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Social capital development through the stages of internationalization:

Relations between British and Indian SMEs

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ABSTRACT

Research Summary: Relatively limited research has been conducted on the evolutionary development of social capital during the internationalization process of small and medium-sized enterprises (SMEs). We address this issue through a qualitative study of 30 pairs of British and Indian SMEs that have developed international business relations with each other. We provide frameworks that illustrate how microfoundations create, modify or dissolve network structures to achieve the desired outcomes at different stages of social capital development and internationalization. We identify that entrepreneurial characteristics and intentions influence the development of social capital and internationalization. We suggest that the stages of social capital evolution tend to accompany discrete stages of internationalization, albeit with some exceptions due to the nature of the industrial sectors and actors' dispositions towards business exchange.

Managerial Summary: SMEs are rapidly internationalizing, competing, and even collaborating with large enterprises across the globe. Studies note that social capital plays an important role in the internationalization process of SMEs. We examine the evolution of social capital and internationalization process of SMEs, finding an association between the phases of social capital development and stages of internationalization, and a cumulative effect in social capital formation as the process of internationalization unfolds once initiated. Common ethnicity can help move the process forward, while the strengthening of social ties based on the accumulation of trust is also an important factor in this evolution. The characteristics and intentions of entrepreneurs influence the speed of social capital development, whereas the type of business and industry in question influences its form.

Keywords: Social capital development, Network Dynamics, SMEs, microfoundation, Internationalization, methodology, India, UK

INTRODUCTION

A large number of studies have emphasized the significant role played by social capital in various contexts (e.g., Adler & Kwon, 2002; Burt, 1992; Nahapiet & Ghoshal, 1998; Prashantham & Dhanaraj, 2010). Many contributions have indicated how social capital facilitates the internationalization of companies—especially that of SMEs, which typically have limited resources (Coviello, 2006; Johanson & Vahlne, 2009; Prashantham & Dhanaraj, 2010; Zhou, Wu & Luo, 2007). Other work has focused on the types of network that are important for internationalization (e.g., Coviello, 2006). Early studies principally highlighted the connections between organizations and business networks (Johanson & Mattsson, 1988), whereas later ones identified the roles played by individual actors and their social ties in facilitating the recognition of opportunities in foreign markets (Ellis, 2000) and offsetting the liabilities of foreignness (Ellis, 2011).

Despite the recognition that social capital facilitates SME internationalization, only limited research has been conducted into how social capital evolves during the process of internationalization (e.g., Prashantham & Dhanaraj, 2010; Schwens et al., 2018). Most of this research is variance based and process-based studies are rare (e.g., Welch & Paavilainen-Mäntymäki, 2014). We require a better understanding of how social capital evolves or decays as the process of internationalization unfolds. It has been argued that network relationships are important for gaining access to market knowledge and other resources required for successful internationalization (Johanson & Vahlne, 2009). This view leads to a *prima facie* expectation that SMEs' internationalization and social capital development will evolve through corresponding phases. However, whether this is the case for SMEs coming from different environments remains a largely underexplored question. We know little about how SMEs originating from different contexts, such as emerging vs. developed markets, service vs. manufacturing sectors develop social capital as the process of internationalization evolves.

Studies have highlighted the important role played by entrepreneurs in social capital development and internationalization (Galkina & Chetty 2015; Musteen et al., 2014) though how this may evolve remains relatively underexplored (Prashantham & Dhanaraj, 2010). Following the call made by Chittoor, Aulakh & Ray (2017), Engel et al. (2017), Prashantham et al. (2019) and Schwens et al. (2018), the study reported here takes account of the role played by entrepreneurs or agency in the process of social capital development and internationalization from a microfoundational perspective. Engel et al. (2017) note that entrepreneurs' motives and reasoning influence the development of network structures and the outcomes of social capital. We therefore take account of the cognitive mechanisms, entrepreneurial motivations, and decision logics that may drive the outcomes of social capital and internationalization.

Against the backdrop of the above gaps, this paper aims to explore the evolution of social capital with internationalization, drawing on the perspectives of entrepreneurs in SMEs from India and the UK who are partners in international business. Burt (1992) noted that the parties in a relationship jointly own social capital, and that no one player has exclusive ownership rights over it. However, existing studies have generally investigated the views of only one party when exploring the enabling role played by social capital in internationalization. In order to address this methodological limitation, we access the perceptions of both relationship partners. The design of the research reported in this paper therefore incorporates two major advances on most previous work. The first is to adopt a fine-grained dynamic view of social capital development in the context of the stages of internationalization. The second is to take account of SME partners from two important economies – one emerging and the other developed – to highlight the micro dynamics of social capital across different contexts. Such an approach broadly serves the recent calls to further explore the exact nature and role of social capital and networks in internationalization (Schwens et al., 2018).

We offer several important contributions. First, we indicate that the stages of social capital evolution tend to accompany discrete stages of internationalization, albeit with some exceptions due to the nature of industrial sectors and actors' postures towards business exchange. Second, we extend extant scholarship (e.g., Ahuja et al., 2012; Engel et al., 2017; Prashantham et al., 2019) that has explored the role of entrepreneurs in social capital development and internationalization. The two social capital development and internationalization trajectories that we postulate provide a more nuanced analysis of the interactions that occur between the microfoundations of agents (entrepreneurs) with those of opportunity and inertia, and of how microdynamic mechanisms such as homophily and heterophily create, modify, or dissolve network relationships, which, in turn, influences social capital development and internationalization. While microfoundations of agency actions and heterophily microdynamics influenced the SMEs that initiated the process through creating new market ties, microfoundations of agency, opportunity and microdynamics – such as homophily, common identity and proximity– had influenced those internationalizing SMEs that initiated the process through creating existing social ties. Third, we address the gaps highlighted by Ahuja et al. (2012), Engel et al. (2017) and Vissa (2012) by studying the cognitive mechanisms, entrepreneurial motivations, and decision logics that drive the outcomes of social capital and internationalization. We identified that balanced socio-economic motivations influence the coevolution of social capital and internationalization of both developed and emerging market SMEs. Lastly, we offer empirical insights from two major economies – one developed economy (UK) and the other emerging (India).

CONCEPTUAL BACKGROUND

Social Networks and SME internationalization

The network perspective maintains that a company's internationalization is influenced more

by its network relationships (Coviello & Munro, 1997; Johanson & Vahlne, 2003) than it is by the psychic distance between domestic and foreign countries. A company's strategy emerges as a pattern of behaviours that are shaped by a variety of network relationships (Coviello & Munro, 1997:381).

Early studies were dominated by an inter-company business network perspective (Johanson & Mattsson, 1988). However, the importance of entrepreneurs was later recognized. Ellis (2011) distinguished entrepreneurs' social networks from their business ones principally at the analytical level. Citing Burt (1992), he defined a social network as the sum of the relationships linking a person with others, whereas a business network is the set of relationships linking a company with others (Johanson & Mattsson, 1988). Social networks normally exhibit high levels of interpersonal bonding between individual members.

Entrepreneurs can facilitate their companies' internationalization by acquiring and mobilizing resources through their social networks and ties (Prashantham, Dhanaraj & Kumar, 2015). Galkina and Chetty (2015:669) noted that the entrepreneurs' existing connections are important for their companies' initial expansion into international markets, whereas their subsequent internationalization depends on their networks' development. This is mainly because personal networks play an important role in the decision to go abroad, and facilitate the identification of new international partners (Ellis, 2011). Prashantham et al. (2015) believed that social networks might provide the necessary cultural knowledge when an entrepreneur enters culturally different markets.

