BUILDING SOCIAL CAPITAL FOR INTERNATIONALIZATION

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Abstract

Social capital may be defined as social relationships that confer an actual or potential benefit. It can therefore be understood as a particular type of resource. Recent research has drawn attention to how connections and relationships (‘networking’) both at home and abroad can be crucially important for small and medium-sized enterprises [SMEs] seeking to export or invest abroad. Social capital is now viewed as crucial to offsetting the liabilities that SMEs face, and they are increasingly using it to overcome the problems of limited resources, experiences, and credibility. While the role of social capital as an asset that is deployed in the process of creation of new ventures has been discussed in the literature quite extensively, much less is known about how SMEs initiate, develop and maintain network relationships. This paper reports a study of 32 British SMEs exporting, or attempting to export, to Brazil and of domestic institutional agencies whose role was to facilitate British SMEs to conduct business with Brazil. The study explored both the functions of social capital for the SMEs and the process whereby it was developed. The main functions performed by social capital were cost reduction, correcting an asymmetry of information, overcoming the liability of newness, protection from risk, and coping with bureaucracy. Domestic institutions were able to assist in cost reduction and correcting an asymmetry of information, while agents or partners in Brazil were particularly important in providing the other three functions. The SME entrepreneurs studied initiated the creation of social capital relevant to doing business with Brazil in three ways. The first way was through accessing existing sources of social capital. The second involved transferring social capital from previous business relationships, and the third way was through creating new relationships. Once established, social capital with Brazilian partners was developed by the British entrepreneurs primarily through the establishment and deepening of personal trust-based relations. The highly sociable culture of Brazil doubtless played a role in encouraging this pattern of behaviour, perhaps more so than is likely in many other countries. Because most of the SMEs studied had not engaged with Brazil for very long, few of them had achieved the stage of maturity in the evolution of their relevant social capital. For those firms that had achieved some maturity, the support provided through their relationship with local partners in Brazil had superseded that coming from domestic sources such as chambers of commerce. The quality of their relationship with local partners had matured to the point at which it went well beyond initial expectations. The research presented in this paper confirms the value of social capital in international entrepreneurship. It can provide information, interpretation, market opportunities, and some degree of protection against the risks associated with foreignness, newness and smallness. The research also confirms the vital importance of personal trust in sustaining social capital among small firms.
Introduction

Internationalization has historically been associated with multinational corporations [MNCs]. Recent trends suggest however that the international market is increasingly populated by small and medium-sized enterprises [SMEs] as well. With globalisation, many SMEs can no longer survive in sheltered domestic markets and others have been forced to follow their customers as they move into foreign markets in order to maintain their relative position in a supply chain network. SMEs are, however, relatively deficient in the resources required to support internationalization (Buckley, 1989; Fujita, 1998). Common areas of deficiency are information about the attributes of potential locations, investment and working capital, managerial and technical capacity, experience of international operations and of arrangements for achieving these such as partnerships with foreign firms, technology appropriate to foreign markets (Harris and Wheeler 2005)). Their capacity to access foreign markets and survive in them is constrained by their structural characteristics, such as liability of smallness. They simply do not have the appropriate and sufficient resources to access international markets. They may also suffer from a liability of newness. Resources limitations prevent those firms to have learning structures of their own, such as subsidiaries, which would allow them to transfer knowledge from one situation to another. Their lack of information about the dynamics of operating in foreign environments also increases the liability of foreignness that SMEs experience.

Recent research has drawn attention to how connections and relationships (‘networking’) both at home and abroad can be crucially important for SMEs seeking to export or invest abroad (Harris and Li 2005). Social capital is now viewed as crucial to offsetting the liabilities that SMEs face, and they are increasingly using it to overcome the problems of limited resources, experiences, and credibility (Lu and Beamish, 2001). These new insights have stimulated enquiry into social capital. Social capital may be defined as social relationships that confer an actual or potential benefit. It can therefore be understood as a particular type of resource (Baker 1990, Tsai and Goshal 1998). Though research has indicated that social capital may reduce transaction costs, and permit the firm to obtain benefits and other advantages not otherwise available, little is known about how SMEs create and maintain social capital in order to have access to, and establish operations in, international markets. In contrast to other forms of resource, social capital is jointly owned by all parties in a relationship, with none having exclusive ownership rights. It cannot be traded as it is based on trust, common history and friendship (Burt 1997). This paper discusses how SMEs develop social capital in the process of internationalization. It draws from a study of 32 British SMEs exporting, or attempting to export, to Brazil to illustrate the evolution of the social capital that is used to support internationalization.

