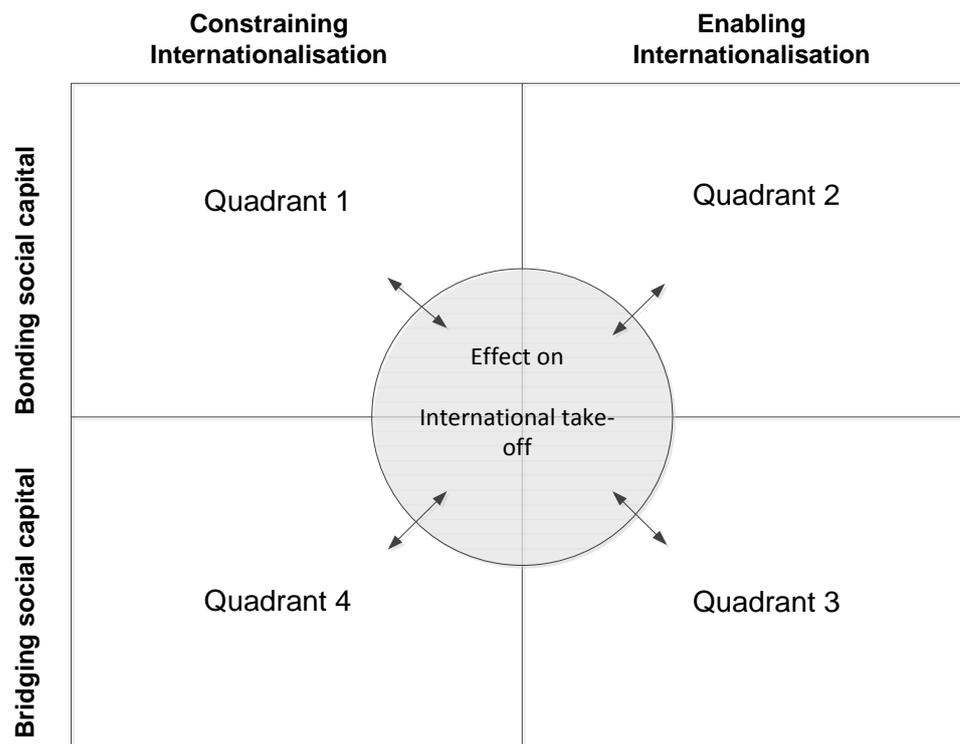


Fig. 1: Conceptual framework for the study

The framework follows the problematization approach taken in other studies within IM (Khan & Nicholson, 2015; Nicholson et al., 2013) to challenge the prevalent assumptions in a body or work. We posit that dominant assumptions pertain to the content of quadrants 2 and 3. However, limited insight here seems to be available into the context of SMEs and international take-off. More limited work has explored the assumptions associated with quadrants 1 and 4.

## METHODOLOGY AND DATA COLLECTION

This study aims to provide understanding of bridging and bonding social capital in outward internationalisation process adopted by Chinese SMEs. In order to explore an area with very limited studies focusing on Chinese SMEs, we decided to adopt a qualitative approach (Pratt, 2009; Sayer, 1992). This is because the nature of the subject was somewhat complex, underexplored and our intention was to investigate the *how* and *why* issues in relation to bridging and bonding social capital of Chinese SMEs (Eisenhardt, 1989; Yin, 2001). We undertook this research through a series of qualitative interviews with key people, our aim is to identify relevant concepts and issues relating to bridging and bonding social capital strategically influencing international take-off in SMEs.

Initially, a pilot of three interviews with key informants was undertaken. This proved useful for exploring emergent issues, verifying the research questions and considering the feasibility of obtaining access to relevant data regarding the chemical and engineering industry. Before undertaking the fieldwork, we researched the background each potential SME. The interview questions posed mainly focused on issues around relationships, contacts and business strategies in the context of international market exploration (interview protocols are provided in an appendix).