Some studies have also highlighted the role played by ethnic ties in SME internationalization. Ethnicity represents a form of *weak kinship* (Prashantham et al., 2015:319), and can be considered as an important *theoretical variable* (Yang, Colarelli, Han & Page, 2011:637). Prashantham et al. (2015) linked ethnic ties to the principle of *homophily* as they noted that actors' who share common attributes, such as demography, tend to build

relationships and mutual trust swiftly and with less effort. An entrepreneur's foreign work experience, foreign education, and friendship or family links abroad provide access to ethnic ties in host markets (Prashantham & Dhanraj, 2010; Prashantham et al., 2015). However, while ethnic ties facilitate initial internationalization, non-ethnic ties may be more valuable for sustained international growth as they provide access to novel information, ideas, and opportunities (Adler & Kwon, 2002; Prashantham et al., 2015). Such *heterophily* is important for creating stable networks overtime (e.g., Ahuja et al., 2012). The significance of ethnic and national links has been identified for both developed and emerging markets' firms (Prashantham et al., 2015).

Larson and Starr (1993) put forward a dynamic view of network ties; they found that network evolution develop from a dyadic (entrepreneur's) informal idiosyncratic personalized relationships to a more formal balanced set of socio-economic relationships having a clear business emphasis. They maintained that this progression provides a more balanced network and enables companies to access additional resources for their further growth. Hite and Hesterly (2001:275) similarly concluded that networks evolve from socially embedded ties to more formal and calculative economic ones. Although both Larson and Starr (1993) and Hite and Hesterly (2001) reported that social or personal ties dominate the early stages of a network's evolution, Coviello (2006), by contrast, found that the early-stage networks of international new ventures [INVs] consisted mainly of economic ties. She concluded that economic ties dominate the INVs' concept generation, commercialization/internationalization, and growth stages, and are both unstable and idiosyncratic through all of these three stages. Engel et al. (2017) noted that network dynamics is mainly influenced by entrepreneurial or agential behaviour, which in turn is influenced by their motivation. However, we still lack a clear understanding of this issue, especially in the internationalization context.

In brief, while the forms taken by network interactions at different stages of internationalization remains an open question (Prashantham & Birkinshaw, 2015), it is generally acknowledged that they generate social capital for SME internationalization.

Social capital and SME internationalization

Recent studies have drawn attention to the importance of social capital in the specific case of SME internationalization. Scholars have noted the importance of social capital in offsetting the liabilities of SMEs, such as limited resources, expertise, and credibility (Lu & Beamish, 2001; Prashantham & Dhanaraj, 2010). Social capital helps SMEs to access information pertaining to their host markets (Coviello & Munro, 1997). It facilitates knowledge exchange between companies (Yli-Renko, Autio & Tontti, 2002) and influences the speed of internationalization by enabling experiential learning (Prashantham et al., 2019). Prashantham and Young (2011) identified a direct relationship between the social capital of SMEs and their learning. As well as contributing to knowledge creation and transfer, social capital developed through business and social interactions enables the identification of business opportunities that competitors cannot see and develop (Johanson & Valhne, 2006).

However, relatively few studies have addressed the dynamics of social capital—changes in its nature and contribution—in relation to the stages of SME internationalization (Welch & Paavilainen-Mäntymäki, 2014; Schwens et al., 2018). In their study of Indian software companies, Prashantham and Dhanraj (2010) analyzed an aspect of social capital dynamics by focusing on the mechanisms of decay and replenishment over time. They concluded that network learning is very important for the ability of new ventures to realize the potential contribution of social capital to international growth. In their longitudinal case study of six new biotechnology companies, Maurer and Ebers (2006) analysed how the configuration, management, and evolution of social capital affects company performance. In line with Larson and Starr (1993), they concluded that strong cohesive relationships with scientific communities

are crucial for the start-up stage, but can hinder further growth if they cannot provide other support. Maurer and Ebers also noted that those companies that were more successful at the business development phase managed to retain the quality of their established ties within the scientific community while, at the same time, developing new cohesive ties with other actors who could serve their evolving information and resource needs. Similarly, Agndal et al. (2008) explored the dynamics of social capital in the early and later phases of SME internationalization. They observed that efficacious and direct social capital is associated with the early phases, while serendipitous and indirect social capital is more prevalent in the later ones, and concluded that social capital changes are dependent on foreign-market entry. Yet specific agentic actions within the process of internationalization and evolution of social capital have only rarely been studied (e.g., Ahuja et al., 2012; Prashantham & Dhanraj, 2010).

The existing research offers important insights into the role played by social capital and network relationships in facilitating internationalization. However, it provides only limited information on the nature of social capital dynamics over the different evolutionary stages of SME internationalization. This paper aims at advancing the theoretical framing of this issue through an empirical exploration of the relative importance of entrepreneurs and agency and their motivations in social capital development and SME internationalization process.

METHOD

The study adopts a qualitative semi-structured interview method since we were interested in understanding the process of social capital development as internationalization evolved. A qualitative approach was therefore deemed appropriate to capture the dynamics of social capital development rather than adopting a variance based approach (Welch & Paavilainen-Mäntymäki, 2014). The sample comprised interviewees from two paired sub-samples: 30 British SMEs and the 30 Indian SMEs that were their principal exchange partners in

international business. Companies from Britain and India were selected for several reasons. Both are major economies that trade with each other but provide a contrast in their levels of development. Moreover, the first author is an Indian national holding higher education degrees from the UK and is a university faculty member there. He was able to conduct interviews both in English and (when necessary) the relevant local Indian language and his dual identity eased the securing of fieldwork access.

We focus on the dyadic relationship between the two sets of SMEs; more precisely, between their *entrepreneurs* (i.e., their principal decision makers). We focus on supplier-foreign customer relationship as it is regarded as an important source of assistance for SMEs internationalization (Ciravegna, Lopez & Kundu, 2014). In order to provide heterogeneity (Ritchie, Lewis & Elam, 2003) and variation (Miles & Huberman, 1984), the two samples were selected from five different manufacturing and service sectors. Studies indicate that the form of social capital and network relations that assist the internationalization of SMEs tend to vary across sectors as they represent distinct institutional and social systems (Child et al., 2017). Moreover, heterogeneity provided us an opportunity to explore the variation in the extent to which social capital development in the dyadic relations between the partner firms actually reached the maturity stage. As Table 1 indicates, most companies operated in the ICT and textile sectors. This choice of sectors was made to reflect the significant part they play in India-UK trade (UKTI, 2010). Since the selected SMEs were matched in terms of foreign business partnerships, they were also matched by sector. We followed the European definition of SMEs; i.e., companies having less than 250 employees¹.

We adopted a theoretical or purposeful sampling strategy (Easterby-Smith, Thorpe & Jackson, 2008), which means that the samples were mainly selected for theoretical reasons, or particular criteria, or purpose (Ritchie, Lewis & Elam, 2003). In the present case, the principal

¹ One Indian partner company exceeded this size limit by 25 employees

criterion was the existence of a continuing relationship that enabled social capital to develop in an international trading context. In order to access those experiences in some depth, we conducted semi-structured qualitative interviews. This qualitative approach is in line with recent calls for more qualitative research in the area of international business (Birkinshaw, Brannen, & Tung, 2011; Doz, 2011), particularly to promote theory development. For instance, Doz (2011:588) argued that ‘qualitative research methods offer the opportunity to help move the field forward and assist in providing its own theoretical grounding.’

The sampled companies were identified and accessed through several sources, such as gatekeepers, personal contacts, and the websites of trade agencies in both countries. Subsequently, snowballing was used (Easterby-Smith et al., 2008); this was very effective in getting introductions to the partner SMEs in the other country. Through this approach, 13 British and 17 Indian companies introduced us to their partners in India and the UK, respectively. Table 1 provides important information about these firms.

“Insert Table 1 Here”

We selected only participants who could provide rich and detailed information about issues associated with internationalization. The respondents included company Chairmen, founders, CEOs, and country managers. Table 2 shows the interviewees’ profiles along with international experience.

