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Building bridges across institutional distance: network development and the internationalisation of Scottish SMEs into China.
在制度距离间搭桥：苏格兰中小企业进入中国的网络建设与国际化

Carole Catherine Couper

Submitted in fulfilment of the requirements for the Degree of Doctor of Philosophy

Adam Smith Business School
College of Social Sciences
The University of Glasgow

December 2015
DECLARATION OF ORIGINALITY

I declare that, except where explicit reference is made to the contribution of others, this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

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Abstract

How does the SME internationalisation network develop across institutional distance and why?

This thesis integrates theories of small firm internationalisation (Child and Hsieh 2014; Coviello 2006; Jones and Coviello 2005), social networks (Burt 1995; 2011; Jack 2010; Slotte-Kock and Coviello 2010) and institutions (North 2009; Peng 2003; Scott 2008) to contribute to extant knowledge of SME internationalisation through the exploration and explanation of the process of SME internationalisation network development between a developed and an emerging economy. Limited understanding of the process of SME internationalisation network development within extant literature, combined with the dynamic nature of the phenomenon and the importance of the (institutional) context led the researcher to apply Welch et al’s (2011) proposed contextualised causal explanation perspective in an empirical context, through the in-depth study of multiple cases of SME network development between Scotland and China.

Research findings highlighted the critical role played by formal and informal institutions in mediating and shaping the SME internationalisation network development process in the context of high institutional distance. Interestingly, while host formal institutions influenced the earlier stage of network creation, it was in fact differences in informal institutions that had the greatest impact during the later phases of network building and expansion.

Building on Coviello (2006), Loane and Bell (2006) and Kiss and Danis (2008), the thesis presents a causal explanation process model of SME internationalisation network development across institutional distance and answers calls from the internationalisation literature for a greater understanding of how and why institutions (Eden 2010) - and informal institutions (Sartor and Beamish 2014) in particular – matter. Furthermore, in order to retain congruence with a topic concerned with informal institutions and avoid distortions created by translation (Chidlow et al 2014), a methodological contribution of the research was derived from the novel approach followed by the researcher in the process of collecting and analysing bilingual data both in Scotland and China. As a result, and in the presence of high institutional distance, the thesis defined and highlighted the key role played by ‘institutional hybrids’, not only for the successful internationalisation of SMEs but also for the benefit of rigorous cross-national research.
Dedication

Pour Anne, ma soeur Anne

Ne vois-tu rien venir?
Acknowledgements

I have many to thank for their invaluable involvement with this thesis and cannot but begin by mentioning my three amazing supervisors. This thesis would never have seen the light of day without a serendipitous encounter with Professor Jane Duckett around 2008. This event led to my meeting with my first supervisor, Dr Shameen Prashantham, a couple of years later. I am extremely grateful to Dr Prashantham, not just for being a wonderful supervisor on so many levels throughout the last four years, but also for his initial selfless and insightful mentoring as I tackled the task of writing the initial thesis proposal. I also continued to benefit from Prof Duckett’s expertise of China throughout the PhD process as she became my second supervisor. Last but certainly not least, I was most privileged to receive the wisdom and experience of Professor Stephen Young who also kindly agreed to join the supervisory team. I could never have started or completed this journey without the presence of these three exceptional individuals.

I would also like to thank the Academic and Administrative staff at the Adam Smith Business School for sharing their valuable knowledge and allowing my academic skills to improve dramatically. I would never have learnt the art of reviewing papers without Prof Becky Reuber’s mentoring (and kindness). Dr Margaret Fletcher’s support and advice over the last four years made such a difference. Prof Marian Jones taught me much about research and systematic reviews. Finally, Dr Yi Kwan Tang often shared her deep insights into China-related research. Among the Administrative staff, I would like to thank in particular Anne McCusker, Christine Athorne, Hannah Engleman, Kirsteen Daly and Stuart Davis for their kind assistance over the last four years. My friends and colleagues Aofei Lv, Laurence Dessart and Karl Warner also deserve a special mention, not least for some brilliant advice but also for their encouragement when the going got tough.

My thanks also go unreservedly to all the anonymous participants in this study, both in Scotland and China, who gave a lot of their invaluable time to share their thoughts and expertise of the process of internationalisation network development between the two countries. I hope the findings of the thesis will help them navigate the process better still in the future.

I would like to acknowledge the financial support of both the University of Glasgow’s Adam Smith Research Foundation and of the Universities’ China Committee in London towards the completion of this doctoral research.

Finally, I must thank my wonderfully supportive husband and girls who had to put up with their wife and mother constantly hiding in the dining room to work on this ‘mysterious’ thesis. I doubt they will enjoy reading the final outcome much but I would never have reached this point without their continued support and patience.
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Author’s Declaration

I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

Signature _____COUPER________________

Printed name ___Carole Couper____________
Chapter One
Introduction to the Thesis

1.1 Background to the Research

In a 2014 issue of the Management and Organization Review, related to John Child’s lifetime achievement award, Meyer (2014, p.375) discusses the power of Child’s non-conventional and deeply-contextualised research approach to generate new theoretical insights by identifying ‘theory-to-practice gaps’. This research philosophy strongly and closely resonates with this thesis; indeed, the broader research topic was born from the researcher’s personal experience both as a student of Chinese institutions from the early 1980s, and as a long term international business practitioner between Europe and Greater China, starting from around 1991. Over the years, the researcher had witnessed numerous instances of sudden and catastrophic failures by French and British SMEs1 (Small and Medium Size Enterprises) attempting to develop international networks with China, often after four or five years of intense resource investment by firms who could hardly afford it. Separately, some remarkable examples of successful SME internationalisation network development between China and Scotland, where the researcher worked in later years, led to the following question:

How did some SMEs succeed at developing internationalisation networks with China, where most other firms failed, sometimes with disastrous consequences?

A comment from a puzzled Scottish entrepreneur looking to internationalise to China, following his meeting with a local trade organisation advisor, further reinforced the observation that an improved understanding of the process of internationalisation network development between Scotland and China was needed:

‘They [trade organisation advisors] tell you that you have to go and build relationships: but how do you do that?’

The researcher, having turned to academic articles for answers, found the literature strangely silent on the actual process of SME internationalisation network development between developed and emerging economies. While networks were indeed identified as critical to SME internationalisation, the question of ‘how to develop internationalisation networks where none initially existed’ remained a mystery. As a result, it was within the

---

1 In the context of this thesis, the terms ‘smaller firm’ and ‘small and medium size enterprise’ (SME) will be used interchangeably and defined according to the European Union definition (EU Press Release 2003) of firms with less than 250 employees and/or turnover up to €50 million. See section 2.2.2.1 for more discussion of the smaller firm definition.
study of real-life cases that empirical answers had to be searched in the first instance, while the continuous and iterative combination of (academic) theories with empirical data allowed the conceptualisation - and accordingly the creation of meaning - from complex practice-related cases. Many years after the initial idea of this thesis was formed, and after a sometimes arduous but ever exciting journey, the power of linking context-based empirical data and conceptual academic theories has finally started to provide some fascinating insights into the process of SME internationalisation network development across institutional distance. This was – and remains – the primary intended contribution of this doctoral thesis.

1.2 Research Framework and Research Objectives

This thesis integrates theories of small firm internationalisation (Child and Hsieh 2014; Coviello 2006; Jones and Coviello 2005), social networks (Burt 1995; 2011; Jack 2010; Slotte-Kock and Coviello 2010) and institutions (North 2009; Peng 2003; Scott 2008) to explore, through a conjunctural causal explanation (Welch et al 2011), the process of SME internationalisation network development across institutional distance, i.e., between a developed economy (Scotland) and an emerging one (China).

A conceptual research framework was developed (Figure 4) from the review of the literature to guide the holistic, in-depth study of the process of SME internationalisation over time, while investigating the impact of home and host networks institutions. The thesis’ research question, identified from the synthesis of knowledge gaps, was described as:

*How does the SME internationalisation network develop across institutional distance and why?*

The aim was further divided into the following the objectives:

- The holistic understanding of the SME internationalisation network development process through the exploration of all four dimensions of internationalisation networks: structure, governance, relational aspects and content.
- The time-sensitive exploration of how and why internationalisation networks and their ‘four dimensions’ develop by studying the process of network development over time
- The context-based investigation of how and why internationalisation networks develop over time and across institutional distance by taking factors related to the institutional context into account.
1.3 Research Approach

The lack of understanding of the phenomenon of SME internationalisation network development across institutional distance, combined with its dynamic nature and the importance of the (institutional) context, led the researcher towards an exploration of the phenomenon through qualitative case-study research (Bluhm 2011; George and Bennett 2005; Welch et al 2011, Yin 2014). More specifically, the research applied Welch et al.’s (2011) conjunctural causal explanation perspective by exploring network development through process-tracing, while analysing key explanatory factors (George and Bennett 2005). In line with this approach, the study subscribes to a critical realist ontology and argues that both agency and structure (Jack 2010; Welch et al 2011) matter in order to understand and explain the phenomenon of network development.

The phenomenon was analysed at the level of the network actor, through the development of internationalisation network connections, themselves aggregated into an organisational internationalisation network. Institutional distance was understood as the distance between developed and emerging economies, due to differences between countries’ institutional framework. The economies of Scotland and China were subsequently chosen as appropriate contexts for the research, based on the researcher’s thorough knowledge of both countries’ institutions (Stening and Zhang 2007). The emphasis being on formal and informal institutions, it called for the sensitive treatment of cultural-cognitive institutions, i.e., language, in data collection and analysis. Thanks to the researcher’s linguistic competence, data could be collected in both countries, and subsequently analysed, without recourse to an interpreter (Chidlow et al 2014).

A dual abductive and inductive approach to build a causal explanation process model of SME internationalisation network development (Welch et al 2011) between actors embedded in developed and emerging economies institutions was followed, with two cases of successful SME internationalisation network development (Alpha and Delta) and one case of failure (Beta).

Data was collected both in Scotland and China, from actors on both side of the SME internationalisation network, in order to avoid an egocentric perspective of the process of network development. Follow-up interviews of key actors Ego and Alter were conducted in order to penetrate deeper into early emerging findings.

The data was first analysed within-case, following guidelines from George and Bennett (2005), Miles and Huberman (1994) and Yin (2014), and subsequently across cases, in an iterative manner that continuously compared findings back to the literature and raw data.
Results were then abstracted further and developed into a causal explanation process model of SME internationalisation network development across institutional distance that highlighted key institutional factors.

1.4 Structure of the Thesis

The study endeavoured to integrate three separate theoretical lenses (SME internationalisation, social networks and institutions), as well as drawing from multiple methodological sources (George and Bennett 2005; Welch et al 2011; Yin 2014), in order to explain the phenomenon of SME internationalisation network development across institutional distance.

The body of the thesis is structured around seven chapters, themselves further divided into sections and subsections. Chapter One briefly introduces the thesis project, summarising the research background and context, including aspects such as philosophy, methodology, key findings and contribution.

The three theoretical areas led to three separate literature chapters that reviewed the relevant literature, beginning with internationalisation and proceeding with social networks, before narrowing down to the research question by finally integrating institutional theory into the discussion. In other words, Chapter Two discusses extant academic knowledge of SME internationalisation (Child and Hsieh 2014; Jones and Coviello 2005; Ojala 2009; Young et al 1989) and highlights the key role of networks as enablers of SME internationalisation (Coviello and Munro 1997; Jones et al 2011). As a result, Chapter Three then proceeds to examine what is known about internationalisation networks in the context of the smaller firm (Coviello 2006; Loane and Bell 2006; Ojala 2009; Prashantham and Dhanaraj 2010; Wakkee 2006) and concludes that knowledge of the actual process of internationalisation network development is limited. Finally, Chapter Four further integrates institutional theory (North 2009; Scott 2008) into the developing research framework by highlighting differences in the nature and development of networks between emerging and developed economies, as well as the limited understanding of the impact of those differences on the process of SME internationalisation network development (Abdi and Aulakh 2012; Child and Marinova 2014; Kiss and Danis 2008; 2010; Manolova et al 2010). This final Chapter of the literature review concludes by identifying key knowledge gaps from the combined literature, and proposes an integrated conceptual analytical research framework to answer the thesis’ stipulated aim and objectives, i.e., the understanding and explanation of the process of SME internationalisation network development across institutional distance.
The following chapter, Chapter Five, starts from those objectives to depict and justify the thesis’ methodology, while clarifying how theory and theory development are understood in the context of the thesis. In order to retain congruence between research objectives and intended contribution, this core chapter integrates process research methodology (George and Bennett 2005) with contextualised case-study methods (Welch et al 2011; Yin 2014). Case-study firms are also presented in this Chapter, with both the selection process and choice of context explained and justified. Finally, aspects related to research rigour, validity and reliability are discussed.

Having clarified and justified methodological choices, Chapter Six then proceeds to present the within-case research findings from the three case firms, Alpha, Delta and Beta. For each case firm, the within-case detailed findings are further structured around the three stages of network development (Network Creation, Network Building and Network Expansion) that emerged early in the data analysis process. The context-rich data is summarised through tables and process tracing charts that highlight the emergence of core factors within the network development process. Within-case findings are then followed by Chapter 7 which describes the cross-case findings (section 7.2), themselves leading to the causal explanation process model of SME internationalisation network development across institutional distance (section 7.3). Due to the novelty of the causal explanation approach (Welch et al 2011), the actual theoretical outcome of the perspective is still a matter of debate and experimentation and the use of theoretical propositions to describe the relationships between key concepts and contextual factors was deemed inappropriate. As a result, the cross-case findings also resulted in a number of tentative ‘explanation statements’, as an alternative to propositions, with a view to further articulate steps within the causal explanation process model.

Finally, Chapter Eight concludes the thesis, highlighting the main thesis contributions, as well as their implications. The research limitations are also discussed and they suggest avenues for future research.

1.5 Key Findings and Contribution

Key findings were structured around three stages of SME internationalisation network development: Network Creation, Network Building and Network Expansion. Initially, institutional distance, and more specifically the lack of host network institutional knowledge in the home network, and consequent inability to access host networks, led to the presence of an institutions-related structural hole. Network Creation was accordingly focused on a home network actor (Ego) having to bridge the institutional hole and the
emphasis was on tie search and tie identification, via a home-based network broker. Once the structural hole had been bridged, weak legal institutions in the host market meant that Network Building was centred on the relational embedding – or trust and loyalty-building - of the Ego-Alter bridging dyad. Ego and Alter represent the key network actors on each side of the bridge linking the two internationalisation network clusters of Scotland and China. Accordingly, and in relation to Burt’s (2011) definition of Ego and Alter, Ego was the network actor that had to trust and Alter, the tie that had to be trusted. The network building stage highlighted the key role played by institutional hybrid Alters in promoting institutional consonance, itself facilitating relational embedding in a virtuous cycle. Finally, Network Expansion highlighted how informal institutions, and more specifically a lack of shared cultural-cognitive institutions between developed home network and emerging host network actors, was constraining the structural embedding of the SME internationalisation network. As a result, the internationalisation network stability was shown to be reliant on the relational embedding of the Ego-Alter bridging connection.