Building social capital
The role of social capital as an asset that is deployed in the process of creation of new ventures is an issue which has been discussed in the literature quite extensively (Granovetter and Ferrary 2009; Johansen and Vahlne 2003; Oviatt and McDougall, 2005). The theory of social capital suggests that firms create, and are embedded in, a web of relationships which may offer access to resources and opportunities of different nature. Different meanings have been attached to social capital. Some researchers view it in terms of resources which may be available to the firm through participation in networks (Nahapiet and Goshal 1998, Coleman 1988), while others conceive it in terms of the unique characteristics that define loosely connected social structures
(Bourdieu 1980, Coleman 1988, Putnam 1993). Although the literature on social capital cannot be classified into neat categories, the various meanings attached to the concept, both as an asset and as a set of social relationships, nevertheless extend our understanding. Thus, it may be useful to distinguish those views which define social capital as an asset that it instrumental to achievement of individual/organizational goals (Uzzi and Gillespie 1999, Freeman 1999, Stuart et al. 1999) from those who conceive social capital in terms of the nature of relationships which define network membership (Burt 1997, Tsai and Ghoshal 1998). Basically, the rational perspective emphasises the instrumental dimension of social capital while the social/cultural view is interested in the dynamics of social ties.

The instrumental focus suggests that social capital is a property of individuals or social groups and that engagement into networks may accrue benefits which otherwise would not be available to the firm (Nahapiet and Goshal 1998). The instrumental view has its origins in Coleman’s (1988) insights that relationships could mediate access to resources. His theory presumes that organizational actors intentionally mobilize relationships to facilitate or advance their interests. The instrumental view also suggests that networks offer access to resources of different nature. Some studies, however, neglect the fact that a network does not always offer direct access to resources, but provides a road map to them. From a purely instrumental point of view, a network would primarily offer key connections that could mediate an actor’s interests, such as access to gatekeepers or key actors who are strategically positioned in circuits of power. Such actors are considered as social capital insofar as they represent promises or expectations about access to information, knowledge, financial resources or political contacts which are valuable to the firm. The rational view essentially reinforces the point that firms aim to initiate and cultivate social ties selectively, according with the utility attached to a particular relationship. It then makes sense to suggest that some firms develop the ability to gain access to strategic networks, but also vary in their capacity to maintain and cultivate those relationships in a way that is beneficial to them.

Within the rational perspective, resource analysis suggests that the capacity of actors to mobilize relationships for their own benefit and of third parties is central to competitive advantage. Research at firm level has suggested that social capital can expand the firm’s connectivity – the number of ties and the scope of these ties – across lateral and vertical boundaries, and is essential mainly for small firms seeking to enter and operate in foreign markets (Baker 1990). Thus, firms may belong to different types of networks which are more or less independent or which could also overlap in their specialty. Within this perspective firms are able to buy social capital (Boisot 1988) through purchasing introduction and access to potential customers, key actors and informational institutions that can grant license through representation. Some relevant networks for SMEs include agents, distributors, suppliers, professional and industry associations, and customers, such as multinational corporations.

Rather than emphasizing the intentionality of actors, the social behavioural view suggests that motivation alone is not enough to obtain access, since social capital is embedded in social and political contexts (Granovetter 2009), for which access is limited to those who fit, share views and key characteristics with members of such network. There is a clan aspect in networks (Boisot and Child 1996), which regulates inclusion and exclusion of membership. Exponents of this theory suggest that social capital is regulated through behavioural norms, shared values, trust, commitment, relations of reciprocity, reputation and mutual recognition (Bourdieu 1986,
Coleman 1991, Putnam 1993). Relationships may therefore open opportunities to smaller and less powerful actors. SMEs, for example, may not have direct access to an MNC’s customers, but only through their attachment to other actors in the supply chain (Axelsson and Easton 1992). Such seminal studies also suggest that instrumental attempts to activate a given network may not be always successful for no other reason than self-protective mechanisms. In Coleman’s view, social capital dynamics involves the creation of expectations and mutual obligations among actors (Coleman 1988). Above all, social capital is fertilized through trust and reciprocity. Its dynamics develop around members’ goodwill to repay favours, and sanctions for failing to do so (Biggart and Delbridge 2003). Activation denotes the extent to which actors within a network are receptive to a request from another member and are willing to facilitate or act as mediators of a member’s interests. Thus members’ capacity to activate a network depends on issues of recognition, the value attributed to his/her contribution and trustworthiness. For example, the value of an actor’s contribution is associated with his/her position in the network. This should be considered as an asset in its own right (Burt 1997), mainly if it can connect worlds which were previously unconnected (Kogut, Shan and Walker 1992). MNCs have the power to exert a brokerage role in their supply chain, since they can link SMEs to actors in different parts of the world.