For the main study, we carried out 16 qualitative semi-structured interviews in total, typically with managing directors, business development managers, owners and international business managers in mainland Chinese SMEs. The data were collected between 2009 and 2015; each interview lasted more than 2 hours long. The interviews were transcribed and recorded in Chinese and translated by a professional bilingual researcher in order to keep the authenticity of meaning. The cases of each interview were located throughout North-East and South-East China where the economy was quite developed and international business has been growing exponentially in the last three decades.

The research was divided into two phases. Before looking more specifically at the relationships and strategies that the SMEs built for their international markets, we firstly asked general background questions relating to the company. The respondents talked about their perceptions of building up relationships and connections in order to internationalise their businesses, as well as their motives for acquiring various resources in relation to developing their business internationally. The narratives were coded to generate first order themes (Langley and Abdallah, 2011). In the coding process, we analysed connections between relationship building process and outward international business. There are four categories suggested in terms of constraining and enabling factors relating to social capital for each group of SMEs. These categories are presented in four quadrants (Fig 1). In quadrant 1 and 2, we identified relevant factors for bonding social capital; and quadrant 3 and 4, we suggested the same factors for bridging social capital. These four quadrants were categorised by empirical evidence which was collected and identified in each case. For every single case, there may be evidence relating to different quadrants. We also presented our rationale behind the outward international business in these SMEs to suggest how bridging and bonding social capital strategically influenced the outward international business of these Chinese SMEs. The empirical themes were proposed to understand specific and distinctive features of social capital and how they affect SMEs in the Chinese context.

## FINDINGS

We structure our findings in sympathy with the four quadrants of our conceptual framework presented in Fig. 1. We present a narrative account, using verbatim quotations from respondents to attempt to identify phases of take-off which involve understanding the process of moving from international isolation (pre-internationalisation) to initial interaction with overseas agents, whether face-to-face or mediated in some way (through electronic means, or through indirect relational mediation). We consider both inwards and outwards internationalisation.

### Bonding social capital as a constraint to internationalisation of Chinese SMEs (Quadrant 1 in Fig.1)

We first explore the conditions indicated by Quadrant 1 in Fig. 1. We found the Chinese SMEs had been involved in local business environment and markets since their inception. This, on one hand, allows them to obtain strong connections with local partners, customers, as well as essential relationships and important resources. However, strong local connections led these Chinese SMEs to overly embed in the local environment; and this appeared outwardly in some instances to constrain them in terms of flexibly to build up networks and relationships with foreign customers and markets.

Through the recollections of respondents of previously phases of the business and through the contemporary state of some respondents, we are able to assess the effect of international

isolation on SMEs in China. First, it was apparent that these SMEs did possess significant stocks of bonding social capital with other Chinese actors in their networks.

“We are good brothers, we are also good friends with some other business owners. We often call each other, share information, and have dinner together.” [Case 3]

In some respects these networks led to over embeddedness and a rather parochial view of opportunities. That is, the opportunities were seen in local rather than international terms. When awareness of the potential of international opportunities occurred, many respondents spoke of some confusion as to how to begin the process of creating interaction with potential foreign exchange partners (we define foreign exchange partners as being buyers and suppliers or indeed business partners in some form of foreign of local venture) and therefore achieving international take-off.

“I personally met a lot of [local] business people looking for international business opportunities... they told me it was very difficult to meet up foreign clients... [...] how to contact foreign clients and they don't understand the way that foreign business operates. [Case 5]

Indeed, many respondents spoke of the need for a profile that attracts inquiries from foreign investors. This manner of initial approach seemed at odds, even impertinent, based on the experiences of some of the respondents who suggested a more personal initial approach was required locally, often involving an introduction. A more proactive search for international opportunities was reported as being problematic by a number of respondents.