Although there is growing recognition in the internationalisation literature that institutions matter (Dunning and Lundan 2007; Eden 2010; Jones et al 2011), how they matter remains the subject of much debate (Eden 2010). Narrowing down to SME internationalisation, and building from Coviello (2006), Kiss and Danis (2008; 2010), Loane and Bell (2006) and Ojala (2009) studies, there is some evidence that institutions matter for smaller firms’ social and internationalisation networks. For instance, the effects of social networks on new ventures speed of internationalisation differ in dissimilar institutional contexts (Kiss and Danis 2008; 2010); separately, smaller firms sometimes have to build internationalisation networks, rather than rely on existing ones (Fletcher and Harris 2012; Loane and Bell 2006; Ojala 2009). Notwithstanding the emergence of this limited knowledge, understanding of the process of SME internationalisation network development and the impact of dissimilar institutions on that phenomenon remained unclear (Jones et al 2011). This thesis integrated literature from three distinct theoretical areas, SME internationalisation (Child and Hsieh 2014; Jones 1999; Jones and Coviello 2005), social networks (Burt 1995; 2007; Jack 2010; Slotte-Kock and Coviello 2010) and institutions theory (Kostova 1999; North 2009; Scott 2008) to propose a causal explanation process model of SME internationalisation network development across institutional distance that clearly shows how and why home and host institutions – and their differences- impacted the process. In answer to Sartor and Beamish’s (2014) call for more emphasis to be put on informal institutions in internationalisation research, normative
and cultural-cognitive pillars (Scott 2008) were shown to represent significant factors in the process of SME internationalisation network development across institutional distance. Furthermore, the thesis highlighted the relationship between institutional distance, relational embedding and structural embedding, in the context of SME internationalisation network development and high institutional distance. Accordingly, a second contribution of the thesis was to highlight how social network theory (Burt 1995; 2011) must be adapted in a SME internationalisation context when institutional distance is present. The research showed that the presence of institutional distance had a constraining effect on relational embedding and structural embedding separately, but also made the concepts interrelated. In the context of a single domestic market, Burt’s (2011) theory assumed that relational embedding of network ties and structural embedding of the network could be pursued in parallel and independently of each other, through structural embedding and network closure. This study highlights the inhibiting impact of Ego and Alter’s² relational embedding on the structural embedding of the SME internationalisation network in a context of high institutional distance. There was also evidence in the data that due to institutional knowledge asymmetry between Ego and Alter, partial structural embedding, in contrast to balanced structural embedding of the internationalisation network, may negatively impact relational embedding between Ego and Alter, in a feedback loop effect, hence threatening network stability over time. The study pointed out that structural embedding must be evenly balanced across the internationalisation network, around the Ego-Alter bridging dyad, if relational embedding in the initial network bridging dyad is to be preserved.

In addition, answering Chidlow et al.’s (2014) call for greater concern about the treatment of language when crossing linguistic boundaries and building on Stening and Zhang (2007), the thesis offered a separate methodological contribution: it highlights new insights into the conduct of research in China by a non-Chinese investigator, and into the treatment of language in research concerned with informal institutions.

Finally, a second methodological contribution of the thesis is the empirical application of Welch et al.’s (2011) conjunctural causal explanation approach. As was suggested by Welch et al (2011), the thesis integrated process tracing (George and Bennett 2005) and Yin’s (2014) multiple case-study methodological perspective, to explore and analyse SME internationalisation network development across institutional distance; as a result, it offers

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² As will be discussed more extensively within the thesis, Ego and Alter represent the network actors on each side of the bridging connection (Burt 1995; 2011)
a causal explanation process model that describes and clarifies the impact of differing institutions on the phenomenon.

Having briefly introduced the purpose, methodology and contribution of the thesis, Chapter Two will now proceed with a review of the SME-relevant internationalisation literature.
Chapter Two
Internationalisation and the Smaller Firm

2.1 Introduction
This thesis intends to contribute to extant academic knowledge on the process of development of smaller firms’ internationalisation networks, across institutional contexts; any aspiration at contributing to knowledge first requires an assessment of what is already known. As a result, academic literature covering smaller firm internationalisation, from both the International Business (IB) and International Entrepreneurship (IE) disciplines, along with relevant knowledge about network development and the known effects of institutions on this process was comprehensively reviewed and synthesised. As an outcome of the exercise, gaps in the understanding of the topic area were discovered and a narrower topic of interest identified. The next two sections, 2.2 and 2.3, will discuss in detail what is known about smaller firms’ internationalisation, by focusing on aspects that are relevant to the broad research topic. The chapter will be followed by Chapter Three discussing networks in the context of SME internationalisation.

2.2 The Internationalisation of the Firm: a Tale of Multiple Theoretical Contributions
The topic of interest is primarily focused on the internationalisation of the smaller firm, which requires both understanding and rigorous definition of the two key concepts of ‘internationalisation’ and ‘smaller firm’. This current section will first discuss the internationalisation of the firm, before narrowing down to extant knowledge about smaller firms’ internationalisation in section 2.3.

Internationalisation in the context of the firm has been defined in numerous ways. It has been described as ‘a firm-level activity that crosses international borders’ (Jones and Coviello 2005, p.284) or seen as a process (Fletcher 2001) and accordingly defined as ‘the developmental process of increasing involvement in international business’ (Young et al 1989, p.3). Clarifying such a broad concept was necessary in order to set boundaries and define the scope of the activity within which smaller firms will develop their internationalisation networks.

In this first section, a synthesis of the review of the most influential contributions to internationalisation theories in the context of private firms is offered, in order to strictly define the concept of internationalisation as understood in this study. While theories
behind the internationalisation of the firm emerged in the economic and industrial organization literature in the 1930s (Axinn and MatthysSENS 2002), key seminal contributions to internationalisation, from a market entry and development perspective, are to be found in the economics literature in the late 1960s, through the work of Hymer and Kindleberger (Young et al 1989). The then emphasis was on the growth of the multinational enterprise (MNE), with SMEs thought to be broadly limited to exporting activities (Young et al 1989). Later economics-based key influences are Dunning’s eclectic (OLI) paradigm (2000; Young et al 1989) and the theory of the multinational enterprise (Buckley and Casson 2007), that drew from Penrose (1995)’s theory of the growth of the firm. These influential works will be grouped under subsection 2.2.1 and described as ‘The Economic Perspective’. Separately, the stages-of-development- approach (Young et al 1989), also described as the Process Theory of Internationalisation (PTI), discussed internationalisation as a process, with initial research originating with Johanson and Wiedersheim-Paul in 1975. This other key influence will be summarised in section 2.2.2.

2.2.1 The Economic Perspective

Within the Economic Perspective, internationalisation of the firm was first investigated through the activities of the multinational enterprise, such as foreign direct investment (FDI) (Buckley and Casson 2007) or international production (Dunning 2000). International production, financed through FDI (Dunning 2000) was viewed as an expansion stage in the growth of the firm (Penrose 1995). The emphasis was also on transaction costs in order to explain large firms’ international strategy (Buckley and Casson 2007; Hennart 2014), although debates around the explanatory power of transaction costs within an internationalisation context were taking place within the nascent International Business field (Dunning 1989). Dunning’s Eclectic or Ownership Location Internalization (OLI) paradigm called for a better inclusion of contextual factors into international business theories, which is also argued by this thesis. Notwithstanding their differences, early internationalisation scholars shared a basic premise: internationalisation was primarily the remit of very large firms and was approached through a purely economic rationale. Contextual factors were not perceived as significant and most of the empirical evidence originated in the United States, with little concern with the validity of those findings for the rest of the world, or at least the non-liberal world (Dunning 1989). As a result, research was focused on multinational enterprises (MNEs) and looked for explanations or theory confirmation at firm level (Dunning 2000; Buckley and Casson 2007). A foreign market was perceived as one of the
multiple marketplaces available to the firm in its diversification efforts towards growth and/or increased profitability. Buckley and Casson (2007, p.162) were primarily interested in internationalisation in order to explain “the ‘pattern of growth’ of the MNE in terms of a ‘long run theory’”. This approach, with its focus on the R&D of the large firm is not appropriate for the study of SME internationalisation (Oviatt and McDougall 1994). In the setting of the smaller firm, where the influence of the owner manager is crucial (Knight and Cavusgil 2004; Reuber and Fisher 2002; Zahra 2005), a perspective focused on the MNE and mostly economic rationale does not appear relevant (Child and Hsieh 2014). In parallel, a separate line of enquiry, interested in the internationalisation process per se, also became prominent in the 1970s (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). That approach, a key influence in extant internationalisation theories, is concerned both with larger and smaller firms and will be discussed next.

2.2.2 The Internationalisation Process Model

Internationalisation process theory (IPT) tend to either focus on firms’ internationalisation behaviour (Andersen 1993; Johanson and Vahlne 1977; Welch and Luostarinen 1988) or on the factors causing internationalisation (Fletcher 2001).

The key conceptual model is known under a variety of names such as the Uppsala Model (U-Model), Stage Model or Nordic school Model (Johanson and Vahlne 1977, 1993; Johanson and Wiedersheim-Paul 1975). This approach is of interest to the current thesis, and its focus on the internationalisation of smaller firms, with environmental factors at the heart of the model. Internationalisation is described as a dynamic, gradual process through the interplay of a limited number of state and change aspects (Johanson and Vahlne 1977), aspects which are linked to both the knowledge of foreign markets and resource commitment. Firms are shown to move from one type of entry mode to the next, under the influence of a number of factors such as knowledge of foreign environments and psychic distance (Johanson and Wiedersheim-Paul 1975).

While the U-model was initially criticised by International Business researchers both for its lack of explanatory power and the absence of congruence between its theoretical and operational levels (Andersen 1993), Johanson and Vahlne later improved their original internationalisation process model (Johanson and Vahlne 1993; 2009) by integrating the industrial network theory (Johannsson and Mattson 1988). They argued that the ‘liability of foreignness’ (Zaheer 1995) had become a ‘liability of outsidership’ (Johanson and Vahlne 2009) and this development, pertinent to the current study, will be discussed in more detail in the section covering networks in the context of SME internationalisation.
Another notable influence on internationalisation theory was the work of Welch and Luostarinen (1988), who endeavoured to improve on the original model of Johanson and Vahlne (1977) by building a conceptual framework (Figure 1 below) offering three new internationalisation dimensions - operation method (how), sales objects (what), target markets (where, location) - alongside three organisational capacity variables, namely: organisational structure, personnel and finance. The decision by the firm to increase international involvement is described as shaped by ongoing dynamic influences (learning etc.) and other environmental influences (government policy etc.). In addition, the overall internationalisation pattern of the firm can be explained by factors that are linked to the desirable degree of control and the existing international commitment of the organisation: the availability of resources, the development of knowledge, communication networks and the firm’s perception and tolerance of risk and uncertainty.
Welch and Luostarinen’s definition of internationalisation as ‘*the process of increasing involvement in internationalization operations*’ (1988, p.36), along with their conceptual model, are somewhat appropriate to the smaller firm’s internationalisation network development across institutional borders as they take contextual factors, such as political and cultural environment, into account. The definition however focuses on ‘operations’ and Young et al.’s (1989, p.3) definition of internationalisation as ‘*the developmental process of increasing involvement in international business*’ will be preferred as it involved a broader range of international activities. Both definitions portray internationalisation as an incremental linear process however (‘increasing involvement’) and global environmental changes over the 1990s and beyond soon called for the updating, and sometimes renewing, of existing theories of internationalisation (Axinn and Mathyssens 2002).
A later perspective on internationalisation, International Entrepreneurship, was to put smaller organisations firmly on the internationalisation map with its focus on young entrepreneurial ventures (Oviatt and McDougall 1994) that challenged the accepted premise of an incremental, gradual internationalisation of the firm. Section 2.3 will now discuss internationalisation from an entrepreneurial perspective.

2.3 Smaller Firm Internationalisation: Challenging Internationalisation

Assumptions based on Multinational Enterprises

While the study of smaller firms’ internationalisation started as early as the 1960s (Miesenbock 1988), interest in this area grew rapidly in the 1980s with an attempt by governments to increase exports and improve their balance of payment (Miesenbock 1988). The interest in improving trade and exports may explain why the focus of academic research over that period was on exporting SMEs (Small and Medium size Enterprises)\(^3\), although earlier perceptions of small firms limitations in the context of internationalisation may have played its part. As early as 1989, Young et al. (1989, p.xv) deplored the fact that, in the context of SME internationalisation:

“...thought processes are still myopically focused on exports, when other forms of arrangement may well be more suitable on occasion”.

The main assumptions about smaller firms’ internationalisation were that the firms’ lack of resources would hamper internationalisation efforts and lead them towards low commitment and low risk internationalisation modes, such as the use of indirect and direct exporting (Jones 1999). Smaller firms were depicted as reluctant and risk-averse internationalisers who, over a long period of time, gradually and cautiously internationalised into markets which were psychologically close to the home market (Johanson and Wiedersheim-Paul 1975; Zahra 2005). While these assumptions were supported by some empirical evidence, this evidence came mostly from studies narrowly focused on exporting firms (Jones 1999).

Around the early 1990s however, the emergence of the field of IE appeared to reflect the changing reality of smaller firms’ internationalisation in that era. Whether or not entrepreneurial internationalisation was a new phenomenon or just an unidentified one (Jones 1999), in the later part of the decade, evidence emerged of a faster pace of internationalisation by SMEs. In 1997, an OECD study of small firms in 18 countries

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\(^3\) It was highlighted in a previous footnote that in the context of this thesis, the terms ‘smaller firm’ and ‘small and medium size enterprise’ (SME) will be used interchangeably. See section 2.3.3 for more discussion of the smaller firm definition.
showed that SMEs were internationalising faster than in the past, and sometimes from inception (Jones 1999). This acceleration could be partly explained by environmental factors such as the trend towards globalisation (Dunning and Lundan 2007), the lessening of trade barriers, the development of electronic communication systems and the growth in international transport (Leonidou 1995; Reuber and Fischer 2002; Gassmann and Keupp 2007; Keeble et al 1998; Susman 2007). It also pointed to a more proactive – or entrepreneurial – type of behaviour by smaller firms than had been initially assumed. As a result, IE also took a more sociological approach by taking an interest in the individuals within the firm, rather than solely focusing on the wider organisational behaviour in the context of internationalisation. Internationalising entrepreneurs’ characteristics and type of behaviour grew in importance as potential explanatory factors of firm internationalisation; this was in sharp contrast to the more rational and economic perspective taken to explain larger firms’ internationalisation described in section 2.2.1.

The question however is whether - and why - the size of the firm should matter. Penrose (1995, p.19) metaphorically described very small industrial firms and very large ones as caterpillars and butterflies, arguing that:

“the differences in the administrative structure of the very small and the very large firms are so great that in many ways it is hard to see that the two species are of the same genus”.

From a resource based perspective, small firms lack the ability to grow due to their limited ‘productive opportunity’, defined as the types of “productive possibilities entrepreneurs see and can take advantage of” (Penrose 1995, p.31). Penrose also argued that the specificity of the entrepreneurial resources of smaller firms, along with their difficulties in raising the necessary capital, had the effect of narrowing the entrepreneur’s opportunity horizon.

According to Penrose (1995), the continued existence of smaller firms can be explained by the productive opportunities in the economy, opportunities left open by larger firms and described as ‘interstices’ (Penrose 1995, p.222). Nonetheless, Penrose argued that this reliance of their activity on ‘interstices’ left smaller firms highly vulnerable to restrictions imposed on their ability to grow by actors from their external environment, be they larger firms, restrictive government regulations or lack of access to capital.

The description of the internal resource limitations of smaller firms led to the assumptions (discussed earlier) which have guided academic research on the topic until now. Some of these assumptions, notably resource limitations in comparison to larger firms, are likely to
be relevant to the activities of Scottish firms wanting to develop internationalisation networks into China and they are developed in the next section.
In the current environment however, the existence of smaller firms that develop internationalisation networks to China early in their organisational life - and before they tackle markets closer to home - could lead to different assumptions. For instance, smaller firms resource limitations may either be overcome or they may impact those organisations differently than once assumed and/or witnessed. In addition, there is an argument that in the context of internationalisation, smaller firms’ decision-making ‘may differ from the goal-driven, planned and ‘rational ‘decision-making commonly associated with larger firms (Child and Hsieh 2014).
Nonetheless, a more entrepreneurial behaviour by some firms did not make the challenges of internationalisation facing smaller, resource-limited firms disappear altogether. In order for Scottish SMEs to overcome the limitations inherent to their smaller resource base and go on to develop internationalisation networks to China, a number of ‘necessary and sufficient’ facilitating factors (Jones and Coviello 2005, p. 287), both internal and external to the firm, have to be present. The next section will describe and discuss those factors.

