How Social Capital Effects the Internationalization Process of SME in Zhejiang

Fanchen Meng, Jens Mathis Rieckmann and Cheng Li

Abstract: This study attempts to take a look at the effects of social capital on internationalization speed and performance of small and medium-sized enterprises (SMEs) in China. Based on social capital theory and international entrepreneurship literature, this study proposes different hypotheses concerning various aspects of social capital and discusses their effects on both internationalization speed and performance of SMEs. The hypotheses are tested on a sample of SMEs located in the province Zhejiang in China. The representative sample covers a wide range of manufacturing enterprises in the relevant region. The findings point out that some aspects of social capital lead to faster internationalization speed or higher performance. The results can be used by managers or owner of SMEs as well as the political policy makers to select a right strategy to foster the internationalization process of SMEs.

Keywords: China, SME, social capital, internationalization, performance

1. Introduction

Internationalization of firms as a research focus is an important topic especially for emerging markets like China or India. In current marketplaces, SMEs are taking the same way towards internationalization as large MNCs. Some problems in the internationalization process are similar, but the conditions for these two participants are basically completely different due to limited resources and the limited market strength of SMEs. An important influencing factor that makes a difference in the internationalization process of SMEs and MNCs can be the development and use of social capital in form of network relationships including close ties to key institutions. The benefits of the intensive and extensive use of networks are known (Coviello, 2006; Zahra, 2004; Oviatt and McDougall, 1994).

Some studies focus on the relationship between social capital and SMEs (e.g. Spence and Schmidpeter, 2003) or the focus is kept on the internationalization process of Chinese MNCs (Ge and Wang, 2013). However, the research work on how social capital affects specific items, like the speed or performance of internationalization, is still rare (Musteen et al., 2010). Above all, there are not many studies on the internationalization process of SMEs founded in China (Zhang et al., 2012). An advanced and clear guidance for the firms for one of the biggest economies in the world is missing. Thus, this study can complement the achievements from the past and fill the gap of today’s research. It will help to proof whether the results from other studies can be applied to transition economies and emerging markets like China and how strong and in which dimension “guanxi”, as the specific type of business relationship in China, has been influencing the internationalization process. This study will answer the question which network characteristics have the strongest influence. The results can assist owners and managers of SMEs as well as the government to make the internationalization process more successful and efficient. The Chinese government is aware of the importance of SMEs and is
actively supporting the development and expansion of SMEs (Ministry of Commerce of the People’s Republic of China, 2008a; 2008b; 2008c cited by Cardoza and Fornes, 2011) although some improvement of the government legislation is still necessary in order to support and provide guidelines for SMEs (Dudovskiy, 2012) and stimulate the SME’s internationalization more efficiently.

The SMEs in Zhejiang can be considered as a representative source for the empirical research work because they cover a wide range of manufacturing industries and because of their entrepreneurial and internationally orientation (Ge and Wand, 2013). Overall, the increasing importance of SMEs in China is seen as a main stimulus of the economic growth. More than 99 percent of the total number of Chinese enterprises are SMEs (Liu, 2008).

This study tries to answer the research question: What are the effects of social capital on SME’s internationalization speed and performance? The study starts off with the posit that some elements of business networks, which are regarded as “social capital”, affect the speed of internationalization as well as the ability to reach performance goals that are connected to internationalization. Therefore, this study aims to explore the role of networks in the internationalization process. In addition, the research tries to show important implications for managers who seek to internationalize an enterprise and for policy makers by setting proposing policies to encourage SME’s development.

To accomplish the aforementioned goals, this research work is divided into four sections. It starts with a short literature review in order to define the key terms of the study. This section also includes an explanation for the four main hypotheses. Second, the research methods for this study are introduced and the variables are defined. Next, data analysis and results are presented. Finally, a discussion of the results and a conclusion is presented.