“Personally, I don't think ‘massive hunting’ is a good strategy for firms of our size to venture in international markets. We are not large companies; we don't have enough resources to support extensive infrastructure and activities. We may find the connections with international markets if we have good quality products and reasonable prices ... [...] if we have our own brand... [...] that will be recognized by clients.” [Case 6]

The respondent in Case 6 seemed to realise the problem that their traditional practices were too conservative to search prospective customers in international markets. Also attitudes to time, use of technologies and foreign language capabilities were reported as significant barriers to identifying international opportunities.

“I have to say that it is easier to contact those foreign clients as they do respond us often via emails or online enquiries... they are very contactable via websites. This is different to what we've experienced in the domestic market. [...] if we contacted them [local Chinese firms] via emails or online enquiry, they never replied... Their contact email never works, no one responded or it was a fake email [...]. A lot of Chinese companies display their information or email online just for the sake of the website. They never really utilized it.” [Case 5]

Case 1 was located in a rural area and distant to cities when they were in such a difficult time of obtaining foreign business opportunities. Whilst they had strong local social capital, they did not appear to have links with other peer companies conducting international business. That is, their bonds were not with other networks actors who could bridge the national-

international boundary. We also note that the respondent in Case 1 mentioned restriction of distance and time, which also seemed to be necessary conditions beyond purely relational factors in connecting with international markets. However, we identify in Section 2 that geographical peripherality and isolation can be overcome with local relational proximity. We turn next to discuss the constraining effect of social capital on the conversion of initial interaction into exchange (we define exchange here as the transfer of valuable resource, money, goods, knowledge, intelligence, to the local partner through initial (face-to-face or computer mediated) interaction. We see this as second distinct phase in international take-off. In terms of the inherent principles of the Uppsala model, this movement would be consistent with increasing involvement with the international environment. A number of respondents reported initial rebuttal of approaches to foreign exchange partners. They reported some difficulties in understanding the nature of these rebuttals

“When we contacted them later, they did not seem to be very interested as they expressed... it might be because the distance, the time, or something else.” [Case 1]

“We feel it is very difficult to catch attentions from foreign customers. Several customers came to visit us but nothing has been achieved. We still wait...” [Case 2]

The respondents were used to culturally-grounded interpersonal reliance and trust which are ubiquitous in mainland China. Certain implicit signals and cues as to their credibility in their domestic market were not read by their foreign interactants. Further respondents reported similar confusion, even when apparently they perceived a certain degree of interest from the foreign interactant.

“Afterwards, we sent him [a foreign interactant] further information on our products and he replied with interest. About half year later, we got an email from him enquiring our products, with a detailed description that he was looking for. I think that was something we could do. So we invited him to visit us and paid business class tickets for him.” [Case 13]

The same respondent expresses further confusion as to the nature of the relational exchange norms that seemed different from those at play within local stocks of social capital.

“We never heard from him after that. We contacted him but he said it was not up to him... and he had already passed information to the team. That was all. We were very disappointed.” [Case 13]

In their experience of local norms, the respondent believed the individual person that they favoured would make a decision to purchase. However, it might not be the case in non-domestic, particularly, Western interactant. In Case 13, the respondent noted confusion that his previous interaction had been with a senior manager who had left the foreign company. His confusion was that the status of actors did not lead to a referral to the foreign actor's successor. The rules of the game were clearly different to what this respondent had experienced locally. The respondent noted, with some exasperation, that:

“They did not recognize his influence at all, or he did not leave any message to those staff members before he left. In my experience/opinion,

a person, who was a general manager, left a company, his staff members would still be very warm to anyone who approaches for him.” [Case 13]

He added, with sanguinity:

“...perhaps people in Germany are unlike people in China, do not get on with each other so closely?”

Other relational barriers were caused in respect of the rules of reciprocity or *renqing*.