2.3.1 Overcoming the Challenges of Internationalisation: the Entrepreneurial Smaller Firm
In addition to the ‘liability of foreignness’, suffered by organisations of all sizes in the context of internationalisation (Zaheer 1995), smaller organisations endure a ‘liability of smallness’ (Aldrich and Auster 1986) due to the limited stock of both tangible and intangible resources they usually own (Penrose 1995). As a consequence, SMEs also have a higher mortality rate than larger organisations (Mascarenhas 1997), especially when undertaking resource-demanding activities; activities such as internationalisation can even threaten their survival (Sapienza et al 2006). While many of the earlier discussed internationalisation theories were based on data from pre-1990s environmental conditions, and prior to the emergence on the economic stage of non-Western markets such as China and India (Dunning and Lundan 2007), the transformations taking place in the global environment from the mid-1990s can only partly explain the increase in both the scope (a growing interest in China for instance) and speed of internationalisation achieved by some SMEs.
Case-studies of INVs around the mid-1990s showed that the international success of the smaller and younger firms was linked to three key aspects: an innovative and knowledge-intensive product or service, an international orientation from inception and access to a
strong international network, in order to market the firm’s product or service (Oviatt and McDougall 1994; Jones 1999). In addition, empirical studies of smaller and younger firms’ internationalisation have highlighted a number of criteria that have allowed to differentiate entrepreneurial from more traditional internationalisation. These criteria, summarised in Jones et al.’s 2011 review, included: presence of innovation, aggressive learning, tolerance of risk, speed of internationalisation, proactive behaviour, supportive networks and preference for collaborative - often cross-cultural - arrangements. These decisive factors also happen to be related to capabilities known through empirical evidence to facilitate the internationalisation of newer and smaller firms: ‘network attachment’ (Child and Hsieh 2014) or networking (Coviello and Munro 1997; Coviello 2006; Gassmann and Keupp 2007; Prashantham and Dhanaraj 2010; Sharma and Blomsterno 2003; Zhang et al 2009), learning (Bingham 2009; Chetty and Campbell-Hunt 2004; Fletcher and Prashantham 2011) and entrepreneurial behaviour (Knight and Cavusgil 2004; Mort and Weerawardena 2006). The management team’s human and social capital, along with the firm’s capabilities, orientation, networks and reputation have been shown to be more influential towards entrepreneurial internationalisation than the firms’ age and size (Knight and Cavusgil 2004; Reuber and Fischer 2002; Zahra et al 2003).

Among the different enabling competencies, the networking capability has been central to entrepreneurial internationalisation from the early days. Rennie (1993) defined the Born Global as a:

“well-networked [italics added for emphasis] firm established with the capability to compete internationally and co-ordinate resources across countries.”

Separately, Oviatt and McDougall (1994, p.55) described the network structure for New Ventures as:

“an even more powerful resource-conserving alternative to internalisation”.

The ability to use networks explained how resource-poor new ventures were able to access or control resources that they did not necessarily own. This finding has a key implication when an attempt is made at understanding the internationalisation of Scottish SMEs to China: the pertinence of focusing on networks as key enablers of internationalisation, as discussed in the next section.

2.3.2 Networks as Key Enablers of Entrepreneurial Internationalisation

Given the interest and empirical evidence in the IE literature about the role of networks in the internationalisation of the entrepreneurial small firm (Jones et al 2011), few would argue their importance. In more recent times, even Johanson and Vahlne (2009, p.1411)
had to review their original process theory of internationalisation to integrate the network dimension, while arguing that the internationalisation of the firm was about a ‘liability of outsidership’ [of network], rather than the ‘liability of foreignness’ (Zaheer 1995).

Besides, networks fit comfortably with one of the objectives of IE: to provide a ‘holistic’ picture of the internationalisation process (Jones and Coviello 2005, p.298).

While International Business and its economic perspective focus on the firm as the level of analysis, the study of entrepreneurial internationalisation intertwines different analytical levels by constantly merging and disentangling firm, decision-maker(s) and environmental dimensions. As described by Coviello and Jones in the context of their model of entrepreneurial internationalisation:

‘the boundary between the entrepreneur, the firm and the external environment [is shown] as permeable, thus accommodating continuous interaction with and in response to, the outside world (2005, p.295).’

Knowledge and resources are following continual inward and outward movements between the firm, the entrepreneur and the external environment. In addition, Etemad et al (2001, p.485) have highlighted that, with increasing global competition penetrating even domestic markets, ‘time has become a critical strategic weapon’. As a consequence, smaller firms often neither have the resources to internationalise nor the time to acquire them, contrary to the suggestion of incremental internationalisation models (Johanson and Vahlne 1977). So what are the potential solutions to smaller firms’ woes? The literature points towards getting access to - and exploiting - entrepreneurial decision-makers’ networks.

Drawing from a review of the entrepreneurial smaller firm internationalisation, Table 1 below summarises the key benefits of networks as enablers of entrepreneurial internationalisation:

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4 The liability of foreignness is defined as ‘all additional costs a firm operating in a market overseas incurs that a local firm would not incur’ (Zaheer 1995, p. 343).
Table 1 - The Benefits of Networks in Overcoming the Challenges linked to SME Internationalisation

<table>
<thead>
<tr>
<th>Internationalisation aspects</th>
<th>Liability of foreignness</th>
<th>Liability of smallness</th>
<th>Evidence from the literature</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Knowledge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Host market environment</td>
<td>Problem: lack of market, market actors and internationalisation knowledge</td>
<td>Problem: limited financial resources, time and human capital</td>
<td>Andersson and Wictor 2003; Brown et al 2010; Coviello and Cox 2006; Fernhaber and McDougall-Covin 2009; Ferro et al 2010; Freeman et al 2006; Lindstrand et al 2011; Loane et al 2007;</td>
</tr>
<tr>
<td>• Host market actors</td>
<td>Solution: knowledge-sharing with network partners</td>
<td>Solution: resource-sharing with network ties</td>
<td></td>
</tr>
<tr>
<td>• Internationalisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Legitimacy/reputational</strong></td>
<td>Problem: lack of track-record and reputation</td>
<td>Problem: tendency of smaller firms to be risk averse.</td>
<td>Al-Laham and Souitaris 2008; Al-Laham and Amburgey 2010; Andersson and Wictor 2003</td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• Financial</td>
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<tr>
<td>• Time</td>
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<tr>
<td>• Human</td>
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<tr>
<td><strong>Access</strong></td>
<td>Problem: lack of access to host market networks</td>
<td>Problem: lack of market, market actors and internationalisation knowledge</td>
<td>Andersson and Wictor 2003; Ellis and Wong 2002; Harris and Wheeler 2005;</td>
</tr>
<tr>
<td>• Referral</td>
<td>Solution: get referral from existing network ties</td>
<td>Solution: knowledge-sharing with network partners</td>
<td></td>
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<tr>
<td><strong>Risk aversion</strong></td>
<td></td>
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</tbody>
</table>

Source: The Author
As can be seen from the table, some beneficial aspects of networks (access to knowledge and resources) have been researched more than others (legitimacy and access benefits). Besides, as research on networks and internationalisation develops both in scope and depth, the picture that is emerging is becoming ever more complex. While a necessary feature of entrepreneurial internationalisation, networks can also be constraining (Ellis 2011; Zhou et al 2007).

Another key aspect regards the mechanisms through which networks benefits are derived, i.e. how smaller firms are able to exploit their networks in order to access and share knowledge, resources and legitimacy. Little is explained within the literature as to how these benefits are derived or why. The presence of the network is usually assumed and most of the current internationalisation research discusses network outcomes, i.e. the impact of the network on internationalisation, as opposed to the characteristics of the network itself or its dynamics (Coviello 2006).

Before proceeding to discuss networks and internationalisation in Chapter Three however, this Chapter will conclude with subsections 2.3.3 and 2.3.4 and define both the smaller firm and internationalisation in the context of the process of SME internationalisation network development.

2.3.3 Definition of the Smaller Firm in the Context of SME Internationalisation

It was highlighted earlier through footnotes that, in the context of this thesis, the terms ‘smaller firm’ and ‘small and medium size enterprise (SME)’ would be used interchangeably, as ‘smaller firm’ is meant to include both small and medium size enterprises; the terms are used in opposition to organisations covered under the descriptive of ‘large firms’, and in particular multinational enterprises.

The definition of the smaller firm, or SME, may vary according to institutional contexts. In China for instance, SMEs are defined as firms with less than 300 employees and a turnover below Rmb50 million (Filatotchev et al 2009). As this thesis focuses on Small and Medium-size Enterprises (SMEs) based in Europe (Scotland) however, the European Commission’s definition of the SME was chosen, i.e., ‘firms with less than 250 employees and/or turnover up to €50 million’ (EU Press Release 2003). Furthermore, the focal point is on the firm’s number of employees rather than turnover, as the internationalisation network development under focus within this study has more to do with the behaviour of organisational network actors than the size of an organisation’s turnover\(^5\).

\(^5\) Although it is recognised that size and resource availability do matter in the development of internationalisation networks, as is discussed throughout the thesis.
Internationalisation in the context of this study is defined next.

2.3.4 Conclusion: SME Internationalisation as Understood in this Thesis

This thesis is interested in internationalisation as a process and draws from both IE and IB. Accordingly, defining internationalisation when researching the network development process of the Scottish SMEs internationalising to China means drawing on both IE and IB definitions.

International entrepreneurship has been defined as:

‘...a combination of innovative, proactive and risk-seeking behaviour that crosses international borders and is intended to create value in organisations’ (McDougall and Oviatt 2000, p.903).

This definition is appropriate to the study of the development of internationalisation networks in the context of the smaller firm and offers a broader scope by focusing on the firm’s behaviour. It also makes value creation, rather than profit or growth, the key objective of that behaviour and this aim represents a perfect fit with the behaviour associated with network development.

Still, this definition is one of ‘International Entrepreneurship’, not internationalisation. As a result, it will be used in combination with Jones and Coviello’s definition of internationalisation as ‘a firm-level activity that crosses international borders’ (Jones and Coviello, 2005, p.284) and Young et al.’s (1989, p.3) definition as ‘the developmental process of increasing involvement in international business’. Jones and Coviello’s definition can incorporate both inward and outward internationalisation and ‘activity’ can represent multiple types of internationalising behaviour. Young et al.’s (1989) definition incorporates the time dimension and the idea that internationalisation is a process, which is critical to the study of the development of networks for internationalisation by Scottish SMEs to China. Accordingly, in relation to the process of internationalisation network development by Scottish SMEs across institutional borders, this thesis will define internationalisation as:

The developmental process of increasing involvement in firm-level activities that cross international borders and results from a combination of innovative, proactive and risk-seeking behaviour intended to create value in organisations.

The next chapter will look in more detail at the role of networks in SME internationalisation by drawing on the social network and entrepreneurship literature. More specifically, network development processes and the effects of network dimensions on smaller firms’ internationalisation will be examined. In order to better understand the process of network development for internationalisation, the nature of networks must first
be understood in more depth, and what is meant by ‘network’ rigorously defined in the context of this thesis.
Chapter Three
Networks and the Internationalisation of the Entrepreneurial SME

3.1 Introduction
The previous Chapter on SME internationalisation highlighted the key role of networks for smaller organisations intent in developing their activities across borders. Understanding how smaller firms develop their internationalisation networks across borders does first require however a clarification as to what is meant by the term ‘network’.
Interest in networks in the context of smaller firms’ internationalisation was initially generated by Coviello and Munro (1997) who showed that internationalisation patterns were often a reflection of firms’ network ties (Jones et al 2011), although it was recognised that networks could both enhance and constrain firms’ activities.
Twenty five years later, the literature on networks and their role in the internationalisation of the smaller firm has grown exponentially both in size and complexity. Networks and derived social capital (Burt 1995; 2011) have been shown to both benefit and constrain internationalisation (Al-Laham and Amburgey 2010; Dana 2001; Ellis 2011; Mort and Weerawardena 2006; Prashantham 2011; Prashantham and Dhanaraj 2010; Zhou et al 2007). What a network is, however, can be understood in multiple ways and derive from sometimes conflicting theoretical assumptions; studies that research networks - and apply the single term of ‘network’ to the concept - can either imply a business or social networks allegiance, without underlying assumptions always being made explicit. Accordingly, the first subsection 3.2 will briefly present and synthesise the theoretical network landscape by discussing the two main network theories applied to SME internationalisation, along with their underlying assumptions and implications. The social network approach, selected herein to research the process of SME internationalisation network development will then be explained and justified. Section 3.3 will further synthesise Chapter One and section 3.2 to define the concept of network in the context of the internationalisation of the smaller firm, i.e., the ‘internationalisation network’. Section 3.4 will then draw from the social network and entrepreneurship literature and argue that understanding of how networks operate is limited. The section will accordingly propose an integrative analytical framework for the study of internationalisation networks. Section 3.5 will follow and review extant knowledge of the role of networks and their dimensions in the internationalisation of the smaller firm. An outcome of the review is the realisation that internationalisation network research is overly static, with the effect of time rarely considered. Subsequently, section 3.6 will highlight
what is known about internationalisation network development and unearth key knowledge
gaps. The Chapter will then conclude and argue that researching the process of SME
internationalisation network development requires an understanding of networks’ multi-
level dimensions, in a way that integrates the structure of networks, their content, relational
and governance aspects, as well as developmental stages and the effect that time has on the
dynamic process of internationalisation network development. In conclusion, and drawing
from the Entrepreneurship and Social Network literature, a framework for researching the
process of internationalisation network development will be delineated in section 3.7.

3.2 Networks in the Context of Smaller Firms’ Internationalisation

In order to better understand the role of networks in the internationalisation of the SME,
what is meant by ‘network’ in the context of this thesis must be clarified and defined. To
do so requires reviewing the key theoretical perspectives underpinning the role of networks
in extant internationalisation studies.

As IE is ‘positioned at the nexus of internationalization and entrepreneurship’ (Jones et al
2011, p.632), a review of the International Business and Entrepreneurship literatures
highlighted two key diverging – and possibly complementary - theoretical approaches. The
two main perspectives present in the studies of networks and the internationalisation of
SMEs are: industrial network theory, often simply referred to as ‘network theory’ or
‘business networks theory’ (Hadley and Wilson 2003; Hilmersson and Jansson 2012;
Johanson and Mattsson 1987; Johanson and Vahlne 2009) and social network theory
(Borgatti et al, 1998; Burt, 1995; 2011; Granovetter, 1973).6

While attempts are sometimes made to integrate these different views (Slotte-Kock and
Coviello 2010), those two network theories often reflect conflicting - though rarely made
explicit - ontological assumptions with regard to the reality and understanding of a network.
From a more practical perspective, both approaches also differ in their analytical level, as
one tends to focus on organisational networks and the other on individual network actors.
The next subsection will cover industrial network theory (Johanson and Mattsson 1988;
Johanson and Vahlne 2009; Hilmersson and Jansson 2012) and will be followed by a
discussion of social networks theory, and more specifically Burt’s theory of structural
holes. In order to research the internationalisation network development process of Scottish
SMEs into China, a social network approach was selected, for reasons further developed in
in the next two subsections.