Social capital and its relevance to internationalization

Though there are several sources indicating how social capital can trigger and foster internationalization (Johanson and Mattsson 1988), not much is known about how SMEs develop and maintain network relationships. The literature suggests that SMEs engage in several types of network, with different degrees of involvement. It is evident that most SMEs are able to reach international markets only through the help of third parties, which vary from individual agents to institutions that provide formal support for export activities. In the UK these may involve the UKTI, chambers of commerce, and industry associations. SMEs may resort to the above sources of social capital to have access to different types of resources, such as information about the market, its strength and risks to approach agents and partners and to have the support of institutions in marketing assessment and as means reduce risks regarding potential partnerships. One common way in which SMEs may access foreign markets is through piggy-backing on MNCs (Child and Rodrigues 2008). This is more frequent in customer-supplier conditions where SMEs in order to survive have to follow the geographical movement of MNCs. Obtaining security of sales through membership of the supply-chains of large players can be a big premium for SMEs, but is also creates the risk of high dependency.

Building ties with the above players can be very important to cost reduction, to adjust for asymmetry of information and other liabilities that SMEs are subject in international environments. If the SME is already an experienced exporter, it might as well draw from already known and established sources. It could for example use its connections with MNCs in other countries to access a yet unfamiliar market, or alternatively use one of its sales agents. SMEs may find out that the less costly and risk adverse strategy to assess a new market is through an indirect route, using relationships it already has with partners and agents elsewhere or through joining a consortium as a means of risk sharing.

Despite the fact that some SMEs may be very experienced players, they may still suffer from liability of newness when entering into a unfamiliar market. Liability of newness exposes SMEs to ‘embedded risks’. Such risks are usually not described in reports and are difficult to
figure out. Local players may not perceive them as risks since they have already developed means to anticipate their presence and efficient ways of dealing with them. Lack of knowledge of embedded risk puts a foreign SME in disadvantage vis-à-vis their local competitors. Two sources of social capital may be important in these situations: personal relationships and institutional support. Locals may be very important mediators of informal norms of dealing with economic transactions to foreign firms. For example, not only can they introduce the firm to key relationships but they also may know which third agents are trustworthy, and more easily detect signs of opportunism. They may also have in-depth knowledge of short-cuts to bureaucratic problems. These considerations point to the various function that social capital can perform for internationalizing SMEs.

We now illustrate the functions of social capital for internationalizing SMEs and the different phases that SMEs may go through in their attempt to building social capital for internationalization - initiation, development and maturity. The illustrations derive from a study of British firms exporting to Brazil.

Scope and method
The study accessed the views and reported experiences of leading executives in British SMEs exporting to Brazil. Brazil is a potentially attractive foreign market as one of the four large emerging economies, the BRICs (Goldman Sachs 2003). It is, however, a country in which one would expect foreign entrepreneurs to experience considerably difficulty, and where they would therefore need to rely heavily on social capital both domestically and in Brazil. The psychic distance between Brazil and the UK is high due to the mutually low familiarity with each country’s language and culture, and the bureaucratic complexities of the Brazilian regulatory system (Child, Rodrigues and Frynas 2009). The liability of foreignness in Brazil is also high. Bureaucratic restrictions are largely responsible for the fact that Brazil is a relatively costly country into which to export goods (World Bank 2008) and the situation is often complicated by official corruption (Transparency International 2008).

The study included 32 British SMEs exporting, or attempting to export, to Brazil. As the nature of the study was exploratory, we conducted personal interviews with 37 entrepreneurs in the SMEs companies who were most closely involved with their Brazil business. We use the term ‘entrepreneur’ to describe the senior SME personnel interviewed, because a majority of them were part or sometimes sole owners of their companies. All were decision-makers concerning their firms’ business with Brazil. In addition, twenty-one persons from institutional agencies were interviewed concerning their role in facilitating British SME business with Brazil. All the interviews were tape recorded. After establishing the history and profile of each firm, questions were asked about the firm’s internationalization strategy, how its business with Brazil was established and the relationships involved, perceived psychic distance between the UK and Brazil, difficulties experienced in doing business with Brazil, and the role of social capital in facilitating the firm’s entry to and operation in Brazil.

Functions of social capital
Most of the SME entrepreneurs reckoned that relationships with key actors, such as agents, customers and institutions at home and abroad helped them to avoid incurring unnecessary costs. The majority claimed that they could not afford to maintain an office in Brazil and even less pay for expatriates. In contrast with MNCs, most firms did not have an appropriate structure to make
the best use of expatriates, since their staff did not have previous managerial experience abroad. Having an agent or representative abroad helped to avoid the costs of lack of information about the culture and institutions.