“I know this is quite hard as it is not very easy to talk to him often through international calls. So we asked staff members to send him gifts to the address on his business card. We heard from him once, but never again afterwards.” [Case 3]

They did not seem to have core value attractive to foreign customer so the prospective customers changed their mind. In fact, they expected a possible return from what they had treated these prospective customers, which has been discussed in previous literature as *Renqing* – the giving and receiving of favour and humanized obligation (Yen *et al.*, 2011; Barnes *et al.*, 2014). With such a perception of *giving* and *receiving*, people who share *Guanxi* (Chinese culturally grounded relationships) are often bonded by social obligation of reciprocity (Wang, 2007). Hence there are some importantly contextual factors that affect learning, creating and trust building posited in the developments of the Uppsala framework (Schweizer *et al.*, 2010). In addition to the rules of reciprocity learned locally, the transcripts reveal confusion in respect of the value proposition (a creative change variable in terms of the Schweizer *et al.*'s Uppsala developments). Local social capital in these respects constrained the ability of the Chinese SME owner in extending or creating a value proposition for an international opportunity. This constraint seems to us to be a problem of adaptation, the appropriate adaptation of a value proposition for international markets. To overcome this constraint required a high degree of independent learning that was conducted without reference to local stocks of social capital.

“People may not know what we prepared and how we worked before all these were well developed. We worked very hard to make this happen. We learnt from past experience, how to prepare for such a customer from a foreign country.” [Case 3]

“Oh....it was so hard... to improve it with their specific guidance ... I [personally] lost 20 kilograms before it was finished... almost 24 hours working... Eventually we had it managed and that client accepted ... orders came to us as well” [Case 5]

In both these cases, respondents report the problem of adapting local products and services for foreign opportunities. In both cases they relied on non-local sources, particularly the foreign partner themselves to co-create the value proposition. The issue of international value co-creation between foreign partners in the case of initial market entry has seemed to have escaped significant attention in the current literature.

We therefore identify two distinct phases in which local stocks of social capital were constraining. The first is the search for international interlocutors, and then second, a phase after initial interaction where initial meaningful exchange of value is sought. We therefore take these two phases where particular constraints caused by local stocks of social capital

were evident. We take these two phases as basepoints to look in the next section for ways in which certain actions overcame these constraints, and for certain ways in which social capital enabled international take-off.

Bonding social capital as enabler of internationalisation in Chinese SMEs (Quadrant 2 in Fig.1)

Having identified constraining factors for bonding social capital, we also found that several Chinese respondents suggested that social capital was utilised to build up international contacts, particularly when they presented their capabilities of providing advantages of local connectivity to foreign customers. The advantages of local market, relations and resources successfully assisted several Chinese SMEs to attract foreign customers. Therefore, an early emergent theme in the transcripts was that; social capital could also enable internationalisation for Chinese SMEs. A number of firms reported that the initial intelligence of an international opportunity was identified through their local relationships within their local network.

“I know people from local government in H city. They have power to allocate project as they are the people doing development plans for the city. You see, if I get them know what we are doing that should be impressive”.[Case 7]

The respondent in Case 7 demonstrates that her connections with people in the local authority, where she found a potential international opportunity for her business project. The respondent invited those contacts for dinners and sent them gifts. Reciprocally, she received an opportunity for her project with a designer from Australia to be included in an annual plan of urbanization in H city. Another respondent from Case 1 alluded to the fact that they were invited by a local authority to participate in business meetings with foreign delegates.

“We also have been invited to attend meetings with foreign firms, who were looking for business collaborations in mainland China. Last year, I sent my son to a delegation with our [senior politician], who led the delegation to a city in France. Our local government often tried to help us to connect with foreign customers and firms.” [Case 1]

In these two cases, local stocks of social capital have effectively assisted the firms to establish initial connections and contacts with foreign interactant. Equally, respondents note that after initial contact, local stocks of social capital were utilized to adapt products and services to local market conditions.