6 Thistoll and Pauleen (2011) highlight a third perspective from the strategic management literature (Gulati et al 2000) but it is felt that
this approach combines aspect of the other two theories discussed and will not accordingly be described further.
3.2.1 Industrial Network Theory: A Firm level Analysis

Notwithstanding its importance in internationalisation research, the industrial network theory (Johanson and Mattsson 1988; Johanson and Vahlne 2009; Hilmersson and Jansson 2012) was not deemed appropriate to study the process of SME internationalisation network development.

Industrial network theory (Johanson and Mattsson 1988) sees markets as business networks and reposes on the assumption that networks exist independently of the actions and control of firms or individuals – even if this assumption is rarely made explicit. Actors will ‘tap into’ their existing business networks in order to internationalise across borders. Network theory is linked to Johanson and Vahlne’s stage internationalisation process model, which was extended to incorporate the network dimension (Johanson and Vahlne 2003; 2009). Having embraced the importance of the network in the internationalisation process of the firm, Johanson and Vahlne (2009) coined the term ‘liability of outsidership’ and redesigned internationalisation as an extension of the firm’s network abroad.

This theoretical approach is not appropriate when researching internationalisation network development as it neither explains how the network emerged initially, nor the type of process that leads to network expansion. Firms are akin to stars floating in the known universe: they are embedded within business networks that expand over time, potentially infinitely. Organisations internationalise by following their existing network into new markets, in a rather passive and path-dependent manner. The existence of the network that allows internationalisation is taken for granted.

In the context of smaller firms, this approach suffers from some weaknesses and has been criticized for being reductive, deterministic and lacking explanatory power (Chetty and Blankenburg-Holm 2000). For smaller and newer firms, with no access to established and relevant internationalisation networks, this perspective raises some questions: how do new firms internationalise when they have no access to existing or relevant business networks? There is some evidence in the literature (Loane and Bell 2006; Ojala 2009) that some firms may internationalise for strategic reasons, in a specific market, without pre-existing internationalisation network connections, by following a proactive network development process.

Another key issue with network theory in the context of SME internationalisation is that it ignores the role and importance of the individual decision-maker, be it positive or negative. As pointed out by Chetty and Blankenburg-Holm (2000):

‘...a manager can inhibit internationalisation of the firm although the network wants to drive it into internationalisation’.
The individual owner/manager characteristics, including previous international experience, background and networking capability, have been shown on numerous occasions to impact firms’ internationalisation (Evers and O’Gorman 2011; Mort and Weerawardena 2006; Mustafa and Chen 2010; Musteen et al 2010; Prashantham 2011; Prashantham and Dhanaraj 2010; Schwens and Kabst 2009). There is also evidence that entrepreneurs rely on social and personal network ties as much as on business relationships (Chetty and Blankenburg-Holm 2000; Ellis 2000; Evers and O’Gorman 2011; Freeman et al 2006; Harris and Wheeler 2005; Manolova et al 2010; Sasi and Arenius 2008; Senik et al 2011) and the focus on business networks is too reductive. The following quote from Evers and O’Gorman’s (2011, p.552) explains the importance of social networks in the case of new ventures:

‘Social networks may be particularly important to new ventures seeking to internationalize because emerging organizations typically lack established business networks and because the entrepreneur is not part of a structured international business network.’

Finally, the assumption is that firms will gradually move from one type of network - or category - into another, in an incremental fashion, based on the amount of knowledge they possess (Hilmersson and Jansson 2012; Johanson and Vahlne 2009). With time being such a critical factor in the internationalisation of the entrepreneurial smaller firm (Etemad et al 2001), this approach may not be appropriate in the context of the process of internationalisation network development by SMEs.

Social networks theory (Burt, 1995; 2011), discussed in the next subsection, appears more appropriate to explain the internationalisation network development by smaller entrepreneurial firms and is a better theoretical choice for the topic under research.

3.2.2 Social Networks Theory: An Entrepreneurial and In-depth Perspective of Networks

As discussed in the above subsection, the question of the process of internationalisation network development by Scottish SMEs into China requires a network theory that allows for the explanation of network formation and development. For that reason, the social networks approach that is followed in this thesis is primarily based on Burt’s structural hole theory (1995; 2011). This theory allows the in-depth study of network processes and mechanisms and accounts for the impact that network actors’ behaviour may have on the development of internationalisation networks. The actions of individual network actors are essential aspects when attempting to understand how and why SMEs’ internationalisation
networks develop. Besides, the theory also discusses initial network creation, i.e. the process of bridging structural holes.

Burt’s theory (1995; 2011) contains two complementary elements. In his earlier work on structural holes in the context of the social structure of competition, Burt (1995) focused mostly on the structure of social networks and on the benefits to be derived by some networks actors due to their position within a network. The emphasis is on network structure and the control of benefits obtained through specific network compositions. The presence of structural holes within a network draws attention to potential opportunities to profit by actors who may both recognize the existence of the hole, and be in the right network position to act as ‘tertius gaudens’ (the third who benefits), by linking otherwise disconnected parts of a network. Burt defines structural holes as:

‘the separation between nonredundant contacts’ (1995:18).

Non-redundant contacts are contacts that are disconnected either directly or indirectly. Contacts can be disconnected either directly - when they have no direct contact with one another - or indirectly - when one network actor has contacts that excludes the others (Burt, 1995).

In the context of the development of internationalisation networks by smaller firms, social networks theory allows the study of the actual process of network development by looking at how the network structure of the internationalising firms evolves from a potential situation of structural hole, to one where the hole is bridged through the actions of a ‘tertius gaudens’, often referred to as ‘broker’; and finally, one where the broker himself is made redundant through additional direct connections between the two parts of the network - or network clusters - that were solely, until then, connected through the broker.

In other words, and in the context of Scottish SMEs’ internationalisation network development, there may be direct structural holes where two network actors have no relationship or indirect structural holes where one network actor has connections that exclude others within the network. As a result, Burt’s structural theory allows the study, over time, of the creation of new network relationships where, before, there were none.

In his later work discussing network brokerage and closure (2011), Burt further developed his theory of structural holes by expanding on the evolution of bridge relationships over time. From simply looking at the structure of networks, Burt’s attention moved to aspects related to network governance - trust for instance - and tie strength, i.e., the importance of weak or strong ties. More importantly in the context of SME internationalisation, instead of solely focusing on the benefits to be retained by the network broker, Burt became interested in the stability of the overall network. This later work is critical when
researching the process of internationalisation network development by SMEs, as internationalisation networks require stability over time if internationalisation is to be maintained. Based on the definition of internationalisation networks guiding this thesis, network stability over time is critical to the developmental process of increasing involvement in firm-level activities that cross international borders\(^7\). Network stability would be less essential to other network-enabled objectives such as information access or referral.

Consequently, Burt’s (2011, p.200) observation that bridge relationships ‘require special effort’, and that maintaining them over time is a challenge, is a crucial aspect in the context of internationalisation networks. Bridge relationships are costly to sustain as the cost of maintaining the relationship falls solely onto the two network actors positioned on each side of the bridge. Burt’s conclusion is that most bridges decay within a year and his hypothesized solution to increase the stability of the network is to embed the bridge relationship through two separate – and potentially complementary – methods: relational and structural embedding (see figure 2, p.29). Relational embedding (Burt 2011; Granovetter, 1985) is achieved by underpinning the bridge connection with trust and increasing tie strength between the two network ties on each side of the relationship. Structural embedding (Burt 2011; Coleman, 1988) is obtained through network closure, or the development of new additional connections linking ties on both sides of the bridge.

Burt (2011, p.93) further defines trust as ‘a relationship with someone (or something if the object of trust is a group, organization, or social category) in which contractual terms are incompletely specified.’ He adds that the more taken-for-granted and unspecified the terms, the more that trust is involved. Conversely, distrust means a refusal to commit to a relationship without guarantees on the behaviour of the other person involved (Burt, 2011). In the context of social networks, ‘anticipated cooperation is much of the trust required for brokerage’ (Burt 2011, p.94). In relation to bridging connections, Burt refers to the tie being asked to trust as ego and to the one being trusted as alter (2011). Finally, the repeated experience of cooperative behaviour between ego and alter will support and increase trust (Burt, 2011).

Trust levels are also correlated with the strength of the relationship, which increases over time on the basis of a positive experience of past cooperation (Burt, 2011; Granovetter, 1973). Burt warns however that the cumulative process involved in increasing the strength of a network relationship for cooperative purposes is ‘slow, rare and dangerous.’(2011, p.104). Applying structural embedding to the network relationship must be considered in

\(^7\) As per this thesis ‘definition of internationalisation p.19.
order to reduce the risk of abuse, inherent to the development of *relational embedding*. This is again of particular importance to the process of development of internationalisation networks by Scottish SMEs with China as the distance between the two parts of the network is likely to increase the risk of opportunistic behaviour by a China-based alter. This observation will be further developed in Chapter Four, which looks at institutional distance. *Structural embedding* through network closure (Burt 2011; Coleman 1988) between Ego and Alter will develop with the number of new third-parties connections that link them both. Third-party, or redundant contacts, will close the network around Ego and Alter, bringing benefits such as monitoring and early detection of misbehaviour, as well as lowering the risk involved in relational embedding (Burt, 2007; Coleman, 1988). Network closure involves a ‘reputation mechanism’ (Coleman 1988), where an individual’s behaviour is monitored and discussed within the network (Burt 2011), and where peer-pressure acts as a normative type of control\(^8\). As a result, Burt argues that closure promotes trust by decreasing the risk of opportunistic behaviour. Drawing from Burt’s (2011, p.103) figure 2 illustrates the three stages of network development around structural holes: no embedding, relational embedding and structural embedding.

\(^8\) Norms and their effect on behaviour will be further discussed in the next section covering institutional theory.
Figure 2 – Network embedding (drawing from Burt 2011, p.103)

Situation A
Ego New Acquaintance
(no embedding)

Situation B
Ego Long-time connection
(“relational” embedding)

Situation C
Ego Co-member of Group
(Network cluster)
(“structural” embedding)
Burt’s theory assumes a single national context, where the environment in which ego and alter are embedded does not dramatically differ; however, in the context of SME internationalisation across disparate contexts, this thesis will instead argue that both relational and structural embedding will prove challenging, due to the impact created by differences in the home and host environments. Research findings in Chapter Six will also clearly highlight how the process of internationalisation network development indeed may start with a structural hole that will then need to be bridged. While context is not a feature of Burt’s structural hole theory, it will be of utmost importance in the process of internationalisation network development by smaller firms across borders.

Having clarified the network approach that will guide this study, it is now important to clarify further the theoretical assumptions that will underpin the research.

3.2.3 Theoretical Assumptions underpinning Social Network Research

When researching the process of internationalisation network development by Scottish SMEs, it is essential to clarify the assumptions that underpin the study, so that the validity of the proposed contribution may be fairly evaluated. While this aspect will be further discussed in the Methodology Chapter, it still deserves a brief discussion from a theoretical perspective.

Burt (1995, p.12) recognises that there can be two different levels of analysis when studying networks. He first describes the network as a ‘conduit’ - or one’s access to social capital - while the second treats networks themselves as social capital. This dichotomy is the reflection of two very different ontologies which are illustrated by Jack (2010) with a Ptolemaic/Copernican metaphor. In simple terms, the position and importance given to the individual within the network reflects the perspective of the researcher. In the Ptolemaic perspective – the network as a conduit - the focus is on the individual (or agent) within the network, as he/she develops and shapes the network in order to access social capital; the emphasis is on the actions of network actors and how they shape the network’s structural dimension. In the Copernican approach, where the network itself is viewed as social capital, the focus is on the benefits that result from the network as a whole and the agent is only one of the interconnected ties within the network. Taken to their extreme, these two perspectives could be fundamentally opposed with a subjective position where the network is totally constructed by the agent and an objective view seeing the individual as only reactive to the structure of the network.
Jack (2010:131) proposes to reconcile both perspectives, structure and agency, through the concept of ‘structuration’ (Giddens 2013) where:

‘s\textit{tructure provides the conditions for the possibility of action and guides as to how actions are performed, but it is agents who produce and reproduce this structure by means of their activities’.’

While a more Ptolemaic perspective is followed in this thesis, with the focus on the agent – or network actor – and his actions in relation to the network, it is recognised that actors are also themselves guided by the network structure, and that they, in turn, shape that structure, as per the Copernican view.

Social networks theory (Burt 1995; 2011) and assumptions are complex and this complexity also makes the concept difficult to use as an analytical tool in research, leading to too many broad and descriptive studies of what actually happens within networks (Jack 2010). As a result, researchers are increasingly studying networks as complex entities (Jack 2010) with multiple dimensions (Dodd Drakopoulou et al 2002; Hoang and Antoncic 2003; Jack 2010), while looking to explain how those dimensions can play a different role and have diverging impacts on firms activities, including internationalisation (Al-Laham and Amburgey 2010; Coviello 2006; Loane and Bell 2006). In other words, what both Burt’s theory and the development of social network-based research within the Entrepreneurship literature mean for the process of internationalisation network development by SMEs is that networks must be studied at multiple levels. Both the structural and behavioural/relational dimensions of networks are deemed important in order to understand the role played by networks in the internationalisation of the firm (Slotte-Kock and Coviello 2010). Based on this premise, the remainder of the Chapter will both define ‘network’ in the context of the process of development of SME internationalisation networks and propose an integrative analytical framework to study the phenomenon.

3.3 Network Definition in the Context of the Internationalisation of the Entrepreneurial Smaller Firm

As discussed throughout section 3.2, this thesis will follow a ‘social network’ theoretical approach (Burt 1995; 2011; Jack 2010), while acknowledging the value of the industrial network theory (Johanson and Mattsson 1987) in other contexts and its potential complementarity with the social network approach. Accordingly, a (social) network is broadly defined as (Hoang and Antoncic 2003, p.168):

“a \textit{set of actors (individuals or organizations) and a set of linkages between the actors”}.
'Actor' is understood as tie or contact within the network and these terms will be used interchangeably. The connections or linkages between two network ties are *relationships*, "the fundamental elements in a network" (Burt 2011, p.24). This is a broad definition which gives little indication of how the actors are linked, who they are, why they are linked and what is the outcome of the linkages. As this thesis is interested in the process of network development by internationalising smaller firms across institutional borders, the actual network of interest is the ‘internationalisation network’. Drawing from Burt (1995, 2011), Hoang and Antoncic (2003), Jones and Coviello (2005), McDougall and Oviatt (2000) and Young et al (1989), and integrating both the definitions of internationalisation proposed in section 2.3.4 and ‘network’ offered above, this thesis will define an internationalisation network as:

> *the set of actors, and linkages between the actors, that is accessed in the process of increasing involvement in firm-level activities that cross international borders and create value for an organisation*.

In addition, while internationalisation networks are to be understood at organisational level, it is argued that in the context of smaller firms, individuals network relationships can be aggregated into organisational level networks. Burt (1995, p.9) refers to relationships with other network actors as social capital and argues that: ‘The social capital of people aggregates into the social capital of organizations’. His argument is supported by empirical evidence in the context of entrepreneurial start-ups for instance (Cabrol et al 2009). This can only be the case if, as argued here, the boundary between the firm, the decision-maker/entrepreneur and the outside environment is porous with constant dynamic exchanges taking place across the different dimensions. Besides, all economic exchanges take place in a social context and social ties - as opposed to business ties - cannot be ignored when studying networks and their role on SME internationalisation (Sasi and Arenius 2008; Slotte-Kock and Coviello 2010). If networks are to be understood, both the individual, organisational and inter-organisational levels must be studied (Slotte-Kock and Coviello 2010).