Social capital also had the function of overcoming liability of newness. Institutions were helpful for beginners, those who had little information about Brazil. Institutions nevertheless were of little help for those companies with very specialized products or services. Some companies, in particular those providing specialized engineering, did not have much information about the competition, customers’ needs, requirements about local standards, and the level of development of the market. For those companies whose markets were very specialized, export promotion institutions could offer little assistance towards creating or expanding their customer basis in Brazil. Since most of the firms affirmed that they knew little about Brazil and its business environment, finding the appropriate partners, agent or representatives was also crucial and building a trustful relationship with then became essential to avoid various types of risk: institutional, financial and agency (Child and Rodrigues 2003). Finding a partner or agent was also important to obtain information about the market. Here only specialized agents/representatives were able to help. Many companies had also to rely heavily on partners and agents to make sense of legislation and tax systems. The partners or agents were also useful in dealing with sensitive matters that the SMEs wanted to avoid, such as bribery and other ethical issues.

Phases in building social capital
Building social capital in unknown markets may not be an easy task even for experienced players. Figure 1 suggests the different phases that SMEs may go through in their attempt to building social capital for internationalization, namely initiation, development and maturity.

Figure 1 about here

As this figure suggests, building social capital may be a long-term and complex experience which is sometime frustrating. The intention to expand to other international markets may be part of an SME’s long-term ambitions, or such desire may emerge from an unexpected opportunity. In the latter case, inspiration could come from anywhere, from a TV programme about opportunities in a developing country, from a relative or a friend who lives there, or from unsolicited orders. Affiliation to professional or industry associations frequently bring to notice business opportunities which invite firms to participate of business missions. The process of initiation could be quite different for firms that are experienced exporters and new to the market and firms that are new to internationalization. Most experienced exporters who are already conscious on their limitations may be fully aware of the initial difficulties they might face in entering new markets. These may begin by tapping into existing sources of social capital, but this will depend of the characteristics of that market and on the possibility to activate a specialized source to facilitate entry in another territory. The new to export may not know exactly what they want and may rely on institutions for general information and guidance concerning possibilities of search.

Development involves experimentation, trial and error, and learning by doing. It may be difficult for firms to get things right in the first attempt, even if they already have experience in international business. Most small firms which succeed in exporting operate in specialized areas or export products with high technological content (Hitt, Bierman and Shimizu 2006). However, it can take time until they find an agent or a partner who knows their product or service and until
these firms understand the characteristics of that market. More importantly, finding a trustworthy agent and partner may take time and require experimentation. There could be a chance or serendipity factors in which the SME finds an appropriate partner straight way. However, the process of trust building is a long term process and involves an assessment of the partner performance and personal characteristics such as integrity and honesty. Because most SMEs do not have structured governance mechanisms into place, they have to rely on personal assessment of the partner. The ability to distinguish agents who are likely to meet expectations is subjective, involves tacit knowledge and, is dependent on previous learning experiences. Consequently, for some firms, development involves experimenting with different agents. This may imply withdrawing from current ties, recombining and reactivating previous ties. Because in most cases agents and partners are managed at arms-length, it could take some time until SMEs are able to detect signs of opportunism. There could also be situations in which trust is high, but the SMEs is unable to retain an agent for some reason. Some SMEs, on the other hand, aim to establish relationships with multinational companies or to tap into their supply chain as a means to access markets. Until they achieve these aims if at all, this may involve considerable negotiations and assessing MNCs network indirectly.

Maturity is a phase in which the SME has managed to set up operations in a given country and has already been able to tap into different networks. Relationships with key actors are already established in a way that permits the SMEs to accrue the expected benefits from it. It is also likely that it has also developed some tacit knowledge about these relationships which allows it to detect changes in behaviour and attitudes of agents. This understanding of the partner’s behaviour allows the foreign SME to rely progressively more on trust rather than contract. At the maturity phase, the SME has also developed an understanding of the foreign market which allows it to extend its portfolio of relationships while at the same time to confirm its choices.

Initiation
SMEs have little influence within their environments and few resources with which to develop such influence. As a result, they have to accommodate to environmental uncertainties without being able to reduce them to any significant extent. They therefore have to rely heavily on external parties to help them deal with the uncertainties. They often attempt to enhance their ability to cope with a complex environment through collective organization among themselves and/or by seeking help from trusted partners with close knowledge of the environment in question (Child, Rodrigues and Frynas 2009). In the case of internationalizing SMEs, the partners they seek out in their domestic environment can include export promotion agencies and other members of export clubs. In the foreign environment they can include agents, distributors and local equity-sharing partners. SMEs are looking to secure both information and protection through developing trust-based relationships within these networks.