“Insert Table 2 Here”

The study adopted a *general interview guide approach* to conducting the interviews (Miles & Huberman, 1984). The interview checklist included five main questions and several supplementary ones to explore the dynamic nature of social capital. Apart from soliciting comments on the checklist from two senior academics working in the area, eight pilot interviews were also conducted with entrepreneurs from both UK and Indian companies to ensure the relevance and clarity of the interview questions. The interviews were conducted in

the field—i.e., face-to-face at the interviewees' premises. The length of interviews ranged between 60 and 90 minutes. The dynamics of social capital were investigated by asking the respondents to provide a retrospective account of how the social capital relevant to their companies' internationalization had evolved over time. Bizzi and Langley (2012: 227) note that retrospective research designs are particularly useful to study the evolution of social capital or network processes over a large period of time as it helps detect the important changes in networks and the emergence of clear sequential patterns (Provan et al., 2007).

We addressed the danger of a hindsight bias in retrospective research in several ways. First, the pairing of interviews allowed us to corroborate different accounts of the firms' internationalization processes (Berends, Van Burg, & Van Raaji, 2011). Second, as Ozcan and Eisenhardt (2009: 252) noted, we used an "event tracking interview technique by putting the respondents back in the time frame of the events and then guided them forward through different periods to produce a step by step-chronology of events". Third, since all our respondents were involved with decision-making on internationalization, they were able to provide their first-hand accounts. Fourth, we ensured anonymity and confidentiality to increase candidness among respondents (Ozcan & Eisenhardt, 2009). The interviews were conducted in English; however, in India, on two occasions and in order to obtain maximum information, the respondents were encouraged to speak in their regional languages. All interviews were audio-recorded to enable us to focus on an analysis of the narrative that emerged from a full record of each interview.

We began the analysis by identifying the stages of internationalization of both British and Indian SMEs. First, we identified pre – and post – internationalization processes. We then distinguished between post-entry internationalization (Morgan-Thomas & Jones, 2009), and committed internationalization (Crick & Spence, 2005) stages. The stages of social capital development were identified by analysing respondents' descriptions. First, we looked at how

they initiated the relationship with their partner and responses show that the British and Indian entrepreneurs initiated their relationships with each other either through creating new relationships or by using existing contacts. Second, we looked at the process of social capital progression, which is the development phase of social capital and is oriented toward developing trust and mutual understanding between partners. The maturity stage involves a high level of shared identification between the partners and provides solid social capital both for maintaining the partnership and for developing it further. The emerging themes were closely associated with Ahuja et al.'s (2012) work on network dynamics and its microfoundations and microdynamics dimensions. For example, creating a new market tie can be related to heterophily, whereas ethnic or family ties are consistent with homophily principle. We iteratively moved backwards and forwards between the data and our frameworks to identify the convergence of themes and pattern within and across cases (pattern matching) (Bizzi & Langley, 2012; Miles & Huberman, 1984). The resultant frameworks are discussed in the theory building section.

FINDINGS

We first report how the British and Indian SMEs had initiated their mutual social capital, and then on how their relationships had developed or progressed over time. The final section explores whether these relationships had reached what might be called a mature stage, and how they had been maintained successfully. Furthermore, we explore how the stages of social capital development had evolved through the phases of internationalization. The latter are categorized into pre-, post-entry, and committed internationalization. Below, we discuss the main findings.

The pre-internationalization phase and initiation of social capital

The pre-internationalization phase involves the preparations needed to build relationships with potential partners in foreign countries. The main processes involved in this stage include identifying, negotiating, selecting, and creating relationships with potential future partners. As mentioned above, we analysed network relationships, microfoundations, microdynamics, and contexts. Our findings show that the British and Indian entrepreneurs had initiated their relationships with each other by either creating a new relationship or using existing contacts; such agentic actions were important during the process of internationalization (e.g., Ahuja et al., 2012).

Network relationship

At the initiation stage of social capital development, the network structure varied between manufacturing and service sector firms. Insofar as the creation of a new relationship means that neither the partner companies nor the entrepreneurs had prior links before entering into it, this implies that the relationship will be mainly contract-based. In practice, this mode of initiation was found to be more common among manufacturing companies than among service ones. By contrast, most of the British and Indian service sector SMEs surveyed had used their existing relationships to initiate the social capital required for their internationalization. Existing relationships include both direct ones and those with mutual third parties. These partnerships are mainly socially or emotionally embedded.

Microfoundations and Microdynamics

Entrepreneurial or agency behaviours played an important role in the initiation of social capital at the pre-internationalization phase. Entrepreneurial behaviours are mainly influenced by the economic benefits of trade partnership. The entrepreneurs of the companies that had created new relationships had done so by participating in trade fairs and conferences or utilizing digital media. These business relationships could be further classified into serendipitously and

intentionally created ones. British companies had made intentional efforts to create new business relationships with Indian companies. This could be attributed both to the pursuit of a low-cost purchasing strategy by developed country companies and the locational advantages of India, such as cost-effectiveness and the availability of a skilled workforce in sectors such as IT and textiles. Moreover, the Indian textile and software sectors have always enjoyed a good reputation in the global market. The CEO of a UK Textile company said:

“We met them at the Frankfurt trade fair in 1984. We were impressed with their products and their quality...they are cost effective too. We then started dealing with them directly.”

On the other hand, the Indian textile manufacturers had mainly initiated their internationalization to the UK by tying up with trade agencies that they had met at trade fairs, that provided market knowledge and experience, and that helped them deal with foreign clients.

For example, the owner of an Indian textile company said:

“We met them at the Frankfurt trade fair. They saw our samples and I think [they] were happy with our quality and style; so they expressed their interest. They are [trade] agents...they are supplying to other big retailers. We always wanted to export but this was totally an unexpected enquiry. We wanted to export directly to the retailers, but that’s always very difficult as we did not have any connections with them.”

These statements indicate that the aims of the tie creation were to complement each other’s resources and capabilities, which is consistent with Ahuja et al.’s (2012) heterophily microdynamics concept.

On the other hand, the entrepreneurs of the service sector companies noted that it was the opportunities provided by their existing network relationships that had influenced their internationalization decisions. Our findings suggest that service sector companies enjoy better network relationships than manufacturing ones; this is because the former had been mainly founded by entrepreneurs who had previously either worked in international organizations or foreign countries and were either returnee entrepreneurs or ethnic Indians, thus possessing

significant international experience. For example, the CEO of a British software development company, who was a returnee entrepreneur, said:

“My Indian partner is a former colleague. We worked together in a large MNC here [London]. We found an opportunity and decided to quit the job...started our own firm. He is based in India and is looking after the software development activities. We both are software professionals and have good experience...we know the market very well.”

The Indian respondents mentioned that their international experience had always given them the confidence to deal with foreign companies. The owner of the quoted CEO's partner firm in India commented that:

“I have worked in the USA and UK...for more than 12 years. I started this company along with an old colleague there. I know them very well. I also have good connections. I know how things work there.”

One-third of the British entrepreneurs included in this study were of Indian origin. Their counterparts in India said that their partners' ethnic background had facilitated the initiation of their social capital in the pre-internationalization phase. Common ethnic backgrounds or return migration instances span national boundaries both cognitively and relationally. Cognitively, they offer valuable market and cultural knowledge of the partner country. Relationally, they provide network connections for entrepreneurs in both countries, connections that can also sometimes overcome institutional barriers. These findings are consistent with Ahuja et al.'s (2012) homophily network microdynamics concept. For example, the senior partner of a British legal company said:

“Regulations prevent foreign law firms from operating in India. Since I am an Indian who has an established business presence in the UK and launched businesses, I have the right to work in both countries. I came here to do my Master's in Law...then started this firm with some friends. My brother runs our partner/sister company in India, which was started by my father.”

The managing director of its counterpart firm in India said:

“We are in this profession for a very long time...ours is a family-owned firm. Our partner firm in the UK is owned by one of my brothers. He started that with other colleagues. It is like a branch but they are registered as a separate company there. He did his studies in the UK, and then he and his friends started it as an LLP [limited liability partnership] company. We started dealing with international clients only after we built this relationship.”