In conclusion, when researching the process of development of internationalisation networks by Scottish SMEs into China, it will be agreed that the individual actor’s network development behaviour, and resulting network linkages, will aggregate to offer an understanding of the network development process of the firm. The process of network development is understood to be aimed at the internationalisation of the firms within which the network actors are embedded, rather than the internationalisation of the network actor under scrutiny.
Having clarified the definition of ‘internationalisation network’ that is applied in this thesis, it is also important to clarify that network research can involve many variables such as size, structure, content, processes as well as network impact on numerous outcomes. For instance, network ties can be social, economic or multiplex (both) in nature (Coviello 2006). Accordingly, variables of relevance must be clarified. The next section (3.4 will) draw from a review of the internationalisation and entrepreneurship literature and propose an integrative analytical framework for the study of internationalisation network development by SMEs.

3.4 An Integrative Analytical Framework of Internationalisation Networks: Network Dimensions and their Role in the Internationalisation of the Smaller Firm

In order for academic research on internationalisation network development to become more integrated, an in-depth understanding of network mechanisms is first required. Only through the unravelling of the different dimensions of networks, can their mechanisms (how they operate) and effects on the internationalisation of SMEs be better understood (Slotte-Kock and Coviello 2010). In this context, research is insufficient, fragmented and often confusing. This section integrates findings from a review of the internationalisation literature, alongside findings from a review of the social network literature to propose an integrative framework of network dimensions. The analytical framework will be applied to the study of the process of internationalisation networks development by smaller firms with a view to improve the rigour of the thesis and proposed theory.

3.4.1 Integrative Analytical Framework

The recent review of the IE literature by Jones et al (2011), supported by the findings from a review of the internationalisation literature further discussed in section 3.5, highlights a paucity of theoretical discussion around network mechanisms and development within the internationalisation literature. Networks are usually studied as the independent variable, i.e. in terms of how they influence or impact internationalisation, rather than as the dependent variable, i.e. in relation to how network themselves develop (Coviello 2006) or how they operate. Exceptions are Coviello’s (2006) case-studies of the network development of three INVs, Loane and Bell’s (2006) investigation of entrepreneurs’ network building activities and Wakkee’s (2006) network development analysis of a Dutch INV. While all three studies discuss the importance of networks in entrepreneurial internationalisation, their choice of theoretical perspective is not made explicit and they fail to properly define the
network variables under analysis. For instance, the descriptions of some relationships as ‘strong’ or ‘weak’ ties are rarely conceptually accurate. One example in particular is Coviello’s reference to ‘strong ties’ (2006, p.724) in her discussion of one INV’s network dynamics, without having previously defined the meaning of the term; drawing from the context, the ‘strong tie’ concept seems to have been reduced to the meaning of long term tie⁹. Loane and Bell refer on numerous occasions to ‘strong tie’ and ‘weak ties’ in their 2006 study without defining either term; they simply relate ‘strong ties’ to ‘family or close friends’ (p.468). Wakkee (2006) added new categories to strong and weak ties such as ‘new’, ‘medium’ and ‘inner circle’ (2006, p.202). This semantic cacophony is an issue as it prevents the possibility of making comparisons across studies and the accumulation of knowledge around internationalisation networks’ dynamic patterns, i.e., when attempting to uncover ‘how’ and ‘why’ questions. This variation across studies may also account for contradictory or confusing findings, especially in the context of strong/weak tie studies.

Another consequence of the limited material within the SME internationalisation literature, is that the following proposed framework (Table 2 below) had to be derived in great part from a synthesis of social network-related papers from the entrepreneurship literature (Hoang and Antoncic 2003; Jack 2010). In their 2003 review of network research in the context of entrepreneurship, Hoang and Antoncic concluded that studies on network process and development were limited to research on the impact of network structure on venture formation (or network outcome). Their findings were further extended by Slotte-Kock and Coviello’s 2010 review; the authors called for the analysis of network mechanics and development along multiple levels of analysis split between network structure, network content and network governance (i.e. the mechanisms that govern network relationships).

Based around Hoang and Antoncic’s (2003) classification and Slotte-Kock and Coviello’s (2010) suggestions, a review of the internationalisation and entrepreneurship network literature was conducted and has highlighted the existence of four separate network dimensions:

- Network structure
- Network content
- Network relational characteristics
- Governance of networks

⁹ Granovetter’s (1973, p.1361) definition of tie strength as ‘a probably linear combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and reciprocal services which characterize the tie,’ includes four separate dimensions.
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<th>Description</th>
<th>Supporting literature</th>
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<tr>
<td><strong>Network structure</strong> (Burt 1995;2011)</td>
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<tr>
<td>Pattern of relationships from direct or indirect ties between actors</td>
<td>Al-Laham and Amburgey 2010; Al-Laham and Souitaris 2008; Borgatti et al 1998; Burt 1995, 2011; Coleman 1988; Coviello 2006; Ellis 2000; Greve and Salaff 2003; Gulati et al 2000; Hara and Kanai 1994; Hite and Hesterly 2001; Larson and Starr 1993; McEvily and Zaheer 1999; Yu et al 2011</td>
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<td>• size/effective size</td>
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<td><strong>Network content</strong> (or potential benefits)</td>
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<tr>
<td>Interpersonal or interorganizational relationships as media to access a variety of resources held by other actors</td>
<td>Coviello 2006; Coviello and Cox 2006; Dana 2001; Ellis 2011; Ellis and Wong 2002; Ferro et al 2009; Gellynck et al 2007; Granovetter 1973; Harris and Wheeler 2005; McEvily and Zaheer 1999; Sharma and Blomstermo 2003; Yli-Renko et al 2002; Zhou et al 2007</td>
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<tr>
<td>• information/advice</td>
<td></td>
</tr>
<tr>
<td>• knowledge (innovation, technical)</td>
<td></td>
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<tr>
<td>• emotional support</td>
<td></td>
</tr>
<tr>
<td>• reputational/signalling content/legitimacy</td>
<td></td>
</tr>
<tr>
<td>• financial/economic/human resources</td>
<td></td>
</tr>
<tr>
<td>• Network access (international market access and development)/referral</td>
<td></td>
</tr>
<tr>
<td><strong>Network relational characteristics</strong></td>
<td></td>
</tr>
<tr>
<td>The characteristics of the ties making up the network</td>
<td>Cabrol et al 2009; Coviello 2006; Granovetter 1973; Dodd Drakopoulou et al 2002; Ellis and Wong 2002; Granovetter 1973; Harris and Wheeler 2005; Kiss and Danis 2008; Larson and Starr 1993; Sasi and Arenius 2008</td>
</tr>
<tr>
<td>• social, economic or multiplex</td>
<td></td>
</tr>
<tr>
<td>• weak or strong</td>
<td></td>
</tr>
<tr>
<td>• personal versus firm level</td>
<td></td>
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<tr>
<td>• local versus international</td>
<td></td>
</tr>
<tr>
<td>• sector of activity of tie</td>
<td></td>
</tr>
<tr>
<td><strong>Network Governance</strong></td>
<td></td>
</tr>
<tr>
<td>Mechanisms underpinning network exchanges</td>
<td></td>
</tr>
<tr>
<td>• contractual (legal/bureaucratic/regulatory)</td>
<td></td>
</tr>
<tr>
<td>• market (costs advantage)</td>
<td></td>
</tr>
<tr>
<td>• social (power/influence or threat of ostracism/reputation)</td>
<td></td>
</tr>
<tr>
<td>• affect-based (personal trust)</td>
<td></td>
</tr>
<tr>
<td>• institutional (norms)</td>
<td></td>
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</tr>
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</table>

Source: The Author
The next three subsections will further clarify aspects from the four dimensions and offer definitions for some of the more complex components in each dimension, drawing from the social network literature (Borgatti et al 1998; Coviello 2006; Granovetter 1973; Hoang and Antoncic 2003; Jack 2010; Larson and Starr 1993).

3.4.2 Networks Relational Dimension: The Categorisation of the Multidimensional Concept of Tie Strength

Most of the relational dimensions detailed in the table are related to network ties and are reasonably self-explanatory, such as local versus international ties, personal versus firm-level ties and ties’ sector of (business) activity. Social, economic and multiplex ties are terms employed by Coviello (2006), drawing on Larson and Starr (1993). Although Coviello does not define the terms, Larson and Starr (1993, p.6) refer to economic ties as ‘instrumental’ and related to business and economic transactions, with social ties having more ‘affective’ aspects. Multiplex ties are those that have both social and economic aspects (Coviello 2006). Larson and Starr (1993) give, as an example, the case of an old school friend that starts as a social tie but, through his contacts in the venture capital industry, becomes an economic one over time.

One relational dimension, tie strength, requires further elaboration. It was highlighted earlier in a footnote that Granovetter (1973, p.1361) defined the strength of a tie as:

\[
\text{a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie.}
\]

In addition, the author specified that although the above components may sometimes be correlated, they could also be independent of each other. Some features of the components relate to the structure of the network – frequency or ‘the amount of time’ ties connect with each other for instance – while other aspects link instead to qualitative facets of the tie’s relationships – ‘emotional intensity or intimacy’ between the actors for example.

Granovetter chose to leave the issue of the operationalisation of these constructs to future empirical studies but the duality between the quantitative and qualitative elements may have led to operationalisation issues. One extreme example is the operationalisation employed by Presutti et al.’s (2007) study where strong ties were used as a proxy for social capital’s relational and cognitive dimensions and weak ties as measures of its structural dimension.

Hoang and Antoncic’s (2003) findings revealed that weak and strong ties’ measures have been mostly operationalised in terms of frequency (McEvily and Zaheer 1999) and primariness (kin, friend, acquaintance), leading to researchers measuring numbers at a
specific point in time, rather than studying the evolution of ties from weak to strong or vice and versa. In other words, the bias towards quantitative methods may explain why so little is still understood about both the evolution and mechanics of networks (Jack 2010).

Accordingly, building from Slotte-Kock and Coviello’s (2010) three dimensional levels (structure, content and governance), a fourth dimension described as ‘network relational characteristics’ has been added to the framework in this thesis, in order to describe the relational and qualitative characteristics of network ties (Kiss and Danis 2010), rather than their structural features. Network ties characteristics can now be separated from the structure which they are embedded in: in effect, Granovetter’s (1973) definition of tie strength will be retained but relational characteristics will be analysed separately from network structure variables, which are clarified next.

3.4.3 Networks Structural Dimension: Some Definitions

The structural dimension of networks has been widely elaborated on in the social network literature and requires clarification. In the context of the internationalising smaller firm, and drawing from empirical studies, the network’s main structural measures can be described as: size, effective size, redundancy, density and constraint.

The size (or observed size) measures the total size of the network in terms of number of observed ties to other actors, be they direct or indirect (Borgatti et al 1998; Burt 1995; Coviello 2006).

The effective size refers to the number of [observed] non-redundant ties of the focal actor’s network (Burt 1995, p.52). Burt defines redundancy in two different ways: redundancy by cohesion or redundancy by structural equivalence. In the first case, “two contacts are redundant to the extent that they are connected by a strong relationship” (Burt 1995, p.18). In the second instance, “two people are structurally equivalent to the extent that they have the same contacts” (Burt 1995, p.18). There is evidence (McEvily and Zaheer 1999) that nonredundancy and weak ties are not necessarily related. McEvily and Zaheer argued (1999, p.1153) that:

“...rather than focusing on the strength or weakness of a tie, research should recognize that news ideas, information and opportunities can be sourced through contacts that are simultaneously nonredundant and trusted”.

This evidence may explain why Coviello (2006) focused on redundancy by structural equivalence when defining the network’s effective size, ignoring tie strength as a factor.

Redundancy is related to constraint with a difference. In Burt’s words (1995, p.54):

“Connection is the key to redundant benefits; dependence is the key to constrained benefits more generally.”
Network constraint measures the extent to which all of the focal actor’s ties directly or indirectly only involve a single actor (Coviello 2006). If the focal actor’s network is heavily constrained (Burt 1995, p.38):

“The ultimate threat in negotiating a relationship is withdrawal”.

In a heavily constrained network, this ‘ultimate threat’ becomes enormously powerful. The thesis’ findings in Chapters Six and Seven will show that institutional differences have the effect of constraining the SME internationalisation network around the Ego-Alter bridging connection, and that the risk of withdrawal by either is indeed a concern for the stability of the internationalisation network.

The separate measure of ‘network density’ describes the “proportion of ties that are connected [in the observed network], given the number of pairs of potential ties (Coviello 2006, p.719). Network density is related to Coleman’s (1988) concept of network closure. Dense networks with closure are supposed to provide access to information of higher quality and promote trust and reciprocity (Coleman 1988; Coviello 2006). On the other hand, Burt (1995) argues that dense networks have a higher proportion of redundant ties and are accordingly less efficient, providing lower levels of social capital and information benefits (Coviello 2006).

3.4.4 Networks Governance Dimension: Clarification of the Definition of Trust

Networks’ governance components include trust, which is related to the relational dimension of ‘strong tie’ (Burt 2011; Granovetter 1973; 1985). The definition of ‘trust’ as understood in relation to network governance will be the one offered by Burt (2011, p.93) and already specified in section 3.2.2. As a reminder, trust is defined as:

‘a relationship with someone (or something if the object of trust is a group, organization, or social category) in which contractual terms are incompletely specified.’

Network governance will be further discussed in the next section covering institutional theory as many of the measures in the table are closely related to institutional aspects. In the meantime, having clarified the meanings of key network dimensions, the next section will discuss their role in internationalisation, drawing from a review of empirical evidence in the literature.

3.5 The Role of Networks and their Dimensions in SME Internationalisation

As discussed in the concluding section 2.3.2 of the literature review on the internationalisation of the smaller firm (and detailed in Table 1), there is wide agreement in the academic literature that SMEs access networks in order to overcome resource and
knowledge deficiencies. There is little agreement from thereon as to exactly how those benefits are accrued, in relation to the type of network mechanisms or characteristics at play in internationalisation for instance. Getting a better understanding of how networks operate in the context of SME internationalisation requires unravelling the effect of their different dimensions, i.e. opening the network’s black box. A review of the internationalisation literature, which offers some limited answers, is presented below.

3.5.1 The Role of Networks in SME Internationalisation

Networks have been shown to be leveraged by firms’ decision-makers in both the early and later stages of internationalisation, i.e. throughout the internationalisation process. Furthermore, although existing internationalisation research often tends to emphasize the benefits of networks, some voices have begun to reveal some of the networks’ more constraining aspects (Ellis 2011; Mort and Weerawardena 2006; Musteen et al 2010; Prashantham and Dhanaraj 2010), in line with Coviello and Munro’s 1997 seminal paper on the role of network relationships in the internationalisation of software SMEs. An area of contention however is about the influence of networks on the internationalisation process itself, i.e. the decision to internationalise, the selection of markets and the entry mechanism into that market. Some studies argue that networks actually drive smaller firms internationalisation (Bell et al 2003; Coviello 2006; Coviello and Munro 1997; Sharma and Blomstermo 2003); firms can often internationalise by either following their clients or business network relationships abroad (Bell 1995; Etemad et al 2001) or through access to co-ethnic ties (Prashantham 2011; Prashantham and Dhanaraj 2010). This perspective of firms led into internationalisation by their clients or network ties can sometimes offer a relatively reactive view of the role of the decision-maker within the firm.

Others studies however have shown evidence of decision-makers and entrepreneurs having a more pro-active role in the internationalisation of their organisation (Loane and Bell 2006; Ojala 2009), through a more strategic development of networks. Ojala (2009) for instance found that most of his sample of knowledge-intensive SMEs from Finland had selected the Japanese market for product-related strategic reasons rather than through following their existing network. The choice of entry mode was not influenced by existing network ties either, which begs the question:

What happens when smaller firms decide to enter a market for strategic reasons while having no existing network or relevant network tie to help them internationalise?
In the case of Ojala (2009), Finnish firms had to use non-profit government organisations as mediating links to the Japanese market, while actively developing new relationships (instead of utilizing extant ones). This is one of the rare studies to have investigated smaller firms actively creating network links, where none initially existed, and it contradicts the perception of smaller firms passively following their existing network links into new international markets.