“A Spanish client was looking for components [...] We searched a lot of sources in mainland China and other foreign countries. We also gained advice from one of our partners, who provided us with an important component to our design.” [Case 5]

“I learnt this company via an online search, and they were looking for a particular electronic component. [...] I consulted many [local] friends and peers, and they gave me different contacts and advice. I finally found a company located in North East China and approached to them for that particular element.” [Case 11]

Both respondents go on to note that this incident led to a significant overseas sales success.

In the above section we spoke of geographic peripherally and this is often (but not always) a source of social over-embeddedness locally, and weak linkages to external opportunities (those outside the local network). This factor seemed much appreciated by a number of respondents in the sample who speak of re-locating to more dynamic locations, even when these locations contained only local Chinese firms. The advantages offered by these more favourable locations were the geographic and therefore likely social proximity to firms and actors in firms with international linkages. These connected firms have been discussed in the literature as being *flagship firms* (Rugman & D' Cruz, 2000) or *anchor tenants* ((Agrawal & Cockburn, 2003) and which perform a *gatekeeping* role (Giuliani, 2005; Graf, 2010; Khan & Nicholson, 2015). Hence it is possible to visualize a situation where a Chinese firm relocates domestically in order to change the nature of their constraining social capital to a situation in which their network of actors include those with international bridging social capital – in which situation their social capital becomes an enabler of internationalisation.

“We learnt that there were quite a lot of incentive benefits if we move into the special economic zone in this region. We may also obtain connections with those large firms from foreign markets”. [Case 11]

In this paper we have chosen to consider internationalisation as being both inward and outward. We are interested in the movement of Chinese SMEs from an initial position of international isolation to one of international interaction. Hence, in our analysis we have taken in also the analysis of cases where international interaction be seen something other than between a Chinese supplier and a foreign buyer. We particularly note that Chinese SMEs are attractive as a partner to a foreign actor because of their strong stocks of social capital.

“I understand why they would like to run the business and collaborate with us in China. Well, [Chinese] customers are the most important asset for them. And, most importantly, we have it [customers]. We have access to the local companies and people, at least we don't have any language barriers, we know people in local government, we have local resources.” [Case 10]

Similar to observations in the previous section, there is evidence in the cases of value-co-creation taking place in order to adapt foreign products to local (Chinese) conditions. In these circumstances the ability of the Chinese partner, through their local social capital to provide solutions to value-co-creation problems was a significant example of bonding social capital as enabling.

Bridging social capital as enabler of internationalisation in Chinese SMEs (Quadrant 3 in Fig.1)

Our empirical evidence demonstrates that these SMEs and respondents had benefited from international bridging social capital which were established by both individual business actors and local governmental organizations. We therefore present Quadrant 3 to represent enabling factors for the Chinese SMEs when they utilize local resources, connections and relationships to connect with foreign markets and customers. Individuals carrying certain relationships and resources have provided connections for SMEs, particularly in our cases for those in mainland China and foreign markets. One method of bridging structural holes by

Chinese SME owners is to recruit employees with overseas networks. Recruiting overseas employees was reported as unsatisfactory as they lacked the ability to integrate into local social networks. A more successful method was to recruit Chinese returnees. One type of returnee was foreign educated Chinese graduate or postgraduate.

“The most important thing was that I understand English. You see that is an important skills ...especially in those days. I know these days, a lot of people can speak good English now, like yourself. It was not very long after I joined the company, I successfully introduced a project collaborated with a foreign firm, which was a company I knew from my previous job.”  
[Case 9]

This type of returnee is identified being significant in opportunity identification, and in reactive opportunity realization. However, this type of returnee often lacked bridging social capital as they had not established strong bonds with useful overseas actors whilst out of country, and were therefore less helpful in proactive opportunity realisation. More successful in proactive internationalisation was recruiting foreign educated and professionally experienced (in foreign business) returnees.