There were three modes by which the SME entrepreneurs studied initiated the creation of social capital relevant to doing business with Brazil. The first mode was through accessing existing sources of social capital. The second involved transferring social capital from previous business relationships, and the third mode was through creating new relationships.

*Accessing existing sources.* Most of the firms were already experienced exporters. The firms’ proportion of total sales value arising outside the UK averaged 61.7 percent, and under one-third of them relied on the domestic market for more than 50 percent of their sales. However, they had
not on the whole had a long engagement with Brazil, with an average of only 4.6 years since their first contact there. So far as Brazil was concerned, most were early starters in Johanson and Mattsson’s (1988) terms, which meant they needed to learn a lot on their own account. Their internationalization to Brazil benefitted from two main existing sources of social capital: membership of operational networks and connections to domestic institutional agencies.

Many of the firms studied were already members of an international supply chain which linked them into the Brazilian market through agents and contractors. For example, the SMEs operating in the oil and gas sector were already members of existing international production networks. They had often initially accessed the Brazilian market through American contractors before they set up an operational office in Brazil. The founder CEO of a marine engineering firm commented that:

“Once you’re in the offshore business you can’t survive and be international without Houston. So, you know, for lots of the clients with major projects really the concept is from Houston, so you have to have a Houston office otherwise you’re not real in the business”.

However, SMEs do not only tap into their social capital only for accessing new markets, but also to secure operational support. In some cases, a small business cannot meet an unexpected order, so it has to contract out work to other companies. Contractors which are licensed to provide services in other countries constitute an import source of social capital for international expansion because they have the flexibility to hire local labour, as well as knowledge of local financial procedures and tax rules. Sometimes, they provide a means to circumvent the restrictions imposed by such rules. For example,

“Petrobras of course have never paid us from Brazil because you have to be registered as a company in Brazil for that. So they paid us via a drilling contractor, you know, that we’ve been doing the work for. They just put a variation on his contract so that the drilling contractor can pay us outside the country and I’ve no problem with the taxes and retention and all the rest of it”.

Many British SMEs have already established relations with institutional agencies that are involved in assisting smaller firms to enter new foreign markets. These include regional development agencies, chambers of commerce, industry associations, international business councils and cultural organizations. In the case of Brazil, financial support for this activity is available from central government [UK Trade and Investment] and local facilitation is provided by British consulates. Membership of these agencies itself constitutes a form of social capital that can provide basic information on new markets, which some respondents found to be valuable at a stage when they had no knowledge about Brazil. In addition, the agencies can help initiate the development of other social capital for SMEs by subsidizing trade missions abroad, and making personal introductions. The personal introductions are to potential partners in Brazil and also to other British firms with relevant experience of doing business with that country. Harris and Wheeler (2005) reviewed the importance of inter-personal relationships in SME internationalization and found that many such relationships are formed in the home country prior to entry into new overseas markets.
All but five of the companies studied had received some export-related assistance from one or more institutional agencies. Seventeen, or just over half, of the companies had joined a trade mission to Brazil sponsored by one of the above agencies. Twelve had received assistance in establishing business or social contacts in Brazil generally though a UK consulate or chamber of commerce in Brazil. A few had also been helped in finding interpreters for visits to prospective customers or local agents, an important requirement for building social capital in business relations between two countries where the mutual knowledge of each other’s languages is quite limited.

Companies which had a positive view of institutional agencies were generally those with no or little prior knowledge of Brazil and no prior contacts in Brazil. Such companies benefited greatly from assistance in their first steps in Brazil including establishing contacts with relevant Brazilian firms through trade missions, and social events sponsored by local consulates. By contrast, companies that had already established some social capital in Brazil – for example had a local partner – tended not to rate institutional services highly.

Transferring social capital from previous business relationships. Some entrepreneurs had transferred social capital relevant to business with Brazil from their previous employment in a larger international company. This involved migrating already established business relations to their new ventures. The social capital provided by the transfer of already long-term relationships was particularly valuable because it was mature. It rested on a tried-and-tested combination of inter-personal trust and competence in honouring commitments. For this reason, it could provide business in a new foreign market very quickly. For instance, a company offering consulting services on supply-chain management had been established two years prior to study by two entrepreneurs one of whom brought with him from his previous employment many contacts with major customers such as supermarkets as the foundation for the new business. Through these relationships, the company immediately achieved exports worth 50 percent of its business, with 10 percent going to Brazil. Another small company manufacturing filtration materials was founded by two owner-entrepreneurs when it was spun-off by the large paper-making group they has worked for. They took an established international customer list with them, and exports accounted for 85 percent of total sales at the time of study.