2. Literature review and hypotheses

Internationalization is seen as “a synonym for the geographical expansion of economic activities over the national country’s border” (Ruzzier et al., 2006). Different forces and interests are driving the internationalization of enterprises with the peculiarity that the process of internationalization holds much more risk for a SME because of its limited resources. The use of social capital in form of network relationships by the owner and manager of a SME could be a compensation for the disadvantages.

Certain central theoretical frameworks (e.g. transaction cost theory, institutional theory) dominate the research field of internationalization (Laufs and Schwens, 2014). Beside the resource-based approach, the network approach is another theory to analyze SME’s internationalization behavior, which provides the view of firms as embedded actors in (business) networks (Johanson and Matssson, 2013; Ruzzier et al., 2006; McAuley, 1999).

Theories developed for or based on research work that focuses on large firms, especially MNCs, are often not transferable to smaller enterprises because of the different setting SMEs contain (Ruzzier et al., 2006; Ahokangas, 1998; Chen and Hambrick, 1995). Johanson and Vahline (1990) as well as Lehtinen and Penttinen (1999) describe the internationalization of SMEs connected to the development of and dependency on relationships and networks. These relationships and networks can be seen as social capital. Most studies on social capital rely on the definition of Nahapiet and Ghoshal (1998) where social capital is defined “as the sum of the actual and
potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit”. Social units can be organizations, communities, or societies (Bolino et al., 2002).

In the field of social capital research, most authors refer to three different dimensions in order to characterize social capital (Nahapiet and Ghoshal, 1998): the structural, relational and cognitive dimension. Each dimension functions and impacts internationalization speed and performance by influencing information access and flow along with the quality of information transmitted (Musteen et al., 2010). To implement the three dimensions, different types of questions are formed. Evans and Carson (2005) summarize the three dimensions of Nahapiet and Ghoshal (1998) as following: The structural dimension (1) is seen as the overall number and structure of relationships inside or between social units (how frequent are interactions and how many different interaction partners are there?), the relational dimension (2) is defined as the quality of developed relationships among individuals (how close is the relationship with the partners and how long and deep are the interactions?), and the cognitive dimension (3) is shown as the common communication between actors of a relationship (in form of a common language as the requirement to transfer information).

Social capital can be divided into the entrepreneur’s social capital or personal network relations and the firm’s network resources (Manolova et al., 2010; Jones, and Coviello, 2005). Hung’s (2006) points out that, for a new venture’s establishment and survival, both personal and inter-firm networks are important or even basic (Hung, 2006). This idea will guide the argumentation in this article which differentiates between personal and inter-organizational networks for the analysis of social capital effects.

Social capital is often characterized by the productive relationship with positive effects and thus investment in social capital has an influence on business success (Spence, and Schmidpeter, 2003). Ruzzier, et al., (2006) mention the fact that knowledge of long-term relationships within a firm is often limited to only one person. Furthermore, this person has a big impact on the internationalization caused by the intensive social relationships with other individuals. In addition, Ruzzier, et. al., (2006) cite two studies (Davidsson and Honig, 2003; Hoang and Antoncic, 2003) showing that these social relationships are very important for ventures. Apart from that, they present that inter-organizational and personal networks also influence other internationalization issues like time of internationalization (Oviatt, and McDougall, 1994), performance (Peng and Luo, 2000), and degree of internationalization (Brush, et al., 2002). It can be argued that there is also a positive effect on internationalization speed as well as performance of SMEs in China.

To accelerate the internationalization, it is necessary for the executives of SMEs to have an essential knowledge in the field of international business. In most cases, executives conduct international business based on their experience of foreign markets. This knowledge supports to reduce insecurity and creates opportunities for SMEs (Blomstermo, et al., 2004). Relationships can provide social capital which is seen as a valuable resource (Evans and Carson, 2005; Adler and Kwon, 2002) in terms of access to specific information (Nahapiet and Ghoshal, 1998). Reuber and Fischer (1997) support the claim that management teams with international experience have a positive influence on the internationalization performance. Previous literature states that the possession of international business experience of founders and managers is significantly related to the speed of internationalization (Rialp et al., 2005; Crick, and Jones, 2000; Coviello and Martin, 1999). Successful teams or team members can be found in networks.
which are willing to exchange their experience under the assumption of non-opportunistic behavior (Simsek et al., 2003). This fact also supports the following hypotheses.