“I studied in Germany and used to work in a UK company for several years. I then came back to join this company, which is located in my hometown.” [Case 6]

“I experienced business customs from mainland China, plus I lived in China for 25 years before I went aboard... the reason that my previous boss employed me, I guess, was because I came from China and knew culture here... etc etc.” [Case 6]

In this case, the method of internationalisation corresponds to the born again global pathway, in that an individual with international bridging social capital coming into a previously domestic only SMEs, was the trigger for an international take-off episode. In this case we can say that bridging social can be enabling in the absence of local social capital, but where cultural proximity is apparent. Similarly, the use of paid consultants achieved a similar impact.

“The first professional expert worked here for one month. The one at this time just came last month and may stay two weeks or so. They don't work here completely, they are here more to look after our process. We have been doing some products with those American companies, and they need to look after the whole process.” [Case 8]

We note however, that there is some significant interplay with local bonding social capital enabling bridging social capital. Where local stocks of social capital contained actors who had bridged international structural holes, local social capital could enable a take-off episode.

“We had been introduced to some foreign customers, who were representatives for large cooperate. They came here to find out if we were good enough to be a contracted manufacturer. Mostly they came from Importing and Exporting Bureau. We would have a day event with them.”  
[Case 16]

In this case, the bridging agent was a government agency, but in other examples the bridging agent was a flagship firm. This flagship firm may be either be a co-located foreign firm, or a co-located large domestic firm with strong international bridging social capital.

“We have clients, they are all very large global corporate. We provided manufacturing services to corporate like Monsanto. We helped them to produce ingredients and sell in China. [...] We have such a big brand and not many companies in our sector would be able to obtain this kind of collaboration.” [Case 4]

As we are interested in both outward and inward internationalisation process of the Chinese SMEs, we did find there were individuals taking themselves to look for business opportunities when interacting with foreign customers. Such as the following respondents in Case 7 and Case 9, they acted as vehicle carrying information and messages to bridge the networks existing overseas. This is consistent with what the extant literature suggests that bridging social capital is significant in identifying opportunities (Callois and Aubert, 2007) and getting ahead (Woolcock and Narayan, 2000) of business.

“Last year, I had managed to set up a collaborative project with a professor from Australia. She agreed to be Chief Designer for my newly opened company. I travelled to Australia to meet her up.” [Case 7]

“I travelled to the UK several times in the first two years. I contacted my friends and tutors who were still in the University and they helped me to get some contacts. Of course, this took me a lot of time and money while we just started.” [Case 9]

In these examples, local social capital was used where actors within the network had moved overseas and used as bridging agents. The respondents in Case 9 and Case 8 were from different cultural backgrounds: one was a native Chinese enabling speaking both Chinese and English and using his language skills to connect a business opportunity for both the firm and a potential foreign partner; and the other was a foreign expert who came from America to deliver technical skills, through which a collaborative project were enacted. In both cases, bridging social capital has relied on individuals with certain skills and expertise to co-create values that satisfy both two parties from different markets. We therefore here provisionally identify the importance of a technology broker (Hargadon & Sutton, 1997) in the process of international take-off.

In our data, bridging social capital has been seen in an initial stage to build up connections for the Chinese SMEs to get in touch with foreign customers; as well as engage with a further stage of business development, i.e. manufacturing process. Although geographic distance was not indicated to be a positive fact supporting the internationalisation process, social and relational proximity play an important role in this process (Mort and Weerawardena, 2006; Para-Requena *et al.*, 2010). Therefore, at both two stages, bridging social capital act as an enabling factor of building up ties (Granovetter, 1973) and extending extant relationships (Burt, 1992; 2000).

Bridging social capital as a constraint to internationalisation in Chinese SMEs (Quadrant 4 in Fig.1)

We initially approached Quadrant 4 of the analysis with the sense that there may not be conditions in which bridging social capital could in any way be constraining. Whilst there is much recognition in the literature that bonding social capital can be constraining, there seems little exploration of a reality that bridging social capital could be constraining. As we have considered internationalisation as being both inward and outward, we were able to identify in Case 10 and Case 1, two facets in which bridging social capital could be considered as constraining. The respondent in Case 10 identifies a following issue.