Overall, the findings highlight the importance of microfoundations such as agency and opportunity and that social capital formation is driven by microdynamic aspects such as homophily and heterophily. Although location-specific advantages (economic factors) are the key motives for the internationalization of these firms, the reasoning informing their decisions varies between manufacturing (economic rationality) and service sector (social rationality) companies.

Post-entry internationalization and social capital progression

The post-entry internationalization stage is the one that comes after a company has achieved its first international sale (Morgan-Thomas and Jones, 2009). It is the phase during which the partnership is established as a productive venture. Both the British and Indian respondents revealed that, once established, the agents or entrepreneurs had made intentional efforts to influence social capital development. A lack of or irrational agency activities will lead to the decay of social capital. The organizational actors had used various methods to develop their social capital with their partners in the foreign market. These mechanisms had facilitated not only their market expansion but also their acquisition of market-wide knowledge.

Microfoundations and Microdynamics

Our findings show that microfoundations such as agency and inertia (Ahuja et al., 2012) influenced social capital progression at the post-entry internationalization stage. However, it was also evident that the motivations and reasoning of the organizational actors were mainly driven by microdynamics such as homophily, heterophily, and reciprocity. The

motivations indicated by the respondents at this stage can be broadly classified into social (developing mutual trust and understanding) and economic (generating profit or knowledge sharing/learning). The actors had made both rational economic and social norm-based decisions.

Economic motives: the decision makers in the companies that had initiated their social capital by creating market-based or trade relationships reported that their main motivation at the post-entry stage had been to generate profits and learn about the markets and processes. Resource complementarity had influenced their decisional reasoning.

Maintenance of Market Ties: The actors in these firms had made conscious efforts to maintain the market ties they had created at the initiation stage. These relationships were mainly guided by contractual agreements because the actors believed that these offset the impact of the psychic distance and avoided any potential conflicts between partners. For example, the CEO of a British IT company said:

“We have a contract...very detailed and we stick to it.. Its important as doing business in India is always risky and difficult. Their sense of time and the UK sense of time are different. But you have to work on that. I make sure that people understand what I mean and that I understand what they mean and understand. It helps overcome any potential conflicts...it’s for our mutual benefit.”

The counterpart in India said:

“Almost all our foreign clients had gone through some failed Indian relationships; so they insist on a contract, especially at the early stages. They think it’s important to maintain the relationship. We also think that it’s good as it defines our role, contribution, payment terms, etc. Moreover, we deal with lots of confidential information...so it’s important.”

Contract-based market ties can be easily established or dissolved by the actors, and increase the latter’s brokerage and information power as they avoid exclusivity and mutual overdependence. For example, the respondent from a British textile company, which is part of

several global supply chains, revealed that it attaches more importance to business considerations such as product quality and price than to the relationship aspect.

“They [the Indian partner] have always been a good supplier. They are supplying to us for more than 20 years. We only contact them for business purposes. They are just one of our suppliers...there is no friendship between us. We are in a highly competitive industry...price and quality are very important for our survival. We mainly look at their price...we also see if they can deliver on time. We will approach a different supplier if we get a better deal.”

Market ties transformed into hierarchical ties: Our findings report that a lack of integrity and competence on the part of the actors/agents would lead to non-reciprocity in the partnership, which, in turn, would lead to reduced interaction between partners and enable one party to dominate the partnership and transform market ties into hierarchical ones. hierarchical ties without a social overlay would lead to the decay of the relationship. The owner of a British software development firm said:

“They claimed that they had expertise in different software but I never received any suggestions or advice. They just do what I ask for...we have to explain everything several times. It’s much more stressful than doing myself. Their price is very competitive and they do a decent job if they understand our instructions well, but I think I can find better people. We are now looking for a new trade partner who can help us with the technology side.”

On the other hand, the partner in India said:

“We were all fresh and new and didn’t know how to deal with him. He would always ask for our suggestions but we didn’t want to be too critical; so we were just following his instructions...though he was a bit dominating at times. I don’t think he wants to continue with this, but we learned a lot from this experience . . . so I have no regrets.”

Social-economic motives:

The organizational actors from most of the companies included in this study reported that, alongside the economic motives of learning and knowledge exchange, social factors such as developing trust and personal bonding with partners had influenced their decisions. Social norms such as embeddedness and cohesion had influenced the agents’ reasoning. The

microfoundations of agency actions, inertia, and microdynamics—such as homophily, partner expertise, network proclivity, and routine interaction—had influenced the network persistence and change at this stage. The following types of network dynamics were observed:

Market ties transformed into Social ties: The SME entrepreneurs from both countries considered trust between partners to be very important for the development of social ties. The organizational actors had made intentional efforts to develop trust, mainly recognizing the integrity and competency of their partners. Perceived capabilities and integrity had increased the reciprocity in the partnerships and had ensured high levels of knowledge exchange between the partners. The actors had perceived that keeping promises and demonstrating a strong sense of justice to each other had been the primary factors promoting social capital development. For instance, the managing director of a British real estate company said:

“Integrity is very important. Integrity decides the trust between partners. If a party starts behaving without integrity the initial goodwill fragments. If there is a small lack of integrity you have to start turning a sort of blind eye. If it is a material lack of integrity there is a real problem...that affects goodwill.”

The partner in India said:

“So it is absolutely essential to keep our word. I think that is why small companies like us are doing well. We have been consistently successful in keeping our word.”

Another element that the entrepreneurs believed to be crucial for the development of social ties was the competency of their partners. The findings suggest that partnerships characterized by equal contributions will last longer than those with disparate contributions and capabilities. According to the British respondents, the other important factors that had influenced social capital development had been hiring ethnic Indians in their UK offices or hiring people locally in their Indian branches. The respondents from the British companies believed that, apart from reducing the difficulties of network building and communication in India, this policy had also helped to limit the impact of psychic distance. However, the offshore centres of British

companies in India had experienced cultural clashes when hiring employees locally. By contrast, the Indian respondents did not mention this factor mainly because none of the sampled Indian companies had owned a branch or offshore hub in the UK.

Social Ties maintained: maintaining friendship and mutual trust through interaction and communication. Communication between partners is crucial for the progression of social capital and is mainly influenced by the actors' homophily. The entrepreneurs from those sample companies that already had social ties had found it easy to enhance their personal relationships and to develop better interactions and understanding on the basis of good communication. The existing social capital was, in some cases, based on ethnic ties. For example, the owner of a British IT firm said:

"We knew each other before we started the business together. We both are Indians...that made things easier...there is no language issue. We talk almost every day. I travel as well. I am a shareholder in his company."

The partner said:

"He is an Indian living in the UK, so communication is not a problem. He understands our issues...we can talk to him if we have any issues. I mean, if we have a shortage of employees or can't deliver on time. That's difficult if it's a foreign client. He has a partnership [shares] in this firm, so he visits at least twice a year."

Social Ties transformed into Hierarchical Ties: While we have highlighted the positive contribution made by ethnic ties to social capital development, there is a possibility that such ties can sometimes become over-embedded and therefore constrain the progress of internationalization. Over-embeddedness can turn a social relationship into a hierarchical tie. Should this happen, it could represent a divergence between the stages of social capital development and of internationalization. For example, the managing director of an Indian software development company commented:

"My partner is a British Indian and he has shares [investment] in the company as well. There are several advantages to having a British Indian partner, but I think

there are some disadvantages as well. For example, he never introduced me to any new clients. He deals with the clients there and we are too dependent on him. I think we could have grown faster if we were not with him but we thought it was a safer option.”

However, the partner in the UK said that, although their growth was slow, they had a strong personal relationship.

“Since I am an ethnic Indian, I can understand them very well. We got on really well. I have invested in their company. I am looking after all the marketing and sales activities. We were mainly focusing in the UK and Europe, but now slowly moving to other markets as well.”