Hypothesis 1a: Frequent and intensive personal connections to internationally experienced people within networks have a positive influence on the SME’s internationalization performance.

The international experience of people within networks includes, for example, foreign language skills and knowledge of foreign markets. Included are also people who help to overcome culture barriers. Participants within the network have a common language to express and communicate their experiences and knowledge.

An important consequence of the stage model of internationalization is that the internationalization speed is limited by experience and knowledge (Zhong et al., 2013; Johanson and Vahlne, 1977). The accelerating speed of internationalization, especially of firms from emerging economies, overcomes this limitation (Zhong et al., 2013; Mathews, 2006). In this investigation, the condition is created that the internationalization speed can also be strongly influenced by the named factors. Persons within the firm who are in charge of the internationalization initiative need to gain knowledge for the internationalization process. Otherwise, the process might take much more time. The time to get the knowledge for a successful internationalization process can be shortened through the link to internationally experienced people.

According to Granovetter (1973; 1983), networks can consist of weak and strong ties. A strong network – in this case a personal network could increase the confidence of the person that is in charge of the internationalization process. This also supports the hypotheses that personal ties that exist in form of networks can accelerate the internationalization.

Hypothesis 1b: Frequent and intensive personal connections to internationally experienced people within networks have a positive influence on the SME’s speed of internationalization.

The experience that results from cooperations with multinational companies from developed markets exerts a positive influence on the international performance (Zhong et al., 2013). Thomas et al., (2007) found out that experience of cooperation with partners from the market, that the firm plans to enter, in this case an unknown market, are a unique and critical resource in the internationalization process. Building a partnership with a foreign company before the actual internationalization in terms of extensive contracts with original equipment manufacturer or alliances with foreign partners is a common phenomenon that was observed by van Hoesel (1999). Zhong et al., (2013) named three more studies (Yang et al., 2012; Aybar and Ficici, 2009; Barkema and Drogendijk, 2007) which point out that these experiences are sources for a sustainable advantage in the internationalization process. The fact caused by the close relationship between cooperation developed within inter-organizational networks, and further benefits of professional networks between organizations indicate a support of the hypothesis concerning the influence of inter-organizational network on the internationalization.

There is evidence that intra-organizational networks, which are rather related to personal ties, are an important factor for firms and their economic performance, including firm internationalization (Flap et al., 1998). The following argumentation point out that inter-organizational networks are also relevant.
Granovetter’s (1985) “structural embeddedness theory” claims that firm behavior is embedded in and/or influenced by inter-firm networks (Simsek et al., 2003). The previous literature (Simsek et al., 2003) extends Granovetter’s theory and develops a plausible explanation of the entrepreneurial behavior towards an inter-firm network connected with venturing.

Following Manolova et al., (2010), inter-organizational networks enable firms to access different resources and complementary skills as well as possibilities to gain knowledge and capabilities (Chetty and Wilson, 2003). The consequence is that inter-organizational networks can be seen as a source of competitive advantages (e.g. lowering costs, increasing efficiencies). Chen (2003) reveals that some specific sectors of the manufacturing industry even provide straightforward suggestions to emphasize network resources for internationalization. Lin and Chaney (2007, cited by Manolova et al., 2010) argue that Taiwanese SMEs are able to achieve great advantages in the internationalization process as members of a network (in terms of guaranteed orders, access to external resources and knowledge).

The argumentation of Manolova et al., (2010) proves that the willingness to get resources from external networks forms an aspect of international firms (Chetty and Wilson, 2003). Therefore, competitive advantage is partially supported by interaction with local capabilities (Keeble and Lawson, 1998; Maskell and Malmberg, 1999). In addition, small firms are more embedded and typified – compared to MNCs – by their domestic business environment, like inter-organizational networks (Meyer and Skak, 2002).