“An advantage that we had was we were already recognised as a joint venture business having a collaboration with a foreign company; however, this was also our disadvantage as we were labelled as a joint venture with that first foreign partner. It was really a time I had headache” [Case 10]

What we interpret from this passage is a problem of bridging exclusivity, a point that seems to have escaped scholarly attention so far. We can perhaps refer to this as a problem of non-exclusive-bridging, in that the absence of international connectivity on the part of a Chinese SME is attractive to an overseas inward investor, and the existence of a non-exclusive bridge seemed to be a source of constraint to further internationalisation.

“They cared about exclusivity. So we decided to split the company facilities and assets and establish a subsidiary. The approval was very quickly dealt with by our people who had resources in the authority. It was effective and we did not have the client wait for too long to start the business.” [Case 10]

The implications for take-off would therefore seem to be the choice of the initial bridge over the structural hole, relative to its potential constraints offered to the creation of redundant links. Their solution, to split the company into distinct entities, seemed to us quite an elegant one. The respondent in Case 1 also suggests another source of constraining force of bridging social capital, or as a consequence of it. Having initially moved locations to be co-located with internationally linked firms and agencies, this firm found that these linkages were primarily for the phase of opportunity identification and less helpful in respect of opportunity realisation. The respondent seemed to get used to the activities of business delegation and spent massive time and effort to keep a good social relationship with the local authority which organized the delegation. On the other hand, he also felt very distractive of being invited and participating in some delegation as he said:

“It’s not all free, we have to pay time and even a part of expenses when we go with those governmental delegations. There is substance that we can claim from a local fund, but we have to put our effort of making it. The most important reason that I am still doing so is to keep our relationships with people in local authority. Honestly, I don’t know the possibility of achieving a business opportunity or contract through this kind of visits...” [Case 1]

Distraction seems to be something that the respondent complained about when he was offered various types of opportunities to connect with foreign firms. This seems particularly after an initial international bridge had been created with the aid of local actors. Rather than focussing on the development of the bridging social capital, pressure from local agents to explore further opportunities, rather than exploit opportunities within the bridge already created, was

observed. When the respondents faced with a plethora of new international opportunities, they may also consider effectiveness the process, both in terms of time and finance.

#### INTERIM CONCLUSIONS AND FUTURE PHASES OF RESEARCH

This first phase of fieldwork has established the conceptual framework (Fig.1) as appropriate for the study of international take off episodes. Our initial intention was to move the notion of international take-off from a static moment of time to a process. We note two, possibly three distinct phases in take-off in our initial findings. First, initial international opportunity identification, and the second, international opportunity realisation. However, the study has not yet reached theoretical saturation, and there are hints of a further earlier phase, of international opportunity inspiration that will form an aspect of focus in the next phase of study. Within international opportunity identification phase, the role of bonding social capital has been identified. We identify several principles of Chinese business as constraining to the recognition of international opportunities. We find greater constraint in the realisation of an initial recognised opportunity, particularly through early interaction with a foreign actor. There are several possible emergent episodes that will require further convergence upon in the coming round of research. The most promising lines of further inquiry seem to lie in quadrant 4. At the outset, there seemed to be no obvious areas in which bridging social could be constraining. However two, possibly three areas were discovered which may have been missed without the attempt to code in line with the four quadrants of the conceptual framework. The first is the issue of bridging exclusivity and the possibility that an initial chose of bridging agent at take-off and subsequent development of bridging social capital may constrain the later development of redundant international ties. This aspect of take-off seems to have alluded previous attention. The second area is the formation of international bridges as a result of local social capital. Particularly where agent, these bridges were formed with the help of so mandated government agencies, pressure was then applied for those companies to look for further opportunities, even where they would prefer to concentrate of exclusive initial ties at take-off and build the strength of these ties before looking for other redundant international ties. A third aspect was hinted at in the transcripts, that international ties may affect local networks. These aspects will form a significant aspect of the next phase of study. With further study, we see the potential for the identification of a series of agential episodes which both enact the enabling forces of causal mechanisms relating to bonding social capital, and anarchically overcome the constraints caused by over-embeddedness. Going forward, we seek to deploy the principles of process theorizing as proposed by Pozzebon and Pinsonneault (2005) who suggest that episodes can be exposed using fine grained temporal bracketing to identify the interplay between agency and structure. This approach accepts that structures also evolve through agential mediation. We particularly seek the views of the conference as to the efficacy of this approach. The next phase of research will be conducted in the summer of 2016 and our intention to expand the cases to between twenty and twenty five.