Creating new relationships. When institutional agencies or previous contacts were involved with the building of social capital for SME entrepreneurs, the latter were normally already aware of the market potential that Brazil offered. Either the agencies had publicised this potential through their export promotion activities or the firms had approached the agencies to take advantage of their (often subsidised) market intelligence services. So they sought new social capital as a means to implementing a business development opportunity that they had previously identified and even researched. Social capital was applied in a rational ways to the fulfilment of strategic goals.

Trade missions travelling abroad typically include social events at which SMEs can make new connections with potential agents and customers in new markets. As already noted, these new connections tended to be regarded as particularly valuable by the members of firms that had no previous contacts with Brazil. However, they could also strengthen existing ties. For example, the chairman and sales director of one company commented:

‘When you go out there by yourself you feel you are in a strange country, you are an individual […] going to a party, then you can share support one for another, you know
you have the help from the embassy; so getting to know the officials there you know that you can call upon their services if necessary. You know that there’s a great wealth of information there, and also the receptions we had there in the evenings have being used from the point of view of inviting my agent, plus his customers; that gives some degree of support and verification to who we are. It elevates our own company. So it is worthwhile’.

For approximately one-third of the companies, business with Brazil was triggered through ‘serendipity’ in the sense of fortunate chance events. These events generated new social capital but in a way that was not planned or even, in the first instance, sought after. They included unanticipated approaches from Brazilian business people seeking to trade, suggestions from their major international customers, and chance meetings. Although unplanned, such events generated an awareness of the possibilities for exporting to Brazil. An example of a productive chance meeting was given by the director of a floor coating company:

‘I actually thought about Brazil as a market after I listened to a Brazilian embassy minister whom I met at a dinner and she talked about her market and she asked me if we were doing anything in Brazil. I had to confess to her “no”, but having listened to what she said we were going to get on and do it, and I did’.

Significantly, serendipitous encounters could lay the basis for a trust-based personal relationship to support business in a new market. For example, one company making materials for electro-coatings, was approached by a Brazilian business man who sought to represent the company in Brazil and who subsequently became its sole trusted distributor there. Brazil now accounts for 10 percent of the company’s total export sales value. Its technical director described the ensuing relationship with his Brazilian distributor as a ‘socio-commercial sort of relationship with the distributor and his wife’. There is no legal contract involved – transactions are based purely on social capital.

**Development**

This last quotation provides a clue as to the main way in which social capital with Brazilian partners, once established, was developed by the British entrepreneurs engaged in business there. This was through the establishment and deepening of personal trust-based relations. These relations often broadened to include the actors’ families, with home invitations and even joint holidays being involved. The highly sociable culture of Brazil doubtless played a role in encouraging this pattern of behaviour, perhaps more so than is likely in many other countries. The executives interviewed frequently noted how the open and sociable culture of Brazil leads to business advantage deriving from socializing more than in many other countries they had experienced. Brazilians, they described, like to throw parties at which existing and potential customers may be present. They are also happy to take their British partners to pay social calls on business associates and these can also provide new marketing opportunities.

Most of the SMEs and their Brazilian partners were firms run by their owners. It appears that the personal confidence that resulted constitutes a valuable support to social capital. Many
instances were cited of how the fact that the British company and/or its Brazilian agent or partner was a personally-managed or family business engendered a special kind of confidence that came from personal commitment and even ‘honour’. This is because owner/entrepreneurs are accountable to themselves rather than to shareholders, which lends their commitments a personal integrity and legitimacy. By contrast, a manager from a large company is seen to be representing superiors who may not have this personal commitment and who could therefore fail to support the spirit, if not the letter, of an agreement. While competence, regarding the ability to deliver on promises both to supply and to be paid, is essential in business transactions and was fundamental for entrepreneurial success, it was social capital that provided the confidence to enter into those transactions in the first place.

The importance of being able to develop and maintain adequate social capital in a ‘difficult’ regulatory environment like Brazil’s was highlighted by the cases of failure. Four of the SMEs studied were withdrawing from doing business with Brazil. All four companies were in the oil and gas sector in which a particularly dense set of regulations and quasi-official relationships have to be penetrated in order to gain business. In each case, the SMEs were unable to find a reliable local employee or agent through whom to access or create the network they required. There was little doubt about the technical competencies of the four companies that experienced difficulties in Brazil. Possibly through bad luck, but just as likely through poor selection or an unfortunate handling of the relationship, they had failed to gain the support and trust of local partners or staff. The result was that their partners were poorly motivated at best and opportunistic at worst. For example:

‘when we see signs that are out of the character that you want you hope that it’s an aberration when actually you should take action straight away. I mean as soon as he wanted a BMW as a company car I should have fired him. Right? Because when you just start you can’t do that – you’re looking for the minimum solution. When the profits are there and it’s all going well, well if he wants a BMW, what the hell, you know. But when you start … So you have to be more ruthless. More careful with selection and then more ruthless. Once you see things that are out of the model that you have you must take action’.