The issue with a relatively broad understanding of networks is that findings on the role they play in the internationalisation of the smaller firm are often conflicting, confusing and that the field in general suffers from a lack of conceptualisation and integration (Coviello 2006; Jones et al 2011). Opening the network black box and highlighting which network dimensions and mechanisms are operating may bring some clarity on how networks impact and influence internationalisation. Accordingly, the next subsection summarises extant understanding of the role of different network dimensions in the internationalisation of the SME.

3.5.2 The Role of Network Dimensions in Internationalisation

A review of the SME internationalisation literature unearthed limited empirical research and understanding of the mechanisms and dimensions of networks that may explain their role in SME internationalisation.

In terms of relational dimensions, both social and business ties appear to have a role to play in SME internationalisation. For instance, by using both social/personal and business networks (Coviello and Munro 1995, 1997; Loane and Bell 2006) and translating them from micro-level network links into macro-organisational and valuable resources, networks have been shown to improve the firm’s pace (Peng and Luo 2000) and performance of internationalisation (Kiss and Danis 2010; Musteen et al 2010). Ties that are useful to SME internationalisation can be either social and personal relationships (Harris and Wheeler 2005) or a mixture of both economic and social ties (Coviello 2006).

In relation to network content (or benefit), social networks have been shown to play three main roles in the internationalisation of entrepreneurial SMEs: informational, leveraging of resources and moderation of the internationalisation process (Ferro et al 2009).

Networks can be governed through formal business agreements, such as alliances (Al-Laham and Amburgey 2010; Al-Laham and Souitaris 2008; Hara and Kanai 1994) or customers and suppliers connections (Chetty and Blankenburg Holm 2000; Etemad et al 2001); alternatively, they may be underpinned by less formal types of governance mechanisms such as those developed in the context of geographical or industry clusters,
based on spatial proximity and industrial sector (Brown et al. 2010; Gellynck et al. 2007; Keeble et al. 1998).

The review of the limited SME internationalisation network literature and its occasional contradictions leads to two separate conclusions. One, if networks can be strategically and actively created, the creation process implies the active involvement of network ‘creators’ that have the skills and capabilities to lead and manage such a process. This capability factor is beyond the scope of the topic under scrutiny but needed to be highlighted. Two, internationalisation networks are dynamic entities whose characteristics change over time: as a result, an improved understanding of the development of internationalisation networks by SMEs requires the study of a process that takes place over time. Indeed, studies of the structure of networks (Coviello 2006), as well as of the nature of network ties, have highlighted the fact that network dimensions evolve over time: networks have been shown to develop through a dynamic process (Coviello 2006; Slotte-Kock and Coviello 2010; Prashantham and Dhanaraj 2010). If this is the case, is the static study of networks, only focusing on a specific point in time, really meaningful?

This thesis contends that a better understanding of networks requires the network itself to be studied over time, as a dynamic process. The next section will discuss extant knowledge of the development of networks over time and highlight some gaps in the literature.

3.6 Network Development Over Time: Some Gaps in Extant Knowledge

How the SME internationalisation network itself - or the network as the dependent variable - is created and developed is the research topic under focus here. Section 3.6 will review extant academic knowledge of internationalisation network development and show that empirical studies of the phenomenon are limited, highlighting a key gap in the academic literature.

The majority of the studies looking at smaller firms’ internationalisation networks examine the role of existing networks at a specific point in time (Jones et al. 2011). Accordingly, it is useful to draw from findings from the Entrepreneurship and International Business literature (Jack 2010; Prashantham and Dhanaraj 2010) to enrich the limited but growing studies undertaken within IE (Coviello 2006; Loane and Bell 2006; Manolova et al. 2010). As knowledge increases, a complex and fascinating picture is starting to emerge: networks are indeed dynamic and evolve (Coviello 2006; Prashantham and Dhanaraj 2010). The role of inter-firm networks, for instance, has been shown to decrease over time (Manolova et al. 2010). As firms grow and internationalise, the importance of some relationships may decrease, while the characteristics of some network ties may change, and new actors may
be brought in (Prashantham and Dhanaraj 2010). This observation is supported by Social Network theory: in a 2002 study, Burt found that most bridge ties disappeared within a year (Prashantham and Dhanaraj 2010). From a social capital perspective, Prashantham and Dhanaraj describe three different mechanisms to explain the evolution of network ties: ‘tie decay, tie obsolescence and utility life cycle of network relationships’ (2010, p.978-980). There is also evidence that the structure of inter-personal and inter-firm networks will evolve over time, as new ventures grow and develop (Coviello 2006; Greve and Salaff 2003; Manolova et al 2010). Based on findings from the study of the networks of three early-stage international new ventures (INV), Coviello (2006, p.726) proposed that:

“The young INV’s network is both unstable and idiosyncratic through all three stages of early evolution...”

The network’s effective size was shown to increase, while density and constraint decreased (Coviello 2006).

Furthermore, there is support for a more strategic intent on the part of some smaller firms than often described in the literature (Hite and Hesterly 2001; Ojala 2009). This proactive behaviour with the development of network relationships, or what Prashantham and Dhanaraj (2010, p.981) describe as ‘agency’ on the part of entrepreneurial organisations, may even be a key differentiation of smaller entrepreneurial firms in relation to their larger counterparts, who have been described as suffering from inertia and path dependence in their network expansion (Prashantham and Dhanaraj 2010). Active network expansion may play a role in counteracting the problems linked to strong tie networks’ over-embeddedness.

Finally, networks do not just exist as a matter of fact: they often have to be actively built, developed, restructured (Loane and Bell 2006). In their mixed-method study of entrepreneurial small firms, Loane and Bell (2006) found that, while 25% of the firms in their sample used their existing network to internationalise, a larger proportion (34%) had to build new networks in order to become active overseas. In the context of networks and internationalisation, Loane and Bell (2006, p.480) argue that the key question is:

How do small firms develop and maintain those relationships that facilitate internationalisation?

This question is a key gap in extant literature and requires an understanding of the internationalisation network development process of SMEs: the network becomes the dependant variable and the analysis is focused on the process of developing and accessing the relationships that make up the internationalisation network. The next section will draw from Slotte-Kock and Coviello (2010) and highlight the network developmental process.
framework to be used within the thesis in order to study the process of internationalisation network development by smaller firms.

3.7 Conclusion: Conceptual Framework of the Internationalisation Network Development Process in order to answer Gaps in the Literature

Researchers in both entrepreneurship and internationalisation (Coviello 2006; Jack 2010; Jones et al 2011; Slotte-Kock and Coviello 2010) have called for more research on the process of network development. Studying the development of internationalisation networks as a process in time is essential to understand how entrepreneurial smaller firms with no existing or relevant network ties are able to overcome both liabilities of smallness (Aldrich and Auster 1986) and foreignness (Zaheer 1995) in order to internationalise into a foreign market.

A useful framework of network developmental processes was proposed by Slotte-Kock and Coviello (2010) in their review of network process research in the entrepreneurship literature. The authors proposed a research framework, conceptualised around several dimensions of network development including:

- A. What develops, based on Hite’s (2005) network ties developmental states of tie variation, tie selection and tie retention.
- B & C. How and why those ties develop, integrating influences on the network and network ties at individual and organisational, as well as endogenous and exogenous levels.
- D. What happens over time, in order to track dynamic patterns of change over space and time, as the organisation and individuals within it travel through different stages.

Slotte-Kock and Coviello’s (2010, p.49) framework is devised on the understanding that networks are better studied as ‘developmental outcomes’ and involve both progression and regression. They argue for the integration of Business Networks and Social Networks theories and the investigation of the macro level of network structure and the micro level of network ties interactions, as well the study of the environment within which network and network interactions take place. Their synthesis did not take internationalisation into account, being solely focused on entrepreneurship activities. Accordingly, although the proposed framework (Figure 3 below) draws from Slotte-Kock and Coviello (2010), it has been amended to reflect the findings of the review of the internationalisation and network literature:
• As ties relevant to internationalisation in a specific context may not be present within ego’s network horizon initially, tie variation has been replaced with the term ‘tie identification’.
• Internationalisation development takes place in parallel to network development and has been conceptualised as ‘Opportunity identification, selection and exploitation’.
• The framework has been enriched with Burt’s theory of structural holes: internationalisation networks’ long term stability is represented by the type and level of embedding of network relationships.
• The network dimensions, proposed in Table 2, appear both under the ‘what develops’ and ‘what happens over time’ sections. What happens over time must be analysed across the evolution in the network structure, content, relational characteristics and governance.
• How and why questions have been updated with contextual factors and objectives linked to the cross-border nature of the internationalisation network; those factors will be elaborated on in Chapter Four, covering institutional theory.
Figure 3 - Conceptualising internationalisation network development (drawing from Burt, 1995; 2007 and Slotte-Kock and Coviello, 2010)

**WHAT DEVELOPS**

**INTERNATIONALISATION NETWORK**
- Network Dimensions
  - Network structure
  - Network relational characteristics
  - Network content
  - Network governance

**HOW AND WHY DOES THE NETWORK DEVELOP**

**A**
- Network development
  - Tie identification, tie selection, tie retention

**B & C**
- Internationalisation objectives
  - Opportunity identification, selection and exploitation

**D**
- Contextual factors
- Embedding
  - Opportunity identification, selection and exploitation

**WHAT HAPPENS OVER TIME (NETWORK STABILITY)**

- Network dimensions evolution
  - Network structure
  - Network relational characteristics
  - Network content
  - Network governance

The Author
This is an appropriate framework for the study of the process of internationalisation network development by SMEs, in order to offer a more holistic and integrative picture of what is a complex, multi-dimensional and dynamic process. As discussed earlier in this chapter, in the context of smaller firm internationalisation development, network stability over time is of core importance.

Another key aspect highlighted by Slotte-Kock and Coviello (2010) is the significance of the environment within which networks and network interactions take place. In an internationalisation context, a key aspect of that environment is the difference in institutional systems between nations (Danis et al 2011; Kiss and Danis 2008, 2010; North 2009). Danis et al (2011) for instance have shown how social networks were more important for business activity in developed as opposed to emerging economies. From an IE perspective, Jones et al in their (2011) review of the field, pointed out:

“We suggest that the inconsistent findings regarding (e.g.) networks likely reflect the extent to which institutional influences are investigated (or not) in those studies.” (Jones et al 2011, p. 646.)

The next chapter will now draw from institutional theory (North 2009; Peng and Khoury 2010; Scott 2008) and discuss the role and impact of the differences in institutional environment for the development of cross-border internationalisation networks.
Chapter Four
Institutions and the Process of Internationalisation Network Development by SMEs

4.1 Introduction: The Role of Institutions in the Process of Internationalisation

This thesis will use an institutional lens in order to understand and explain the process of internationalisation network development by smaller firms. Institutional theory (North, 2009; Scott 2008) was preferred over the alternative cultural perspective which is popular in International Business research when studying topics that encompass two separate international markets. Along with Sartor and Beamish (2014) and Singh (2007, p.424), this thesis argues that:

"An institutional perspective therefore offers more complete conceptualization and measurement of national differences and of environmental complexity than a cultural perspective (Shenkar, 2001). Institutional differences also reflect more reliably than cultural differences, the challenges firms face in operating across different contexts."

Institutional theory allows for a better analysis of the contextual factors that may impact the internationalisation network development process, by considering not just culture but also taking key environmental effects such as regulatory and economic considerations into account (Scott’s (2008) regulative pillar or North’s (2009) formal institutions). As a result, institutions offer a stronger conceptual rationale to the thesis’ proposed theory.

There is also a growing recognition of the roles that institutions play in economic growth and of their relevance to internationalisation (Eden 2010), particularly in the context of multinational enterprises, since weak formal institutions may result in weak governance and impact FDI (Dunning and Lundan, 2007). How institutions matter however remains a subject of academic debate as the rise of emerging markets is leading scholars to question earlier assumptions (Eden 2010).

In the 1970s and 1980s, the belief behind Western neoclassical economic theories was that developing countries had similar objectives and characteristics to developed ones; and that economic growth for poorer countries would come from a replication of the institutions and economic policies of the developed world (Dunning and Lundan 2007). In more recent times however, with growing global interconnectedness and complexity, earlier conjecture has had to be revised. Increased international exchanges across the world have highlighted the diversity of institutions and aspirations (Boisot and Child 1996; Dunning and Lundan...
2007). Although formal institutions, in the shape of written rules and constitutions (North 2009), have been given more attention, the importance of informal institutions, covering belief systems, behavioural norms and values, have often been underplayed in economic and internationalisation theories (Dunning and Lundan 2007). In Part III of their 2007 edition of ‘Multinational Enterprises and The Global Economy’, Dunning and Lundan (2007:3) argue that:

“Recognising that the effectiveness of formal institutions in reducing uncertainty and fostering economic activity is dependent on the informal institutions, we pay particular attention to the role played by belief systems and mind-sets...”

The final chapter of the review of the academic literature in the context of the process of SME internationalisation network development will discuss the influence of the institutional context (North 2009) in the formation and development of those networks (Burt 1995; 2011). Domestic network actors are guided by the institutions in which they are embedded (North 2009; Scott 2008); internationalisation network development however, in a context where institutions will differ between home and host countries, may be better understood and accounted for by contrasting institutions at play in different network clusters (Burt, 2011; North 2009; Jones et al 2011). Networks are one of the forms of - and rely on - human cooperation in their formation, hence they follow what North (2009) describes as ‘the rules of the game’; as the rules of the game may vary according to different institutional contexts, the question arises as to how those differences may impact the process of network development across dissimilar institutional environments.

Section 4.2 will define the institutional context by drawing on both (new) institutional economic (Hotho and Pedersen 2011; North 2009) and sociological (Scott 2008) perspectives, with a focus on issues surrounding human cooperation and behaviour. Section 4.3 will then discuss differences between developed (Scotland) and emerging (China) economies as the backdrop to internationalisation network development; a note on ‘institutional voids’, a term often used in the context of emerging economies, will conclude the section. Section 4.4 will draw a comparison between Scotland and China’s institutional environment, as the context for the research. This will lead to section 4.5 which elaborates on China’s informal institutions and guanxi, as the latter is widely discussed in the internationalisation literature in relation to China. Chinese informal institutions were found to have great relevance for the thesis’ findings in Chapters Six and Seven. Finally, section 4.6 will close the chapter by reviewing extant academic knowledge of the role of institutional differences in internationalisation network development. The review will lead
to the chapter’s conclusion by unearthing a key gap in extant knowledge: the understanding of the impact that differences in institutions (Scott 2008) may have on the process of internationalisation network development between developed and emerging economies.

4.2 Defining Institutions in the Context of Internationalisation Networks: Institutions across Developed and Emerging Economies

Bruton et al. (2010) point out that institutional theory may follow two separate and complementary streams: the political and economic (North 2009) against the sociological and organizational (Scott 2008) perspectives (Peng et al 2008; Peng and Khoury 2010). Both North and Scott’s perspectives are relevant in the context of cross national network relationships: the former due to its focus on cooperative and exchange behaviours; the latter in relation to its three pillars institutional framework, highlighting the role of the Regulative, Normative and Cultural-cognitive Pillars (or domains) of institutions (Scott 2008) and their role in social behaviour. Peng et al (2008) argue for an inclusive perspective of institutions in IB strategy, using the lens of an institutions-based view, mirroring the terms ‘resource-based and industry-based views’. This approach entails drawing from both North (2009) and Scott (2008).