The Committed Internationalization and Social Capital Maturity Stage

Committed internationalization refers to the phase, subsequent to the post-entry internationalization one, in which the international partners are both committed to continuing, and indeed developing, their business together. The social capital maturity stage is characterized by a high level of interpersonal relationship and personal bonding between partners. The actors/entrepreneurs in the partner companies share highly informal relationships based on considerable mutual trust. Those companies that have reached the maturity stage are the ones that have developed social and socially embedded hierarchical ties. Some firms reported a divergence between the stages of internationalization and of social capital development. In other words, the evolution of internationalization and the development of social capital do not always go in tandem.

The main task for companies and their managers at this stage is to maintain the social capital required for their business in a given country. The sample SMEs had adopted various practices to achieve this. For those at this stage, a virtuous cycle had emerged in which stability in inter-partner relationships encouraged mutual support and understanding; this, in turn, had contributed to maintaining the relationship. The quality of their relationships and the additional capital they could provide was manifest in the following distinctive features.

Microfoundations and microdynamics

Our findings reveal that, at this stage, socio-economic factors motivated the actors' decisions. At this stage, the economic dimension denoted the economic function or resources that the tie could provide, whereas the social dimension concerned the social embeddedness between partners. However, the decision making was mainly influenced by social reasoning, such as shared ideas, norms, values, interpretations, and expectations of reciprocity. The actors' behaviours or their actions and interactions were mainly influenced by microdynamics such as homophily, proximity, common goals, common identity, and reciprocity. This stable stage showed a considerable accumulation of goodwill and trust in the form of identifying each other's interests and emotions. This stability ensured continuity in the relationships that augmented the mutual obligations between the firms and the further development of trust and cooperation. Goodwill and trust ensured continuity in social ties. The general manager of a British ICT company said:

“He always helps me. We can't sell if they don't help. They understand that they need to help us regardless. Understanding is very important to keep our business or relationship.”

Similarly, the managing director of the Indian partner company commented:

“It is mostly a trust-based relationship, but it has grown over the years. He was my first client. He knows most of my employees very well. He gives cash awards to them if he makes profits. He is very supportive and helpful if we have any issues. We had some difficulties with our delivery but he was very supportive. Similarly, he will let me know if he has any difficulties.”

However, the entrepreneurs also reported that the obligation of over-embeddedness in stable and high-trust relationships would make them willing to offer references and business introductions to each other. This would increase the mutual commitment between the partners and minimize their mutual over-reliance. The interviewees from both the service and manufacturing companies made statements to this end. The entrepreneurs transformed social

and hierarchical ties into testimonial ones to ensure further growth and commitment and to reduce the constraints of over-embeddedness.

THEORY-BUILDING

This paper aims to articulate how the network microfoundations of agency and microdynamics influence the coevolution of social capital and internationalization among British and Indian partner SMEs. Figures 1 and 2 are visual process maps (Langley, 1999) that identify the key elements of the three postulated social capital development stages and internationalization phases. *Initiation* involves the process of identification and selection of a trade relationship, which, as Child et al. (2019) suggest, is necessary for actors to do business together and is integral to the pre-internationalization phase. The social capital *progression* process involves the transformation of the already established social capital to the end of realizing benefits. The final stage, *maturity*, is characterized by close interpersonal relationships and personal bonding and is generally associated with committed internationalization. Some exceptions will be noted later. The frameworks and their implications are discussed in detail below. The findings were pattern-matched with the wider literature to develop propositions for further research.

The development of social capital through the stages of internationalization by those firms that had initiated the process through creating new market ties (Figure 1)

“Insert Figure 1 Here”

Social capital initiation and pre-internationalization

Among these firms, the microfoundations of agency dominated the social capital initiation and pre-internationalization phases. Agential actions and behaviours determined by whom and how the connections between the partnering companies were to be established (Burt, 1992; Nahapiet & Ghoshal, 1998). This was influenced by heterophily network microdynamics (Ahuja et al.,

2012). Heterophily indicates the degree of dissimilarity or diversity that exists among trade partners (Parker, 2009). For these firms, the entrepreneurs' decisional reasoning was mainly influenced by economic rationality and by the possibility of complementarities (Ahuja et al., 2012), and the ties which they formed were mainly transaction- or market-based.

Manufacturing companies dominated this type of social capital initiation, but there was a clear difference between the British and Indian partner SMEs. The British companies were mainly importing from or outsourcing to India due to the advantages presented by the latter country in terms of low cost and availability of talents (Krishnan & Prashantham, 2018). This is consistent with efficiency seeking reasoning (Hollenstein, 2005). On the other hand, the Indian companies had been motivated to develop relationships with their UK counterparts mainly by market seeking (Hollenstein, 2005) and competence-enhancing considerations (Prashantham et al., 2015). These included market expansion, opportunities to increase profitability, learn about new technologies and market conditions, and to enhance reputation. These reasons are consistent with previous observations made on the internationalization of emerging market companies (Child & Rodrigues, 2005). The contrasts in the respective motivations to internationalize can, therefore, be mainly attributed to the fact that most of the sample Indian companies were exporting and most of the UK ones were importing. This suggests that different types of internationalization (inward and outward) influence the creation of economic social capital (Agndal et al., 2008).

Social capital progression and post-entry internationalization

The interaction between the microfoundations of agency and relationship inertia (Ahuja et al., 2012) dominated the social capital progression and post-entry internationalization stages. Consistent with Ahuja et al. (2012), the entrepreneurs were found to have been deliberately creating supportive social structures by modifying, strengthening, or dissolving established ties. In realising the benefits of complementarities in heterophilous relationships (Tasselli et

al., 2015), the entrepreneurs (mainly from manufacturing firms) reported that they had intentionally opted to maintain formal market ties as these reduced dependencies and over-embeddedness, which could have led to structural holes and reduced their brokerage power (Ahuja et al., 2012). Market ties characterized by regular communications ensure resource complementarity (Rivera, Soderstrom & Uzzi, 2010), which is associated with greater profits, learning about markets, and the internationalization of processes and, hence, with superior survival prospects (Parker, Halgin & Borgatti, 2016).

Similarly, the entrepreneurs – mainly those from service sector firms – believed that the microfoundations of relationship inertia due to routines, norms, and accumulated collaborative practice had influenced the actors' networking propensity (Ahuja et al., 2012) and their inclination to make intentional efforts to develop trust and to add a social dimension to their market or transactional ties. Routine interactions and norms had increased the persistence and reciprocity of their relationships (Giuliani, 2013). The underlying benefits of social ties include a high level of mainly product- and market- related knowledge exchange and the development of mutual trust and support in coping with external market uncertainties.

The findings also show that non-reciprocity in relationships transforms heterophilous market-based ties into hierarchical ones (Ahuja et al., 2012). This transformation is driven by the asymmetry in the entrepreneurs' competencies and contributions and by their respective statuses (Giuliani, 2013). The entrepreneurs' responses revealed that some Indian companies were lacking in capabilities and confidence and were over-reliant on their UK counterparts for accessing new technology and legitimacy. This is consistent with Krishnan and Prashantham's (2018) observation that Indian firms lack technological competence and are mainly process innovative. The lack of homophily and social overlay in these partnerships led to a decay in the relationships.

Social capital maturity and committed internationalization

The findings show that only those actors who had developed social ties reached the maturity stage. At this stage, the network microfoundations of agency, opportunity, and inertia influenced social capital dynamics (Ahuja et al., 2012). High levels of personal bonding, common identity and goals, and proximity between partners were reflected in greater levels of trust and reciprocity (Ahuja et al., 2012). Close personal bonds and high levels of trust between partners had ensured greater levels of knowledge transfer and higher levels of economic benefits. However, in order to reduce the potential impact of over-embeddedness and the limitations of structural holes, the entrepreneurs had made intentional efforts to transform their social ties into testimonial ones, which involved providing references and testimonials and helped the firms to expand their social capital. Overall, this stage provided solid social capital for both maintaining and further developing partnerships.