It follows from these assumptions that SMEs’ use of inter-organizational networks to access global markets is positively related to the performance and speed of internationalization. Manolova’s et al., (2010) findings that the less a market is developed, the more SMEs are likely to join and use inter-organizational networks supports the assumption that an effect of inter-organizational networks exists (Mesquita and Lazzarini, 2008; Peng and Heath, 1996).

**Hypothesis 2:** Frequent and intensive participation in inter-organizational networks has a positive influence on:

2a: the SME’s internationalization performance.
2b: the SME’s speed of internationalization.

Financial institutions provide essential financial support in form of credits for SMEs. This capital is necessary for start-ups, for elementary investments at the beginning of a firm establishment, for expansions and subsidiaries as well as related investments. For manufacturing enterprises, especially in the production process, liquid financial resources play an important role. According to a survey conducted by Lin (2002), nearly 54 percent of the firms have named “shortage of capital” as the most detrimental problem in the process of an enterprise development. Wang (2004) states that structural problems exist in the financial service sectors in China. The loans demanded by SMEs for their development exceed the actual amount that is available. Some exceptions can be found, but the majority of SMEs in China does not have enough self-accumulated capital to meet investment requirements. In most cases, these firms rely on the financial support of banks and other financial institutions (Wang, 2004). Even if only ten percent of the respondents in the study of Kim and Nugent (1994) would give up their plans to establish a company in case financial support would be denied, it could be argued that the action to acquire and the use of alternative financial sources will cause a
remarkable slower internationalization speed and less performance because of the risk and higher costs for the firm founder and a smaller amount caused of limited personal liability.

Wang (2004) also points out that there are obvious differences for enterprises with different characteristics (ownership, region and size) when it comes to the obtainment of loans from financial institutions. State-owned enterprises have advantages because they can rely on nearly unlimited financial support and receive preferential treatment because of the developing power of state capitalism (Bremmer, 2010). This can also influence the available financial resources for the economy and therefore limit the credits for ventures which can be regarded as discrimination. Ties to institutions which can offer an access to funds or a direct financial support could overcome this disadvantage. Thus, one can state Hypothesis 3: A high frequency and intensity of ties with financial institutions – that can support the internationalization plans with financial resources – have a positive influence on:

3a: the SME’s internationalization performance.
3b: the SME’s speed of internationalisation.

According to previous research, support from the government can accelerate the internationalization of firms and increase their efficiency (Kim, and Nugent, 1994; Nugent, 1993). The respondents of the SMEs in the study of Kim and Nugent (1994) rated financial support from the government as very positive for the realization of their business goals. In addition, their study mentions more possibilities of support for ventures that are backed by the government (Kim and Nugent, 1994). Following Wu and Choi (2004), an intensive relationship with the government might help a firm to get access to valuable information (e.g. concerning taxation, import/ export regulations). Referring to the argument above, the identical fact counts for the financial situation, in terms of gaining benefits like low interest rates. Wu and Choi (2004) also argue that gaining information facilitates cooperation with business partners and increases the potential for synergy. Relying on Granovetter’s theory of weak ties (Granovetter, 1973; 1985; 1995), it can be proposed that the government can give a support through building-up social networks, which are essential for SMEs’ internationalization (Wu, and Choi, 2004). This leads to the argument that strong ties with the government have a positive influence on speed and performance of internationalization. Manolova and Yan (2002) identify three important and dominant players in the institutional environment of start-ups: lawmakers, tax collection agencies and regional authorities. In addition, Manolova and Yan (2002) claimed that the current institutional environment in transforming economies is unpredictable, corrupt and detrimental to the growth of entrepreneurial firms. This almost suggests a need of ties with the government to get information for example about regulation and predictable government decisions. Thus, one can state Hypothesis 4: A high frequency and intensity of ties with the government have a positive influence on:

4a: the SME’s internationalization performance.
4b: the SME’s speed of internationalization.