4.2.1 Definition of Institutions: Institutional Theory

In the preface of his book, North (2009, p.vii) describes his focus as relating to the problem of ‘human cooperation’ and more particularly:

“the cooperation that permits economies to capture the gains from trade that were the key to Adam Smith’s Wealth of Nations”.

North argues that institutions evolved from the need to create a suitable environment for the sort of cooperation that facilitates complex exchanges. North defines institutions as ‘the humanly devised constraints that shape human interaction’ (North 2009, p.3). Although institutions may be constraining, they may also act as enablers, guiding interaction by reducing uncertainty and providing a structure to everyday life (Bruton and Ahlstrom 2003). Institutions consist of formal written rules and informal unwritten codes, norms and conventions, the latter underpinning and complementing the former (Dunning and Lundan 2007, North 2009).

Whereas North (2009) concentrates on economic cooperation and exchange, Scott’s (2008) sociological perspective is slightly wider and applies to ‘life’ within a social context, and in particular that of organisations. Institutions can be both formal and informal and they
offer a socially constructed structure and guide to human interaction ([Bruton and Ahlstrom 2003; Scott 2008). They may also be shaped and constructed by individuals over time (Mair and Marti 2009).

When studying the development of internationalisation networks across institutional distance (Kostova 1999), both North’s (2009) and Scott’s (2008) perspectives are valid: developing internationalisation networks with an economic purpose (North 2009), on behalf of an organisation embedded within a specific institutional context (Scott 2008), requires individual network actors’ to interact with other actors embedded in different institutions.

4.2.2 Institutional Dimensions in the Process of Internationalisation Network Development: Formal and Informal Institutions

This thesis will contend that both formal and informal institutions (with informal institutions split between Normative and Cultural-cognitive Pillars) (Scott 2008) are likely to impact the internationalisation network development process across institutional distance. This section will discuss both North’s (2009) and Scott’s (2008) theoretical work in the context of internationalisation network development by SMEs in order to clarify and synthesise extant understanding of institutions and their role in cooperative behaviour and network development.

Scott (2008, p.48) describes institutions as:

"comprised of regulative, normative and cultural-cognitive elements that together with associated activities and resources, provide stability and meaning to social life."

This is a sociological and more flexible approach than the one adopted by North, whose term of institutional ‘constraint’ (1990:46) does not convey the potential enabling features of institutions. Accordingly, Scott’s ‘Three Pillars of Institutions’ will be employed as the main framework of reference, although aspects of North’s (2009) work will still be drawn on, due to his emphasis on cooperative human interaction. Scott himself refers to North’s (2009) work in his definition, particularly in the case of his Regulative Pillar (2008).

Table 3 below describes Scott’s (2008, p.51) Three Pillars of Institutions, i.e. Regulative, Normative and Cultural-cognitive:
Table 3 – Three Pillars of Institutions (Scott 2008)

<table>
<thead>
<tr>
<th></th>
<th>Regulative</th>
<th>Normative</th>
<th>Cultural-cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basis of compliance</strong></td>
<td>Expediency</td>
<td>Social obligation</td>
<td>Taken-for-grantedness</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shared understanding</td>
</tr>
<tr>
<td><strong>Basis of order</strong></td>
<td>Regulative rules</td>
<td>Binding expectations</td>
<td>Constitutive schema</td>
</tr>
<tr>
<td><strong>Mechanisms</strong></td>
<td>Coercive</td>
<td>Normative</td>
<td>Mimetic</td>
</tr>
<tr>
<td><strong>Logic</strong></td>
<td>Instrumentality</td>
<td>Appropriateness</td>
<td>Orthodoxy</td>
</tr>
<tr>
<td><strong>Indicators</strong></td>
<td>Rules</td>
<td>Certification</td>
<td>Common beliefs</td>
</tr>
<tr>
<td></td>
<td>Laws</td>
<td>Accreditation</td>
<td>Shared logics of action</td>
</tr>
<tr>
<td></td>
<td>Sanctions</td>
<td></td>
<td>Isomorphism</td>
</tr>
<tr>
<td><strong>Affect</strong></td>
<td>Fear Guilt/Innocence</td>
<td>Shame/Honor</td>
<td>Certainty/Confusion</td>
</tr>
<tr>
<td><strong>Basis of legitimacy</strong></td>
<td>Legally sanctioned</td>
<td>Morally governed</td>
<td>Comprehensible</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Recognizable</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Culturally supported</td>
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</tbody>
</table>

Regulative processes (Scott 2008, p.52):

“involve the capacity to establish rules, inspect or review others conformity to them, and as necessary, manipulate sanctions – rewards or punishments – in an attempt to influence future behavior.”

This definition of the regulative process can be contrasted to North’s (2009, p.47) definition of formal ‘rules’ or ‘constraints’ as:

“political (and judicial) rules, economic rules, and contracts. The hierarchy of such rules, from constitutions, to statute and common laws, to specific by-laws, and finally to individual contracts defines constraints, from general rules to particular specifications.”

Whereas Scott focuses on the regulative process and its objectives, North is concerned with the nature of the institutions as explicit and formalised rules aimed at supporting economic exchange. In the context of the process of internationalisation network development by SMEs, the terms ‘formal institutions’ and ‘regulative pillar’ will be used interchangeably. Because of their usually written nature, formal institutions tend to more explicit, and their role and impact is easier to research and analyse than their less formal counterparts (Dunning and Lundan 2007; North 2009). Implicit informal institutions on the other hand are difficult to measure and operationalise theoretically: as a result, they are rarely discussed in the internationalisation literature, even though they will influence individuals’ behaviour (Sartor and Beamish 2014). In the context of this study, the key argument is that informal institutions will differ, both in importance and nature, across contexts (Kiss and Danis 2008; 2010). This is clearly indicated in Scott’s (2008) table with reference to
‘shared beliefs’ and ‘common logic’. Under diverse institutional environments, there may not be shared or common values between actors, and informal institutions may accordingly influence network development and cooperative behaviour differently.

Informal institutions encompass both Scott’s Normative and Cultural-cognitive Pillars (2008). The normative pillar includes values and norms, or what Dunning and Lundan (2007, p.10) described as ‘belief systems’ earlier. Scott (2008, p.54) defines values as:

“conceptions of the preferred and desirable together with the construction of standards to which existing structures on behavior can be compared or assessed”.

Norms (Scott 2008, p.54) ‘specify how things should be done; they define legitimate means to pursue value ends’. As a result, values and norms will lead to behavioural expectations that may only be met by network actors who share institutional belief systems. When investigating anticipated cooperation within internationalisation networks, described as the form of trust required for brokerage in social networks (Burt 2011), norm-based behavioural expectations are likely to play an important part. Dunning and Lundan (2007, p.9) have also recognised the importance of informal institutions and the key role they are likely to play in internationalisation:

“one of the unique features of contemporary capitalism is that, in a variety of ways, it links – it interconnects – different behavioural mores and belief systems, which, though, prima facie, are not easily reconcilable with each other, at least need to be respected if international commerce is to be conducted in a peaceful and productive way.”

Scott’s (2008, p.57) last element or ‘Cultural-Cognitive Pillar’ is defined as:

“the shared conceptions that constitute the nature of social reality and the frames through which meaning is made.”

Cognitive frameworks – or frames of reference – are developed through individuals’ experience of the external world: they are then used to evaluate future experiences and determine whether they can be related, i.e. whether they can form a pattern (Baron 2006; Gregoire et al 2010). In other words, individuals make sense of new information by comparing it to what they already know; this cognitive process is part of what Gregoire et al describe as ‘structural alignment’ (2010, p.416):

“At its most fundamental level, structural alignment is a cognitive tool that people use to compare things – and to draw implications from the comparisons.”

North (2009) argues that informal institutions such as norms of behaviour, codes of conduct and conventions are inherited by individuals as part of their cultural heritage through socially transmitted information, hence they vary depending on the institutional, and by extension cultural, environment. By implication, cognitive processes and
frameworks, or cognitive institutions, will also differ in dissimilar institutional contexts. One of the most obvious cognitive institutions – language - differs widely across geographical areas and communication between internationalisation network actors requires the presence of a shared language.

Having defined institutions, the next section will compare the characteristics of emerging and developed economies’ institutional frameworks.

4.3 Institutions and Internationalisation Networks: Developed versus Emerging Economies

In terms of institutional context, the internationalisation literature often separates economies between developed (or mature/advanced) and emerging (or developing) countries (Danis et al 2011; Kiss et al 2012; Mair and Marti 2009; Manolova et al 2008, 2010; Meyer et al 2009; Peng 2003). The reference to transition economies, a subset of emerging economies (Peng 2003), is also common (Ahlstrom and Bruton 2010; Bowen and De Clercq 2008; Kiss and Danis 2010; Luk et al 2008; Lyles et al 2004; Peng and Heath 1996). The importance of the institutional context – and of differences in framework between dissimilar economies - in the formation, function and role of networks is supported in the literature (Abdi and Aulakh 2012; Aidis et al 2008; Brunning et al 2012; Danis et al 2011; Kiss and Danis 2008; Lin et al 2009). In the first instance however, it is important to clarify the definitions of developed and emerging economies from an institutional perspective.

The next subsection will attempt to define and justify the categorisation of developed and emerging economies employed in this thesis, before contrasting key differences between China and the United Kingdom10 (UK) in terms of formal and informal institutions.

4.3.1 Developed Economy: Definition

The definition used in this thesis for a ‘developed economy’ is based on World Bank indicators. World Bank indicators are often used to identify developed economies in econometric studies, and Worldwide Governance Indicators in particular (drawing on Kaufmann et al 2009) when the focus of the study is on countries’ level of formal institutional development (see Abdi and Aulakh 2012 for instance).

10 Although the focus of the thesis is on Scottish firms, as opposed to British ones, discussion about institutions will be concerned with the UK institutional framework as differences in the context of smaller firms’ internationalisation networks between the Scottish and UK institutions are not significant enough to warrant a narrower approach. Besides most institutional data available from international institutions, such as the World Bank, cover the whole of the United Kingdom.
The World Bank’s ‘Worldwide Governance Indicators’ (2014), which include six dimensions of governance\(^\text{11}\) representative of the level of a country’s formal institutional development, appear to support this claim. The World Bank (2014) classifies economies according to their GNI (Gross National Income) per capita as: low income (GNI per capita of $1,025 or less), middle income (GNI per capita between $1,026 and $12,475) and high income (GNI per capita of $12,476 or more). Due to the wide variation, middle income countries have also been divided between lower middle income (GNI per capita between $1,026 and $4,035) and upper middle income (GNI per capita between $4,035 and $12,475).

Accordingly, this thesis’ definition of a developed economy will draw on both North (2009) and the World Bank’s classification (2014):

\[
A \text{ developed economy is a country whose GNI per capita is above } $12,475 \text{ (World Bank 2014) and which has a high level of formal institutional development (World Bank Governance Indicators 2014) to regulate and guide interaction and exchange between individuals.}
\]

‘Developed’ is the term mostly used in the Management literature to refer to high income, mature economies (Danis et al 2011; Manolova et al 2010; Xu and Meyer 2013). The term ‘advanced’ is now rarely used, possibly following the 2008 financial crisis which highlighted significant weaknesses in the institutional framework of so-called ‘advanced’ nations (Xu and Meyer 2013). While ‘developed economies’ is the term most used when discussing institutional frameworks, it is rarely clearly defined or discussed. One exception is Danis et al (2011, p.406) who define developed markets as ‘high-income countries in which most people have a high standard of living’, with reference made to the classification offered by the World Bank (2009). From an institutional perspective, North (2009:46) argues that:

\[\text{“The move, lengthy and uneven, from unwritten traditions and customs to written laws has been unidirectional as we have moved from less to more complex societies...”}\]

North’s (2009) argument is that the more complex and developed the society, the greater the importance of formal institutional constraints. Developed markets, and particularly Western developed markets, tend to operate in highly formalised environments where formal rules regulate and guide interaction between individuals (North 2009).\(^\text{12}\) Developed economies are usually contrasted with emerging ones, and the consensus is growing that

\(^{11}\) The dimensions are: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption.

\(^{12}\) The assumption that all world economies are on a linear path from poverty and low development towards wealth and higher development by following the institutional model of developed economies is being questioned (Dunning and Lundan, 2007) and is not what is argued here. The only point made here, in accordance with North 2009, is that institutional development entails a move towards greater reliance on formal institutions, as opposed to informal ones, in the context of economic and business cooperation.
emerging economies institutions differ from developed country ones and may follow a
different trajectory (Dunning and Lundan 2007). The term ‘emerging economy’ will be
defined and discussed next.

4.3.2 Emerging Economy: definition

Although there has been a recent surge of interest in emerging economies within the
International Business and Strategic Management literatures in the context of MNEs
(Hoskisson et al 2013; Peng et al 2008; Wright et al 2005), this is less true of studies
focusing on smaller firms (Kiss et al 2012). Still, in the context of international
entrepreneurship research in emerging economies, a recent review by Kiss et al (2012) of
88 papers published over the last twenty years shows that the two top theoretical
frameworks applied to the research have been institutional theory and network theory
respectively (Kiss et al 2012).

Emerging economies have been defined in numerous ways. Kiss et al.’s (2012) review of
emerging economies in international entrepreneurship research (IEEE) refers to the
Danis et al.’s (2011, p. 406) definition of emerging economies gives emphasis to countries
in Asia, Latin America, and Africa:

“that have gone through economic liberalization and the adoption of a free-market
system, as well as transition economies such as China and former communist
countries, which are also characterized by increasing liberalization and the
encouragement of private enterprise.”

Xu and Meyer’s (2013) definition focuses on market-supporting institutions and level of
income. Even though the economy’s level of income is relevant in the network context, the
market focus is too narrow. Finally, Peng (2003, p.277) drawing from Hoskisson et al.’s
(2000) definition of emerging economies define them as:

“low-income, rapid-growth countries using economic liberalization as their
primary engine of growth”.

In order to ensure consistency with the developed economy definition, the thesis’
definition of emerging economy will also draw from the World Bank GNI related
classification and add an institutional dimension as per Hoskisson et al (2013):

An emerging economy is a high-growth country whose GNI per capita is below
$12,075 (World Bank 2014) and which has a low level of formal institutional
development (World Bank Governance Indicators 2014) to regulate and guide
interaction and exchange between individuals.
The reference to ‘high-growth’ is an important one. In order to be ‘emerging’, a country cannot suffer from a static and stagnant economy, with low or non-existent economic growth. Hoskisson et al (2013, p.1295) also argue that the heterogeneous development of emerging economies requires a more ‘fine-grained’ approach, by separating traditional emerging economies from mid-range emerging economies and new-developed economies alongside both their levels of institutional and factor market development. Although their typology has relevance for the definition of emerging economies according to institutional theory, it goes beyond the requirements of the current thesis and risks over-complicating matters.

Before concluding section 4.3, having defined emerging and developed economies in the context of the research, a short pause is necessary to clarify the notion of ‘institutional voids’ (Khanna and Palepu 1997), often used in the context of emerging economies, and justify the lack of adherence to the term in this thesis.

4.3.3 A Note on ‘Institutional Voids’ (Khanna and Palepu 1997)

From an institutional and internationalisation perspective, there is a common assumption in the literature that the key difference between developed and emerging economies lies in their level of formal institutional development (Khanna and Palepu 1997; North 2009). This thesis will argue instead that institutional differences between developed and emerging countries more generally are what matters, not simply formal institutions. The presence or lack of formal institutions has been described by Khanna and Palepu (1997) as ‘institutional voids’ that have the effect of increasing the reliance on social networks as a substitute for ineffective formal institutions (Abdi and Aulakh 2012; Ahlstrom and Bruton 2006; Aidis et al 2008; Danis et al 2011). Although there is agreement herein with the idea that informal institutions may sometimes replace or complement under-developed formal ones, this thesis rejects the concept of ‘institutional voids’ in relation to emerging countries, and more particularly in the context of China. As the term ‘void’ means an absence of something, or an empty space, it also implies that ‘institutional voids’, or voids related to formal institutions, leave an emptiness in their place. Alongside Child and Tse (2001, p.6), it will be argued instead that China, a key emerging market, is characterised by formal institutions that cannot be described as weak; instead, the economy is characterised by formal institutions that ‘are embedded in the country’s long administrative tradition, in which government continues to play a prominent role in economic and social affairs’.