However, the convergence between committed internationalization and social capital maturity stages was only seen among those firms that had developed social or emotional ties. For example, some manufacturing companies that had maintained market ties during the post-entry internationalization stage placed a higher degree of emphasis on economic complementarities; these had led their partnerships to be commercially successful but also to a limited establishment of trust due to weak social interaction and personal relationships. In such cases, the exchange relationships had been unstable, which had led to levels of social capital development lower than those required by the scope and degree of internationalization. The above discussion leads to the following propositions regarding network structure:

***PI:** The creation of new heterophilous market ties for the initiation of social capital and of internationalization will be instrumental for the breadth of social capital development across emerging and developed markets' SMEs.*

P2: For internationalizing SMEs that initiate social capital by creating new relationships, the networking process is idiosyncratic in all three stages of social capital development.

P3: Manufacturing sector SMEs are more likely than service sector SMEs to use heterophilous market ties for the initiation of social capital at the pre—internationalization phase.

The development of social capital through the stages of internationalization by those firms that had initiated the process through using social ties (Figure 2)

Social capital initiation and pre-internationalization

The opportunity provided by existing relationships and ethnic ties facilitated the creation of social ties in the pre-internationalization phase. The opportunity to construct microfoundations had been mainly influenced by the microdynamics of proximity and common identity (Ahuja et al., 2012) in which homophily had influenced agency behaviours and decision logics. The findings indicate that, although the identification and selection of a trade relationship had been influenced by homophily or emotional reasoning, the agents' perceptions of the economic or transactional benefits of a trade partnership had been the fundamental reason for their internationalization. This is consistent with Prashantham et al.'s (2015) observation that Indian firms internationalize for mitigating legitimacy and resource deficiencies whereas, as Krishnan and Prashantham et al (2019) noted their competitiveness lies in their low cost advantage. This type of social capital initiation was found to be dominant among service sector companies. This had mainly been due to the high tacit component of service knowledge and the likelihood of service firms being smaller and therefore less formal in their cultures.

“Insert Figure 2 Here”

Social capital progression and post-entry internationalization

The microfoundations of agency and inertia dominated the social capital progression and post-entry internationalization stages. In firms sampled, homophilous social ties achieved through existing relationships and ethnic ties had facilitated high levels of interaction and routine communication between partners. Persistent interaction and communication had enabled the establishment of close personal bonds, had ensured greater levels of trust, cohesion, and reciprocity between partners, and had reinforced their personal relationships. Our findings support Yli-Renko et al.'s (2001:590) view that “*social interactions develop over time in dyadic relationships as exchange partners become comfortable with each other's competence and reliability in economic exchange.*” The entrepreneurs reported that socio-economic factors such as learning, knowledge exchange, and the development of personal bonds and trust with partners had been the key motivators at the post-entry internationalization stage.

A small number of entrepreneurs – who had initiated their internationalization by means of homophilous social ties – mentioned that non-reciprocity and asymmetry in partnerships could transform social ties into hierarchical ones. Asymmetry can arise when the entrepreneurs have different statuses and capabilities and make different contributions. Studies indicate that partner prestige and status provide access to resources and increase the usefulness of networking (Burt, 1992) and the instrumentality of social capital (Engel et al., 2018; Prashantham et al., 2015). Nonetheless, the findings show that any disparity in capabilities and contributions can lead to over-dependence and domination in partnerships and a divergence between social capital development and internationalization. However, the social overlay enhances the strength and halts the decay of hierarchical relationships.

Social capital maturity and committed internationalization

The maturity stage of social capital development – which is dominated by the microfoundations of agency, opportunity, and inertia – is characterized by social and socially embedded

homophilous hierarchical ties. The quality of the relationship between exchange partners is reflected in the extent of their shared representations, such as common goals, norms, and mutual expectations, pertaining to goodwill trustworthiness (Nahapiet & Ghoshal, 1998). The convergence between the committed internationalization and the social capital maturity stages was seen only among firms that had developed social or emotional ties. Besides generating economic benefits, the close personal bonds between partners had facilitated the exchange of knowledge, including high levels of its tacit form, between them. Therefore, consistent with Hite and Hesterly's (2001) observation, we argue that the balance between socio-economic factors was important to sustain the partnership.

As indicated earlier, agents had made intentional efforts to contain over-embeddedness or structure holes by transforming social ties into testimonial ones. Similarly, agents had proactively reduced the asymmetry and strengthened the social capital in hierarchical ties by transforming them into testimonial ones through the provision of customer introductions. Such testimonial and referral ties, in turn, provided additional business opportunities to the focal firm (Prashantham & Dhanaraj, 2010). Based on this discussion, we suggest that:

***P4:** SMEs from both emerging and developed markets that use existing homophilous ties for the initiation of social capital at the pre-internationalization phase enhance the depth of social capital development.*

***P5:** For Internationalizing SMEs that initiate social capital using existing relationships, the process is intentional or calculative in the initiation stage and path-dependent in the progression and maturity stages of social capital development.*

***P6:** Internationalizing service sector SMEs are more likely than manufacturing sector SMEs to use homophilous social ties for the initiation of social capital at the pre—internationalization phase.*

We noted some divergence between the evolution of social capital and internationalization. For example, whereas trust and bonding were high among some service sector co-ethnic partners (homophily), economic complementarities were weak; this had led to social capital reaching maturity, albeit with a limited scope and degree of internationalization. In these cases, the evolution of internationalization and the development of social capital working in tandem may not be observed. In such scenarios, internationalizing SMEs are at greater risk of losing out to those competitors that have progressed along a path of social capital development and in the evolution of the scope and degree of their internationalization from pre- to post- committed internationalization. The above discussion leads to the following two propositions:

***P7:** Whereas economic motivations are instrumental for successful internationalization, social motivations influence the development of social capital; and balanced socio-economic motivations influence the coevolution of social capital and internationalization of both developed and emerging markets' SMEs.*

***P8:** Balanced rational and emotional decision logics are instrumental for the development of trust and the commercial success of partnerships across the developed and emerging markets' internationalizing SMEs.*

These findings provide much fine-grained understanding of the evolution of social capital and internationalization; as such, they are in contrast to existing studies, which indicate that social capital plays a uniform role in the process of internationalization (Coviello & Munro, 1997; Prashantham & Dhanaraj, 2010).

DISCUSSION & CONCLUSION

The dynamics of social capital/network are among the issues least studied in the internationalization of SMEs. This study extends existing research on social capital, network dynamics, and the internationalization of SMEs in important ways. Following the call made by Chittoor et al. (2017), Engel et al. (2017) and Prashantham et al. (2019), we investigated the role played by entrepreneurs or agency in the process of social capital development and internationalization from a microfoundational perspective. Moreover, by studying the entrepreneurial motives and reasoning that drive the outcomes of the various stages of social capital development and internationalization, we address the gap highlighted by Engel et al. (2017) and Prashantham et al. (2015). The following section will discuss theoretical contributions, key implications for practitioners and policymakers and limitations as well as future research directions.

Agential microfoundations and network dynamics

Although extant scholarship has highlighted the important role played by entrepreneurs in social capital development and internationalization, its dynamic nature has remained relatively underexplored. We extend this observation by providing a more nuanced analysis of the interactions that occur between the microfoundations of agents (entrepreneurs) with those of opportunity and inertia, and of how microdynamic mechanisms such as homophily and heterophily create, modify, or dissolve relationships, which, in turn, influences social capital development and internationalization. Consistent with Ahuja et al. (2012:18), the findings report that agents/actors purposively seek to create social structures that favour them.