3. Research method

A quantitative study approach was used to investigate the effects of social capital on performance and speed of internationalization of SMEs. The sample was drawn from the yellow
pages in Zhejiang. To ensure that the sample is representative the drawn data was checked with regard to the question if it covers a main part of the wide range of manufacturing enterprises that are present in this region. While selecting the sample, the potential respondents were mainly the executives or founders of the firms, but the minimum requirement was that the respondent was in charge of the internationalization initiative. The firms also had to meet the requirements concerning the current complex SME guideline (“SME Promotion Law of China”) from 2011 (Ministry of Industry and Information Technology of the People’s Republic of China, 2011) as well as the fact that the company is involved in international business activities. A total of 514 firms (out of a random sample of 600 firms) met the mentioned criteria. Anonymous questionnaires were sent out to collect the data. It was ensured that the firms received both English and Chinese versions of the questionnaires. The mails resulted in a total of 108 responses. Nine surveys could not be used for the study because of missing data.

3.1. Measures: dependent variables

The internationalization of SMEs is measured in two general dimensions, speed of internationalization and degree or extent, the performance of internationalization.

In this study, the time elapsed between the foundation of a firm and the moment of the first international venture is used to measure the speed of internationalization (Zahra and George, 2002; Casillas and Acedo, 2013). Based on a research and literature review, studies from Reuber and Fischer (1997), Fontes and Coombs (1997), and Zahra et al., (2003), for example, measure internationalization speed (in years) as mentioned above. This measurement focuses on the investigation of the pre-international period (Casillas and Acedo, 2013).

International performance can be measured by using different items (Zahra and George, 2002). The extent or degree is divided into three sub-dimensions – the realization of objectives concerning internationalization, profits and sales – to measure the performance. In order to avoid the danger of receiving many incomplete questionnaires because of the companies’ secrecy, confidentiality firm data, subjective measures of performance were selected. According to Dollinger and Golden (1992) and other studies (Geringer and Herbert, 1991; Ketokivi and Schroeder, 2004), subjective measures correlate well with objective measures of firm performance. To conduct the subjective measure, following Musteen et al., (2010), Ge and Wang (2013), and Zhong et al., (2013), a 5-point Likert scale was used to indicate how satisfied the respondents were with the international firm performance in terms of (1) the realization of objectives concerning internationalization, (2) profits and (3) sales.

3.2. Independent variables

This study adopts the evaluation of the frequency and intensity of networks and ties to key institutions to measure the strength of social capital. To analyze the effects of different dimensions of social capital on SMEs, the respondents were asked to indicate the strength in terms of how frequently and intensively they are involved in personal and inter-organizational networks and how frequently and intensively they are using their ties to financial and government institutions that best described the extent of their network activity. The respondents were asked how many contacts they had at the moment of the first international venture regarding the different dimensions. A 5-point Likert scale was used in the questionnaire to indicate the strength of networks and ties. Control questions were asked to make sure the participants have a common language to transfer information.
3.3. Control variables

Following Musteen, et al., (2010), two control variables for this study were selected. The first variable is the firm size which is based on the firm’s total sales in the year of the first international venture. The variable is displayed as a natural logarithm of the total sales. The international experience of the executives (studying and working), measured in years of the duration abroad could influence the internationalization of SMEs (Musteen, et al., 2010; McDougall, et al., 2003); therefore it is also categorized as a control variable.

3.4. Data analysis and results

The data analysis and results are presented in the following tables. Table 1 displays the means, the standard deviations as well as the correlations connected with the variables mentioned above. The strength in terms of frequent and intensive use of personal networks as well as the strength of inter-organizational networks is around three. The numbers concerning the ties with financial institutions and government are similar. The mean of the ties to key institutions is a bit more than three.