In another case, the company discovered that its local Brazilian partner was trying to take business away from it. The managing director of one company regretted that he had not spent more time finding the right local staff in Brazil and winning their trust. In these cases of failure, the level of social capital that the firms acquired was not reliable or adequate to cope with the liability of foreignness and they generally withdrew from Brazil.

Failures of social capital recall that a degree of experimentation may take place as it is developed. Sometimes new collaborators and partners have to be found because of failures. In other instances, over time new areas of collaboration open up. The broadening of joint activities can develop mutual commitment and hence deepen the relationship, while the same strengthening of mutual confidence provides the foundation for widening the business given the attendant risks of so doing. For example, the joint managing director of a consultancy company, describing how he had built his network for Brazil, said:

‘So it’s a question of having a network, and you build it … I am just wondering how many key people we’ve got… in total, we’ve got 12 entities, either an individual or a
group of people in an organization, who collectively would help us develop the Brazil business. Each of these hangs on a network of people…to make a UK-Brazil business work, you’ve got a number of key contacts, 12 to 15 I would suggest, probably in both countries’.

**Maturity**

Maturity denotes a stage in the evolution of social capital at which it has attained a stable, sound and steady state, in the context of internationalization to a given foreign country. At this stage, the social capital of the SME has matured in the sense of incorporating a high level of interpersonal trust sufficient to provide complete confidence in the intentions and capabilities of their foreign business partners, so that reliance on legal contracts, controls and monitoring becomes minimal. Perhaps the most significant indicator of maturity in the firm’s social capital is its willingness and that of its partners to provide mutual support, if necessary, beyond the scope of their normal transactions.

Because most of the SMEs studied had not engaged with Brazil for very long, few of them had achieved maturity in the evolution of their relevant social capital. For those firms that had achieved some maturity, the support provided through their relationship with local partners in Brazil had superseded that coming from domestic sources such as chambers of commerce. The quality of their relationship with local partners had matured to the point at which it went well beyond initial expectations. One manifestation of this lay in the development of a strong mutual identity which overcame the psychological liability of foreignness. This, in turn, could enhance the SME’s standing with local customers and help to generate contacts with new ones. One CEO, talking about his Brazilian partner, said:

‘I’ve been to the home, and shared food with them… he shields me from a lot of the individual problems on the shop floor, or cultural problems. When you get there, I’ll go into the field with him, there aren’t real problems, and it’s like talking to you: they’re Brazilian, you’re Brazilian and … excellent relationship’.

While another SME director said of his Brazilian agent:

‘We have become friendly with these people, you know, simply because it could be useful to one another, but, you know, it’s still seeing their family and everything. And then there’ll be a lot of social activities. Brazilians like to party, you know, so off they go. So, you know, we enjoy that as well. Then there’ll be new customers or potential customers that they like to sort of trail you round… we just sit in the back of the car and sort of turn up in places’.

A further indicator that social capital has matured arises when the partners can depend on each other to offer assistance in dealing with crises or major problems that fall outside the normal scope of their business transactions. This again is an instance where the depth and value of the relationship transcends initial expectations. A marketing manager made the point this way:
‘If you can build a relationship on trust I think, for anything in life, then obviously that relationship will be long lasting and we always find when we do hit difficult times and we do have situations where competitors target our business, then our agents will put up a fight and do it in the correct way because … You know, some people would probably walk away, but they don’t because we back them up and we’ll support them’.

And the managing director of a consulting firm said:

‘Some of them I trust completely. Mario is one of them; there are one or two others where you can say ‘look I’ve got a problem’, and they won’t take advantage of it. In the same way they can come to you and say – I remember one of them saying to me I the middle of a project – ‘I am stuck’. And then you sit down and you help them through their problem, but they appreciate that.’

As noted already, entrepreneurially-led SMEs more readily elide the distinction between interpersonal trust and inter-organizational trust because their leading executive can be identified with the firm. One managing director commented that this identity between personal and business roles in the same relationship with overseas partners can be both strength and a potential liability:

‘what I try to do is understand the person, learn about the person, what he or she likes, what they don’t like, what they like doing, their strengths, their weaknesses, and try to get to know them, first and foremost. And gain their trust and give them they support they need, that they can ring me at ten o’clock at night, if they have a question, is it’s a personal situation, or they need help, then the door is open… And sometimes I get involved on a personal basis in really not keeping that divide between what’s business and what’s personal. Sometimes it works, sometimes it’s very good because it makes them come to me with any problems. But then sometimes is backfires because they overstep the mark. The trust factor is a two way thing’.