The findings suggest that market or transactional ties dominate the initiation of social capital and the pre-internationalization phase for those firms that had initiated their relationship through heterophily, which is mainly influenced by the resource complementarity benefits of heterophilous ties. This is consistent with Coviello's (2006) argument that economic or market

networking dominates the initial stages of INV network development. However, unlike Coviello (2006), these were mainly reported by traditional manufacturing firms. While those companies that had initiated new social capital through homophilous ties can be classified as INVs, they did not conform to Coviello's (2006) observation that social ties are less instrumental in an INV's early internationalization. On the other hand, consistent with Larson and Starr's (1993) and Hite and Hesterly's (2001) views, the findings show that social or personal ties are paramount in the early stages of network evolution for both manufacturing and service SMEs. This also conforms to Adler and Kwon's (2002) and Prashantham et al.'s (2015) observation that homophilous ties generated from prior experience and ethnic ones are important for initial internationalization as they provide easy access to new markets and resources. These findings indicate that service firms are more likely to rely on existing ties, either direct ties or those based on referral, for network building compared to manufacturing SMEs because much service provision is on the basis of personal contact and advice (e.g., working with a client company on an IT project).

The network dynamics at the social capital progression stage varied greatly between those firms that had initiated their relationship through heterophilous market ties and homophilous social ones. The entrepreneurs of some of these firms had made intentional efforts to retain their heterophilous market ties mainly to benefit their resource complementarity (Ahuja et al., 2012); this is consistent with Chandra et al.'s (2009) view that balanced skills are conducive to good venture performance and are more valuable for sustained international growth as they provide access to novel information, ideas, and opportunities. Despite the benefits of heterophilous relationships, we find that there is a propensity for entrepreneurs to transform market ties into social ones (Tasselli et al., 2015; Vissa, 2012). This could be because—apart from enabling the establishment of economic benefits, social ties facilitate a high level of knowledge transfer (including tacit knowledge) between partners. This is mainly

facilitated by the relational inertia achieved through reciprocity, social norms, and routine communication (Ahuja et al., 2012). This supports Maurer and Ebers's (2006) view of the importance, at the business development phase, of the development of cohesive ties with other actors that could serve a firm's evolving information and resource needs. Social ties facilitate the development of trust (Child et al., 2019) and, within them, information flows with greater speed and quality and is more credible (Agndal et al., 2008; Ellis, 2011). Persistent interaction and communication had enabled a close personal bonding and had ensured the establishment of greater levels of trust and reciprocity between partners in relation to the social ties achieved through existing relationships and ethnic ties. As noted by Adler and Kwon (2002), reciprocity is a more generalized expectation, rather than just an exchange. This supports Yli-Renko et al.'s (2001:590) view that "social interactions develop over time in dyadic relationships as exchange partners become comfortable with each other's competence and reliability in economic exchange."

A lack of reciprocity in a relationship could create asymmetry in the entrepreneurs' competencies, contributions, and statuses (Giuliani, 2013), which would lead to the formation of hierarchical ties (Ahuja et al., 2012). In some of the service sector companies, the British entrepreneurs dominated the partnerships as they enjoyed superior reputation and market access than their Indian counterparts. The findings of this study also suggest that, while within homophilous hierarchical ties, non-reciprocity and cognitive divergence can lead to a divergence between social capital development and internationalization, within heterophilous hierarchical ones they can actually lead to the dissolution of relationships. In other words, when devoid of a social overlay, hierarchical ties (Ahuja et al., 2012) could lead to the decay of a relationship, which would further hinder the evolution of the various stages of internationalization.

A high level of shared identification and trust in the social/emotional ties and homophilous hierarchical ties that had reached the social capital maturity stage ensured interactions among individual members by incorporating a general understanding of the appropriate ways to interact (Lindstrand et al., 2011:197). However, in these relationships, over-embeddedness could constrain the progress of internationalization, which, as Prashantham and Dhanraj (2010) noted, might be an impediment to competitive advantage due to constrained ways of thinking and acting and to limited access to diverse resources. However, the structural holes featured in these networks enable entrepreneurs to learn about brokerage structures and to spot any related opportunities (Zaheer & Soda, 2009). As Zhou, Wu and Luo (2007) highlighted, at the maturity stage, the ties not only facilitate high level a of tacit knowledge sharing but also provide referrals (testimony) to other contacts, which helps maintain the relationship (Helfat and Peteraf, 2003) by bridging links with individuals in separate social relation networks and by providing access to novel information and new ideas and opportunities.

Agency motivation and decision reasoning

The findings show that the motives and reasoning of entrepreneurs influence the development of network structures and the outcomes of the various stages of social capital development and internationalization. Based on the firms' characteristics, we broadly classified the motives that drive their internationalization as reflecting their social and economic statuses. Similarly, entrepreneurial logics and reasoning are classified as emotional and rational. We found that economic motives dominated the initiation and pre-internationalization phases both for those firms that had created a new relationship and those that had used an existing one. The entrepreneurial reasoning, at this stage, was split between using emotional (homophilous existing ties) and rational (heterophilous new ties). However, the entrepreneurial motive varied between British and Indian firms. Consistent with Krishnan and Prashantham (2018) we found

that British firms internationalize to India mainly to increase their efficiencies, whereas for Indian firms the motive was mainly to access new technology, market and increasing legitimacy in home and international markets.

Entrepreneurial motives and decision reasoning at the social capital progression and post-entry internationalization stages varied within and between the proposed trajectories. Consistent with Ahuja et al (2012), we argue that the economic complementarity of heterogeneous market ties influenced the rational decision logics of those entrepreneurs who had decided to maintain their market ties. This shows a divergence between social capital development and internationalization, as strong economic motives and rational choices could lead a partnership to commercial success, whereas the formation of trust was limited due to the weakness of the social interaction and personal relationships. Balanced socio-economic reasons (Shipilov et al., 2014) influenced the entrepreneurial motives of those firms that had developed social ties. They had made rational choices to develop close personal bonds with their partners. However, entrepreneurial motives and decision logics varied between partners that had developed hierarchical ties—whereas economic motives had influenced the sample British entrepreneurs, their Indian counterparts had showed neither economic nor social motivations. This supports Prashantham et al. (2015) and Krishnan and Prashantham's (2018) observation that the motivations of Indian firms differ from those of developed country firms as they lack resources and are legitimacy deficient. Asymmetry or a lack of entrepreneurial motivation and decisional reasoning could lead to the dissolution of a relationship, particularly for those firms that lack social overlay and internationalize in order to acquire economic benefits. These findings confirm Engel et al.'s (2017) observation that those entrepreneurs who form new ties usually make intentional efforts to expand their networks.

On the other hand, socio-economic benefits had motivated both those sample British and Indian entrepreneurs who had maintained homophilous social ties (e.g., Shipilov et al.,

2014) and their decision choices had been both emotional and rational. Motives varied for the British and Indian entrepreneurs who had developed homophilous hierarchical ties. Although balanced economic and social motives influenced the British entrepreneurs, their Indian counterparts lacked a clear understanding about the benefits of the relationships. Emotional logic influenced the decision choices of these firms. This indicates that weak economic motivations in social ties could lead to a successful relationship, but that the scope and degree of the internationalization would be limited.

Practical and policy implications

The insights drawn from this study not only offer a foundation for further research, but also lead to practical recommendations for those SME entrepreneurs seeking to build the social capital required for their internationalization. It has identified a range of practices that favour the development of social capital for the purpose of supporting internationalization. They include microdynamics such as homophily, heterophily, reciprocity, developing trust, common goals, routines, and norms. This general recommendation – aimed at enabling international business collaborations to move forward supported by the benefits of growing interpersonal trust and reciprocity – refers to entrepreneurial actions. At the same time, in the light of our findings, we would caution that the suitability of any recommendations will necessarily vary according to the type of business and industry sector in which the SMEs are engaged. For example, international partnerships involving arms-length transactions of commodities and standardized goods may require less attention to the development of the social dimension of social capital than those occurring in the service sector where personalized transactions are common.