Table 1. Descriptive statistics and correlations*

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Internationalization speed</td>
<td>2.586</td>
<td>0.756</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Internationalization performance</td>
<td>3.273</td>
<td>0.712</td>
<td>-0.205*</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Firm size</td>
<td>2.010</td>
<td>0.525</td>
<td>0.062</td>
<td>0.020</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. International experience</td>
<td>2.263</td>
<td>0.777</td>
<td>-0.021</td>
<td>0.035</td>
<td>-0.082</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Personal networks</td>
<td>2.970</td>
<td>0.662</td>
<td>-0.454*</td>
<td>0.538*</td>
<td>0.001</td>
<td>-0.064</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Inter-organizational networks</td>
<td>3.131</td>
<td>0.565</td>
<td>-0.516*</td>
<td>0.494*</td>
<td>-0.005</td>
<td>-0.010</td>
<td>0.693*</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Ties with financial institutions</td>
<td>3.152</td>
<td>0.645</td>
<td>-0.372*</td>
<td>0.532*</td>
<td>0.026</td>
<td>0.042</td>
<td>0.513*</td>
<td>0.645*</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>8. Ties with government</td>
<td>3.111</td>
<td>0.621</td>
<td>-0.357*</td>
<td>0.439*</td>
<td>0.153</td>
<td>0.045</td>
<td>0.431*</td>
<td>0.540*</td>
<td>0.646*</td>
<td>---</td>
</tr>
</tbody>
</table>

*a N=99. Mean and standard deviation values relate to variables prior transformations.
* Correlation is significant at the 0.05 level (1-tailed)

Table 2 reports the results of the OLS (ordinary least squares) regression analysis that is used to test hypotheses 1b to 4b concerning the effects of social capital on the internationalization speed. The base model is represented in Model 1 which only includes the two control variables, while Model 2 to 5 include an independent variable one at a time. Model 6, the full model, represents a model which contains all control and independent variables. Results in Model 2 indicate that personal networks are positively connected with the internationalization speed (p < 0.01). Model 3 to 5 indicate that inter-organizational networks and the consideration of the ties with financial institutions and government respectively. The coefficients linked with these variables indicate significantly that inter-organizational networks as well as ties with financial institutions and ties with the government influence the internationalization speed of SMEs. To sum up, the results provide the support for the hypotheses 1b to 4b and show that some specific networks and close ties contribute to the internationalization speed of SMEs. However, Model 6 indicates that only inter-organizational networks are significantly related to the internationalization speed when putting control variables and all independent variables into the model.