Discussion and conclusions

The analysis presented in this paper confirms the value of social capital in international entrepreneurship. It can provide information, interpretation, market opportunities, and some degree of protection against the risks associated with foreignness, newness and smallness. The research confirms the vital importance of personal trust in sustaining social capital among small firms.

Almost three-quarters of the SMEs stressed the importance of networking in order to penetrate the Brazilian market. Indeed, many took this to be a usual requirement for smaller firms which cannot afford expensive product promotion and which normally focus on niche market segments where they compete on the basis of a company reputation that is often that of their founders or a small number of key individuals within the organization. As noted, SMEs often have the considerable advantage that they are personalized in the eyes of customers or agents whose contact is directly with their owners and/or senior managers.

When SMEs relate directly with agents or partners in a foreign environment these tend to be other small firms. However, some SMEs engage only indirectly with unfamiliar environments
through ‘piggy-backing’ – supplying a small number of large firms that are established in those markets (Child and Rodrigues 2008). Such customers can through their international scope introduce SMEs to new markets which they might not otherwise be in a good position to research, and this was the case with Brazil. On the other hand, the danger of this approach is that it locks the SMEs into a highly dependent and therefore potentially risky position.

Our study of British SMEs suggests that the contribution of social capital varies according to the transactional mode of the firm. Three transactional modes were used. The first involved direct transactions with the customer or client. The second was less direct and involved the supply of products and services to Brazil through an agent, a distributor, or a business partner. The third mode was indirect, in which SMEs supplied major international companies which in turn sell into Brazil. The social capital that an SME required embraced different categories of partner in each of the three modes and was more extensive in the case of the first two. Standardization of the SME’s products or services was particularly associated with use of the third mode. This variation suggests that SMEs are likely to seek different forms of social capital according to their transactional modes with foreign markets. Moreover, social capital embraces links to domestic as well as to foreign networks. Domestic social capital ends to perform a different function to that in the target foreign market. It is more useful for assessing feasibility, providing contextual information, and sometimes making initial introductions to foreign partners. Foreign social capital assumes value when the SME starts to operate in the foreign environment, assuming that its presence there is not purely at arms length.

Our findings point to several issues worthy of further investigation. First, they suggest that the expectations held by the investors in social capital deserve closer attention. When the quality and value that internationalizing entrepreneurs perceive social capital to have exceeds their initial expectations, they appear highly motivated to develop it further both in terms of deepening the relationship and also in terms of using it to extend the scope of their business involvement in the foreign country. When the social capital is mutually appreciated and seen to provide complementary benefits, past returns from that capital achievements appear very likely to be ‘re-invested’ in extending and enhancing that capital. Insofar as the dynamics of social capital development depend on decisions of the actors concerned, their subjective expectations and evaluations need to be carefully considered. These evaluations and expectations appear to carry an important psychological element. While decisions to initiate and develop the relationships that provide social capital are subject to economic calculations and contingencies, they also appear to depend significantly on a psychological contract and inter-personal affect.

Second, it appears that social capital, especially that linking into foreign networks, is of varying value. It incurs certain acquisition and maintenance costs. These costs arise from the personal commitment that is required, which may tax the resources of an entrepreneur especially if he or she has diversified internationally. Social capital is like other types of asset in that the returns from investing in them may not always be sufficient to justify the costs. In some circumstances, the cost may outweigh the incremental value provided. Moreover, if the mode of social capital involves entering into a high level of dependency, as with ‘piggy-backing’ on MNCs, the additional risk may also outweigh its value. Social capital is therefore not invariably a net asset. We have suggested that the type of social capital used will vary according to the international transaction mode of the firm. If this is the case, the transactional mode of SMEs is relevant to this cost-benefit balance and should be taken into account in future investigations.
References


Figure 1. Developing internationalization though the process of creating and developing social capital

**Initiation**
- Accessing existing sources (e.g. MNCs’ supply-chain)
- Transferring social capital
- Newly created sources: family, institutions, unsolicited and arms-length

**Development**
- Experimentation, trial and error, learning by doing
- Adapting to each other: finding areas of collaboration, developing commitment and common interest
- Withdrawing from the market

**Maturity**
- Nurturing social capital: trust and reciprocity
- Learning more about the partner/agent
- Managing through informal governance mechanisms