This research also has implications for policies aimed at promoting the internationalization of SMEs. For example, the findings reveal that, for some companies, ethnicity is an important initial source of social capital. However, there is no systematic

procedure linking ethnic communities with SMEs in either India or the UK, a gap that is also present in many other country pairings. We, therefore, recommend that trade promotion agencies organize forums to bring ethnic citizens living abroad—such as Indians living in the UK—into contact with those of their home country SMEs that are seeking to establish businesses in their host countries. Such individuals would be able to assist SME internationalization by playing boundary spanning and counselling roles suited, at the very least, to assist initial market entry.

Limitations and future research

Overall, this study supports the view that a company's social capital co-evolves with its internationalization. However, as noted earlier, the literature on this subject is limited. The nature of this co-evolution requires much more detailing than was possible in this study. Our investigation has provided some indications about alternative forms of social capital that can support the various internationalization stages and about the factors that influence the choices made between them; however, more needs to be known about such forms. Further research could investigate the possible relationships between types of social capital and choices of international market entry modes, as well as those cases in which social capital and internationalization do not co-evolve.

Following the call made by Chittoor et al. (2017) and Prashantham et al. (2019), we investigated the role played by agency in the co-evolution of social capital and internationalization. However, there is a scope to go beyond this study's limitations and investigate more deeply the role played by agency motives and decision reasoning in social capital dynamics and learning, and how it facilitates internationalization. Furthermore, we still lack a clear empirical understanding as to how the interactions between microfoundations and microdynamics influence higher-level collective factors such as network attachment and learning at the post—entry stages. For example, we believe that a study which investigated

entrepreneurs' interpretations and meanings in greater depth should bring to light further information about the relative importance of different types of social capital and learning for the speed of deepening and speed of geographic diversification (Hsieh et al., 2018). Future studies could draw insights from the effectuation logic (Sarasvathy, 2001), and examine how entrepreneurs from different contexts make sense of international opportunities and develop social capital under conditions of uncertainty.

Other limitations of this study also point to directions for future research; one of these lies in our sample selection. The two matched samples were selected from a restricted number of industry sectors and the sample size varied across them. Nevertheless, the results reveal the existence of clear differences between manufacturing and service-sector companies in terms of their utilization of social ties and network development. Therefore, a more equally distributed and larger sample of companies from both sectors – one that would include companies from a range of their constituent industries – could provide more definitive conclusions on the differences that exist between them. In fact, the relevance of industry sector membership for SME internationalization patterns has received little research attention and deserves to be investigated further (Child et al, 2017).

A further limitation of this study lies in its qualitative design and retrospective nature. A longitudinal design would address these limitations by bringing the investigation closer to the actual changes, situations, and processes.

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Table 1: Company profiles

	UK	India	
Sectors	Number of companies		
<i>Service sector</i>	<i>18</i>	<i>18</i>	
ICT companies	11	11	
Financial and legal services	4	4	
Real estate	3	3	
<i>Manufacturing sector</i>	<i>12</i>	<i>12</i>	
Textile companies	10	10	
Oil and gas	2	2	
<i>Total</i>	<i>30</i>	<i>30</i>	
Employees	Range: 1-225 Average: 37	Range: 15-275 Average: 98.40	
Annual sales turnover (£m)	Range: 0.05-7 Average: 1.76	Range: 0.01-3.50 Average: 1.56	
Percentage of foreign sales	Range: 0-60* Average: 30.0	Range: 40-100 Average: 87.70	
Percentage of sales to India/Britain	Range: 0-25* Average: 3.57	Range: 10-100 Average: 71.10	
Length of relationship between the British and Indian companies (years)			
Range	Mean	Median	SD
2-28	10	8	7.15

* Three British companies were only involved in importing.

Table 2: Respondent profiles

Position		British	Indian
CEO (including MD, Director, Managing Partner)		19	20
Founder		9	3
Chairman		2	-
Country Manager		-	7
Experience of international business	1-5 years	6	7
	6-10	6	12
	11-15	10	4
	16 or more	8	7

Figure 1: Social capital development through the stages of internationalization for firms that initiated the process by creating new market ties

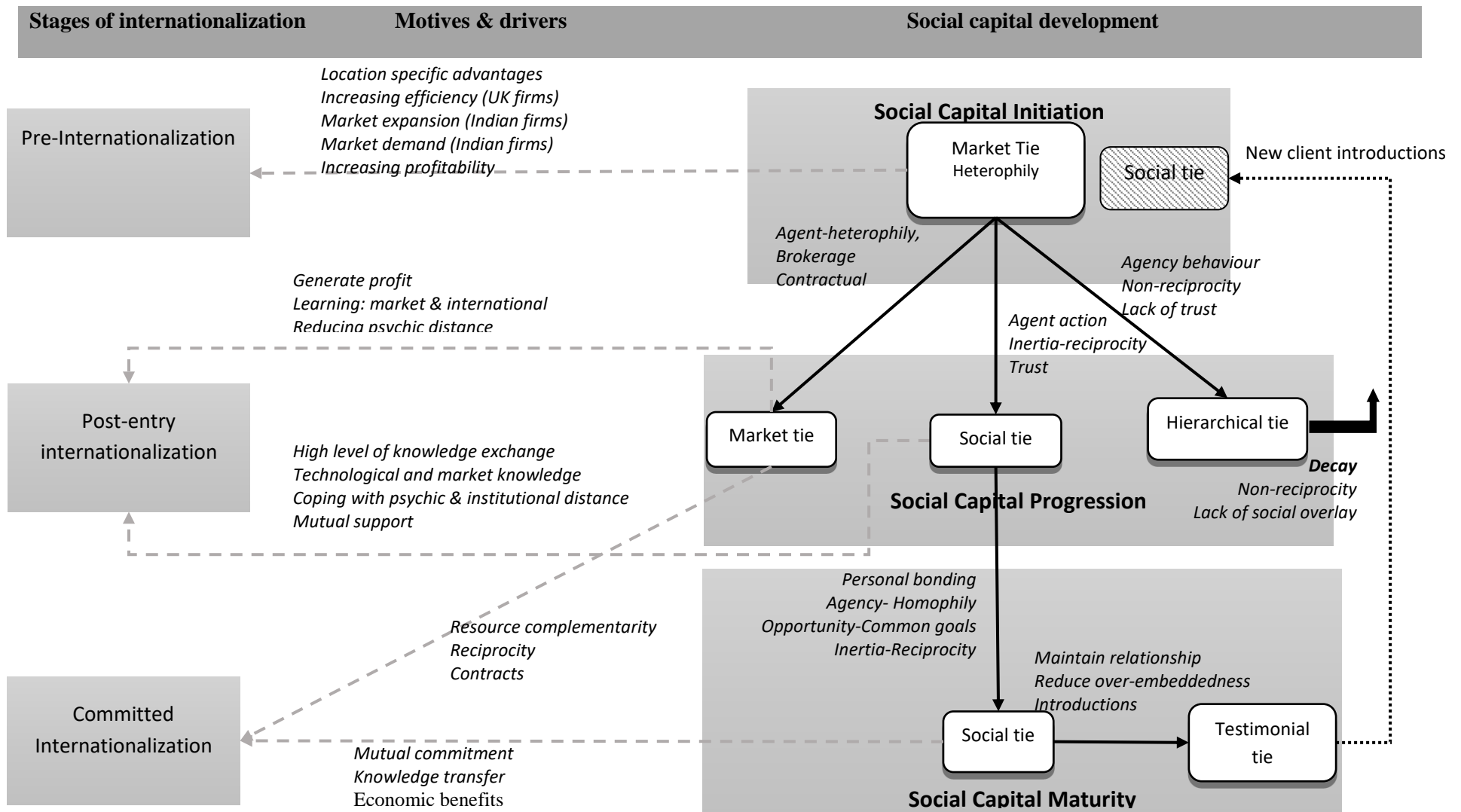


Figure 2: Social capital development through the stages of internationalization for firms that initiated the process using social ties