The OLS regression analysis was also used to test hypotheses 1a to 4a on the relationships between network characteristics and the performance of the internationalization. The results are reported in table 3. The models are connected to the same variables as in table 2. Models 2 to 5 indicate that the variables personal networks and inter-organizational networks as well as ties with financial institutions and the government are positively connected with internationalization performance (p < 0.01). Model 6 indicates that personal networks and ties with financial
institutions are significantly related to the dependent variable (p < 0.05). The value of adjusted $R^2$ indicates that the explanatory power of the model is satisfactory.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>2.446**</td>
<td>4.066**</td>
<td>4.628**</td>
<td>5.761**</td>
<td>3.651**</td>
<td>4.837**</td>
</tr>
<tr>
<td>Firm Size</td>
<td>0.088</td>
<td>0.085</td>
<td>0.084</td>
<td>0.103</td>
<td>0.173</td>
<td>0.110</td>
</tr>
<tr>
<td>(0.594)</td>
<td>(0.643)</td>
<td>(0.660)</td>
<td>(0.752)</td>
<td>(1.244)</td>
<td>(0.852)</td>
<td></td>
</tr>
<tr>
<td>International experience</td>
<td>-0.016</td>
<td>-0.044</td>
<td>-0.021</td>
<td>0.000</td>
<td>0.005</td>
<td>-0.024</td>
</tr>
<tr>
<td>(-0.161)</td>
<td>(-0.499)</td>
<td>(-0.246)</td>
<td>(0.002)</td>
<td>(0.054)</td>
<td>(-0.282)</td>
<td></td>
</tr>
<tr>
<td>Personal networks</td>
<td>-0.522**</td>
<td>-0.499**</td>
<td>-0.246*</td>
<td>0.000</td>
<td>0.005</td>
<td>-0.246*</td>
</tr>
<tr>
<td>(5.003)</td>
<td>(4.999)</td>
<td>(2.46)</td>
<td>(0.002)</td>
<td>(0.054)</td>
<td>(-2.82)</td>
<td></td>
</tr>
<tr>
<td>Inter-organizational networks</td>
<td>-0.691**</td>
<td>-0.439*</td>
<td>0.012</td>
<td>-0.452*</td>
<td>0.012</td>
<td></td>
</tr>
<tr>
<td>(5.891)</td>
<td>(-3.937)</td>
<td>(0.801)</td>
<td>(-2.43)</td>
<td>(-2.429)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ties with financial institutions</td>
<td>0.004</td>
<td>0.212</td>
<td>0.271</td>
<td>0.144</td>
<td>0.010</td>
<td>0.297</td>
</tr>
<tr>
<td>(0.004)</td>
<td>(0.212)</td>
<td>(0.271)</td>
<td>(0.144)</td>
<td>(0.010)</td>
<td>(0.297)</td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>0.199</td>
<td>8.508**</td>
<td>11.747**</td>
<td>5.319**</td>
<td>5.231**</td>
<td>6.492**</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.004</td>
<td>0.012</td>
<td>0.012</td>
<td>0.010</td>
<td>0.010</td>
<td>0.012</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>-0.017</td>
<td>0.187</td>
<td>0.248</td>
<td>0.117</td>
<td>0.115</td>
<td>0.252</td>
</tr>
</tbody>
</table>

* p<0.05  ** p<0.01

4. Conclusion and discussion

This study presents a short literature review to investigate and explain the relationships between the attribute of networks (personal and inter-organizational) as well as close ties to key institutions and the two specific internationalization characteristics, internationalization speed and performance of SMEs. The results of this study show that the variable inter-organizational network is positively connected with the internationalization speed. This finding is consistent with previous literature that shows that inter-firm networks have a positive influence on internationalization (Coviello and Munro, 1995). By keeping connections with suppliers and other entities, an SME can gain great advantages for the internationalizing process and transfer the disadvantages of the SME firm size into an advantage of flexibility in operations (Coviello, et al., 1998).
The finding also indicates that personal networks and ties with financial institutions are positively related to the internationalization performance. Surprisingly, strong ties with government neither influence the internationalization speed nor the internationalization performance. An explanation for this phenomenon might be that strict regulations bring about equal treatment in terms of legal issues or the respondents want to hide the benefit of their strong ties with the government by evaluating the ties as infrequent and not intensive.

This study extends the existing literature on the influence of social capital of entrepreneurs by putting a focus on the SMEs internationalization in China. Parts of the findings correspond to some of the existing literature on social networks (e.g. Ge and Wang, 2013; Musteen, et al., 2010; Chetty and Agndal, 2007; Coviello, 2006), but, in addition, it complements the limited literature by taking a close look at SMEs in an emerging market and evaluates the dimensions of Chinese “guanxi”. The statistical analysis shows that not all of the hypotheses are supported.

The investigation helps to understand more about the factors that are important for Chinese SMEs in the internationalization process. For Chinese private enterprises, especially SMEs, social capital, in form of network relationships or close ties, is extremely important to overcome disadvantages compared to MNCs and to provide necessary resources (e.g. market knowledge, financial resources) (Ge and Wang, 2013). The finding of this study also substantiates that networking might contribute to the success and survival in the unique transition economies.