**Appendix 1:** Details of interview cases

Time and place of visiting	Case ref.	Employee band	Year of establishment	Years involved in international business	Interviewee/s	Gender
07/2008, HZ	1	270	1992	7	Managing director & Business development manager	M/M
03/2008, BJ	2	230	1991	11	International business manager & General manager	M/M
01/2010, JS-ZJ	3	130	1991	7	Business owner & Business development manager	M/M
01/2010, NJ	4	300	1993	14	Business owner & Business development manager	M/F
07/2010, BJ	5	200	2004	5	Business owner & General manager	F/M
07/2010, ZJ-TT	6	250	1993	10	International business manager	M
07/2011, ZJ-HZ	7	150	2000	12	Business owner	F
09/2011, JJ	8	200	1984	13	Managing director & Business development manager	M/F
01/2013, ZJ	9	150	2009	3	International business manager	M
11/2013, ZJ-SX	10	300	1986	16	Managing director	M
12/2013-01/2014, ZJ	11	300	1973	10	Business owner	M
01/2014, HZ, ZJ	12	170	1992	8	Business development manager	M
01/2014, HN-LD	13	230	1985	10	Business owner & Business development manager	M/F
01/2014, ZJ-HZ	14	210	1994	12	Managing director	M
05/2015, GZ-GL	15	300	1993	7	Managing director & International business manager	M/M
02/2016, SX-BJ	16	200	1990	10	Business owner	M

## **Appendix 2: Interview Guide**

Typical questions used in the interviews:

### *About the firm*

Brief background regarding numbers of employees, year of establishment, core business, structure of the firm.

### *International markets and customers*

Where are your international markets primarily located?

How long have you been doing international business? Were you involved in international business since the business was first established / founded?

### *Examples of questions:*

#### *Context setting*

Interviewer: 'I am specifically looking at firms' relationships connected to international markets and really interested in how your business is involved in international markets and builds up networks to serve international markets?'

#### *Typical questions to elicit networking practices*

1. Which foreign markets do you operate in?
2. How do you gauge market demand? How do you enter international markets?
3. What methods did you use to contact consumers? Can you provide examples?
4. Was there any business support made available from the government or private sector to help your business?
5. Have you attended any international conferences or trade missions? What did you get out of such events?

#### *Encouraging narratives in response*

1. Could you provide a few specific examples related to milestones in terms of the developments in your firm?
2. Do you have any examples where you have built up relationships and networks to assist in the process of business expansion?
3. How did you contact people in particular markets?
4. Were there any reasons why you chose to enter specific markets?
5. How did you manage to finance your business when you started up?
6. Do you think business support helped you to develop networks? Do you have any examples that you could share?

*Developing an understanding of the rationale for networking practice:*

1. What made you approach customers the way you do?
2. Please comment on your relationships with agents?
3. Do you find your original domestic networks useful for leveraging new business and entering new international markets? Is there an alternative that you might be able to adopt to approach prospective customers?
4. Why and how do you maintain relationships with your partners to-date? What benefits do they bring?

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