This study also develops a transferable complement of the research by Musteen et al., (2010), which focuses on the attributes speed and performance of SMEs in the Czech Republic and examines the SME networking as a complex phenomenon and Ge and Wang’s (2013) research of network relationships in conjunction with internationalization of Chinese private multinational companies.

The findings of this study can be implemented in practical work. Implication addressees can be managers and founders on the one hand and political institutions on the other hand. By focusing on different attributes of social networks, this study indicates that social networks of entrepreneurs and strong ties to financial institutions can contribute to the establishment of first ventures abroad and help them to attain superior internationalization performances. Therefore, this study offers suggestions for policy makers, like local and regional governments. Recognizing the great importance of social capital for the faster internationalization speed and superior performances, the governmental institutions need to provide political and financial support to SMEs when necessary.

In the context of research limitations, the findings of this study should be examined carefully. This research relies on recollections of respondents, which might present a possibility of recall bias (Musteen et al., 2010). The interaction between the surveyors and respondents might influence the respondent’s comprehension and response styles (Douglas and Craig, 2006).

Internationalization is a dynamic process. Casillas and Acedo (2013) point out the difference between the pre-internationalization phase and the internationalization process. This study focuses on the time of the firms’ first international venture. Further research on the influence of social capital on the speed of the continuing process of internationalization as well as the long-term perspective of the dynamic and progressive internationalization process would be worthwhile.
While the empirical results are interesting, one should be cautious with generalizing the findings beyond its scope. The results are derived from a representative sample of SMEs in Zhejiang, which raises the concern that the findings might be in part region-specific. Further research should investigate the outcome, effects on internationalization speed and performance, in overarching geographical context. Because of the increasing number of studies on different factors that influence internationalization speed and performance as well as other dimensions of internationalization, one should try to find a common language to make it possible to complement the results and compare intercultural differences of the factors. Not least, the different definitions of SMEs in each economic area should be considered in future research.

References


Ministry of Commerce of the People’s Republic of China (2008a). China to scrap administrative fees for small businesses.


Ministry of Commerce of the People’s Republic of China (2008c). China allocates $512 mln to support small enterprises.


**Acknowledgment**: NSFC Project-No.: 71272060/G0204

**About the Authors**

Meng Fanchen is a professor at the School of Management and Economics of the Beijing Institute of Technology. He is the associate dean of the School of Management and Economics. He graduated from the Guangzhou Institute of Foreign Studies, majored in German Studies (B.A.) and the Beijing Institute of Technology, majored in Management Science (M.Sc.) and the Technical University Cottbus in Germany (Dr. rer. pol.). In the last twenty years he has been a visiting scholar for several times, for example at the Technical University of Berlin, Bayreuth University and the University of Karlsruhe. He has published over 30 papers in domestic and international journals, authored and chief-edited books and has been involved in many research projects. His research interests are international management, multinational M&A and industrial economics.
Jens Mathis Rieckmann is a Ph.D.-Student at the School of Management and Economics of the Beijing Institute of Technology (China). He graduated as Diplom-Kaufmann (master degree in business administration) from the Freie Universität Berlin (Germany) and as Diplom-Ingenieur (master degree in business administration and engineering) from the Brandenburgische Technische Universität Cottbus (Germany). From 2009 till 2012 he was working as a research assistant for the Technology Transfer Center of the Brandenburg University of Technology Cottbus. Nowadays, his personal research focus is the internationalization process of SME and cross-border technology transfer.

Cheng Li graduated from the Beijing Institute of Technology, majored in Economics (B.Sc.). Afterwards he started to study in the U.S.A. His research interests are the internationalization process of MNE and SME.

Contact information

Fanchen Meng, Jens Mathis Rieckmann (Corresponding author) and Li Cheng, School of Management and Economics of the Beijing Institute of Technology; 5 South Zhongguancun Street, Haidian District, Beijing, 100081. Tel: (+86) 130 0110 8611; Fax: (+49) 3023329366. Emails: meng@bit.edu.cn, rieckmann@bit.edu.cn, m15510485162@163.com.