What can be argued from World Bank Governance indicators (2014) however is that China has weak legal institutions.
The other weakness of the concept of ‘institutional voids’ from the perspective of this study is that it also assumes the superiority of some forms of institutions over others, based on 1970s and 1980s bias of Western institutional development models (Dunning and Lundan 2007). As this thesis is interested in understanding how institutions - both formal and informal - impact the development of internationalisation networks between a developed country (Scotland) and an emerging one (China), it will take a more open approach and will not assume the superiority of one type of institutions over another. The sole assumption is that institutional landscapes between developed and emerging countries, and the prevalence and characteristics of formal and informal institutions, will differ. To support this point further, the next section will discuss institutions in the context of the UK and China and highlight key areas of difference.

### 4.4 Institutional Environment: Comparison between the UK\(^\text{13}\) and China

There is little doubt that ‘institutions matter’ (Eden 2010; Jackson and Deeg 2008); the question however remains as to ‘how institutions matter’ (Eden 2010), particularly in the case of internationalisation network development. The contexts chosen to study the process of SME internationalisation network development across institutional distance are the developed Scottish economy and the emerging Chinese one. As Scottish SMEs attempt to build networks into China, they will be used to operate within their home country institutional environment (or broadly the United Kingdom context), while having to build links into a host country – China – which functions according to dissimilar formal and informal institutions.

#### 4.4.1 Key Institutions-related International Indicators: UK versus China

It was highlighted earlier (North 2009; Sartor and Beamish 2014) that formal institutions are easier to research and analyse; accordingly, there is a wide range of indicators developed by international organisations that allow comparison of formal institutions between the UK and China. Table 4 below contrasts key institutions-related indicators for the UK and China drawing from the World Economic Forum (2015), the World Bank (2014) and Transparency International (2014).

\(^{13}\) Footnote 10 earlier pointed out that international indicators are only available at the level of the United Kingdom; it is also argued herein that Scotland as a country is (for now) part of the United Kingdom.
Table 4 - Institution-related Indicators: UK viz. China

<table>
<thead>
<tr>
<th>Key Institutional Indicators</th>
<th>UK</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Ease of doing business’ World Bank 2014\textsuperscript{14}</td>
<td>8/189</td>
<td>90/189</td>
</tr>
<tr>
<td>World Economic Forum, Institutions ranking 2014-15</td>
<td>12/144</td>
<td>47/144</td>
</tr>
<tr>
<td>Transparency Corruption Perceptions Index Score 2014</td>
<td>78</td>
<td>36</td>
</tr>
</tbody>
</table>

With a rating of 8 out of 189 from the World Bank’s (2014) ‘Ease of doing business’ index, the UK’s appears to be a much friendlier business environment than the Chinese one with a score of 90; China only ranks just above average among the 189 countries surveyed. Both countries are also slightly down from 2013.

The 1\textsuperscript{st} pillar\textsuperscript{15}, or element, of the World Economic Forum (2014) indicators covers public and private institutions, including aspects related to property rights, corruption, government efficiency, security and corporate ethics (World Economic Forum Global Competitiveness Report 2015). With a score of 5.4, the UK is 12 out of a list of 144 countries for the quality of the set of institutions underpinning national productivity, while China only ranks 47 with a score of 4.2. Institutions in the context of the report are ‘determined by the legal and administrative framework within which individuals, firms, and governments interact to generate wealth.’ (World Economic Forum Global Competitiveness Report 2015). The focus here is on formal institutions and their impact on wealth generation rather than internationalisation and trade\textsuperscript{16}.

Finally, Transparency International releases Corruption Perception Indexes (CPI) for around 175 countries annually (Transparency International 2014). The index goes from 0 (highly corrupt) to 100 (very clean) and no country achieved the full score of 100 in 2014. The UK ranks 14 with an index score of 78, while China, with 36, is ranked 100\textsuperscript{th}, alongside Algeria and Suriname\textsuperscript{17}. China was one of the biggest decliner in 2014 and it led

\textsuperscript{14} The World Bank ‘ease of doing business’ index ranks countries from 1 to 189, with 1 being the most business-friendly country with regard to regulatory environment (part of formal institutions) (World Bank, 2014). The index is a composite based around business regulations and underlying institutions and is particularly focused on institutions affecting small and medium size domestic firms. In addition, it is developed from expert surveys as opposed to enquiries from actual firms. As a result, it may not adequately reflect the experience of international firms doing business in China. It also does not take cognitive (prevalence of English as the language for business for instance) or normative institutions (perceptions towards business activities for instance), into account. Still, the index averages 10 topics covered under the World Bank Doing Business project and is a useful comparative indication of a country’s ranking in relation to its formal business environment.

\textsuperscript{15} This is not to be confused with Scott’s (2008) Pillars of Institutions

\textsuperscript{16} Most of the data about institutions is collected through the Executive Opinion Survey, which collects information from ‘business leaders’ on a self-reporting basis. The number of valid questionnaires for China in 2014 was 362, which is a small sample given the number of questions covered in the questionnaire. The World Economic Forum also acknowledges that the survey methodology is not immune to cultural response bias and is currently under review (World Economic Forum, 2015).

\textsuperscript{17} The CPI is a composite measure that draws from multiple data sources and measure perceptions of corruption in the public sector (Transparency International, 2014).
one of Transparency International’s analysts to question whether the recent Central Government anti-corruption measures were being effective (Transparency International 2014). An alternative interpretation, given the fact that Transparency International measures are perceptual - as opposed to objective - is that the constant presence of corruption stories in Chinese media in recent years may have led to corruption ‘oversensitization’ by surveyed business people and country experts.

4.4.2 Formal and Informal Institutions: UK versus China

Notwithstanding any indicator’s relative weakness, based on the above international economic and institutional indicators (Transparency International 2014; World Economic Forum 2014; World Bank 2014), the UK business environment appears underpinned by reasonably open and transparent formal institutions, with a mature legal system that protects both intellectual and physical private property rights. As a result of this maturity, informal institutions play a less significant role in economic exchange (Kiss and Danis 2008) than in China, where distinct and less independent legal institutions in the context of private business activities may have to be supported by informal arrangements (North 2009).

China has distinctive institutions, both formal and informal (Child and Ihrig 2013) and they differ significantly from UK ones; in China, formal institutions are under the control of a one-party state, and are characterised by a weak rule of law (World Bank 2014), significant governmental bureaucracy and ‘regulatory ambiguity’ (Child et al 2005). As a result of the dynamic nature of the Chinese environment, the country suffers from a high level of formal institutional uncertainty (Danis et al 2010) and high business risks (Child et al 2005), with informal institutions having to underpin economic exchange and human cooperation.

Probably due to both their lack of perceived relevance (based on the strength of Western developed economies’ legal institutions) and the challenge in conceptualising informal institutions in research (North 2009; Sartor and Beamish 2014), Western normative and cultural-cognitive institutions (Scott 2008), including Scottish or UK ones, are rarely – if at all – discussed within the internationalisation literature. A search of the term ‘informal institutions’ within the Journal of International Business Studies, the top IB journal, covering the past 40 years or so, only resulted in 48 articles. None discussed Western-related informal institutions – let alone UK informal institutions - and the concept was represented by constructs of ‘informal institutional distance’ where ‘cultural distance’ (Abdi and Aulakh 2012; Dikova et al 2010) or other non-strictly institutions-related
notions such as ‘power distance’ (Judge et al 2014) were used as proxies (Sartor and Beamish 2014).

There is extensive discussion – and debate – however in the IB literature about the part that informal institutions may play in China, primarily within literature discussing the role of ‘guanxi’, a form of codified, norms-based social network that is prevalent in Chinese economic and business exchanges. (Buckley et al 2006; Gu et al 2008; Li and Zhang 2007; Luo 2003; Peng and Luo 2000).

As a result, and due to the importance of informal institutions in China in the context of Scottish SMEs internationalisation network development efforts, section 4.5 will now review and discuss the extensive China-related internationalisation literature on guanxi, in order to draw from the material and discuss Chinese informal institutions more generally.

Guanxi, which has been part of Chinese society for a very long time, offers some interesting insights as to how informal institutions may underpin ineffective formal ones. China, an emerging economy in institutional transition ‘from a command to a market economy’ (Luk et al 2008, p.592), has seen substantial changes to the ‘rules of the game’ (North 2009) over the last 30 years (Buckley et al 2006; Peng and Luo 2000; Tan et al 2009). During that transitional and dynamic period, business actors have been confronted with high institutional uncertainty (Danis et al 2010) and institutional theory indicates that informal institutions may have substituted in the absence of formal ones (North 2009). Furthermore, Chinese informal institutions – and their differences with UK institutions - will be shown to play a key role in the process of internationalisation network development by Scottish SMEs. Accordingly, the next section will now discuss Chinese informal institutions and related guanxi practice, with a focus on their potential relevance to the process of internationalisation network development by Scottish SMEs.

4.5 Chinese Informal Institutions and the Practice of Guanxi

China can be described as an emerging economy that has been undergoing economic transition (Luo 2003) since the beginning of economic reforms in 1979 (Tan et al 2009). Although China is slowly moving towards a more marketized system or ‘socialist market economy’ (Faure and Fang 2008), the Communist Party retains effective power over all electoral, legislative and judicial processes (Buckley et al 2006; Chen et al 2011). As a consequence, the rule of law that safeguards property rights and business transactions in developed markets is weak (Tan et al 2009) and market transactions suffer from high uncertainty and risk of opportunistic behaviour by the State and those affiliated to it (Luo 2003; Park and Luo 2001; Peng and Luo 2000). China has been described as “governed by
the rule of man rather than the rule of law” (Faure and Fang 2008, p.201). With a score of -0.46 for 2011’s World Bank Governance indicator for ‘rule of law’, China ranks below average among global nations, while confidence in - and respect for - the rule of law has seen no improvement since 1996 (World Bank 2014). In addition, the decentralisation of power from China’s central government to regional authorities has led to a lack of transparency and consistency in the regulatory framework (Tan et al 2009).

In this context, the literature argues that norm-based social networks, known as ‘guanxi’ (relationships) networks, substituted for weak and missing formal institutions to support cooperation and exchange between individuals (Buckley et al 2006; Gu et al 2008; Li and Zhang 2007; Luo 2003; Peng and Luo 2000). In the context of this study, it is important to understand not just guanxi as a type of Chinese social network but more specifically the nature of the institutional norms and values that guide and shape its practice. Guanxi, as a practice, originated from a historically collective, paternalistic and hierarchical society, that was primarily codified by Confucian societal rules (Park and Luo 2001) and perceived social and interpersonal harmony as a key societal objective (Chuah et al 2014; Faure and Fang 2008; Gu et al 2008; Park and Luo 2001). Although cultural Chinese ethics may be changing in more recent times with the opening up of the country to outside influences (Faure and Fang 2008; Luo 2008) and the burgeoning of more efficient market institutions (Tan et al 2009), the country is still widely influenced by ‘deep-rooted’ traditional cultural values (Gu et al 2008:23). These values are of interest in the context of internationalisation network development by SMEs, due to their normative effect, which will guide both Chinese network actors’ behaviour and their expectations of other actors’ conduct. Real life examples of the importance of Chinese informal institutions in internationalisation network development will be illustrated through the research findings in Chapters Six and Seven. The next subsection will accordingly clarify key Chinese informal institutions by discussing guanxi practice as understood in the internationalisation literature.

4.5.1 Chinese Guanxi Networks: A Form of Institutionally-enshrined Social Network

The reliance on social network ties can partly explain how China has managed to maintain high economic growth (World Bank 2014) in spite of its weak legal institutions. From an institutional perspective, guanxi represents a form of ‘social governance mechanism’ (Gu et al 2008, p.13). Park and Luo (2001, p.455) have defined guanxi as:

“[Guanxi] refers to the concept of drawing on a web of connections to secure favors in personal and organizational relations.”
By operating within a closed network, governed by norms where non-compliance will lead to loss of face and reputation (Peng and Luo 2001), guanxi relationships offer informal ways of reducing uncertainty and curbing opportunism in business relationships; some even argue that these relationships include those involving foreign entrants (Buckley et al 2006). Guanxi building is the process of producing trust between parties (Tan et al 2009). Guanxi networks are governed by Chinese norms of reciprocity, favour/social obligation (renqing 人情) and face (mianzi 面子 and lian 脸) (Fan 2002; Faure and Fang 2008; Luo 2008). The relationship between individuals is bounded by social norms of mutual commitment, trust, loyalty and obligation, with an understanding that the relationship will be maintained over the long term (Tan et al 2009). Reciprocity is meant in its wider sense as (Fan 2002, p.549):

“whether reciprocity is applied and when the favour is returned depend on the type and nature of guanxi”.

Reciprocity originates from renqing, or social obligation, that is the result of a favour bestowed by another actor of the guanxi network (Park and Luo 2001). This is a complex process, better understood as a form of ‘social investment’ (Fan 2002, p.549), which will guarantee future - but uncertain – returns: unlike reciprocity in Western networks, reciprocal favours can vary in value (Park and Luo 2001). Face is a core value of Chinese informal institutions and can be described as (Chuah et al 2014, p.1204):

“the positive public and self-image a person cultivates in a social context”.

It includes two components: mianzi and lian. Mianzi has been defined as “the recognition by others of an individual’s social standing and position (Buckley et al 2006, p.276) and is related to personal prestige, network and success (Chuah et al 2014). Lian is linked to a person’s personal characteristics, including honesty and moral standing (Chuah et al 2014; Park and Luo 2001). According to Buckley et al (2006, p.276):

“saving mianzi goes hand in hand with nurturing guanxi”.

Guanxi networks are closed, dense networks where insiders are linked by a complex web of shared ties and trust-based relationships (Fan 2002; Gu et al 2008); they encourage value convergence and loyalty, as well as commitment to the network (Gu et al 2008; Park and Luo 2001). Chinese values favour the respect of norms that are mostly based on Confucian principles, such as respect for elders and hierarchy, preference given to harmony and conflict avoidance and the safeguarding of mianzi and lian (face) (Buckley et al 2006; Chuah et al 2014; Gu et al 2008). While friendship relations are preferred, guanxi is utilitarian rather than affective, and does not necessarily involve friendship (Park and Luo 2001). Failure to honour the commitment to guanxi can lead to a humiliating loss of
face and reputation (Park and Luo 2001), although there are questions around the evolving nature of *guanxi* in China, as is discussed in the next subsection.

4.5.2 The Changing Role of Guanxi Networks as Institutions Evolve

One topic of debate in the literature is whether *guanxi* is just another form of networking as practiced in the West, or whether *guanxi* has specific Chinese characteristics (Chua et al 2009; Gu et al 2008). Chua et al’s (2009) study of the arrangement of affect- and cognition-based trust in the networks of Chinese and American managers did highlight some differences. Diverging norms within both cultures, i.e., the Protestant work ethic versus Chinese familial collectivism, has meant that affect- and cognition-based trust are more closely intertwined in Chinese social and professional relationships than in American ones. Besides, while affect-based trust increased cognition-based trust in Chinese managers, it did not have that effect among American managers. In addition, in societies with individualistic tendencies, social networks are usually formed through voluntary association; in contrast, *guanxi* networks are structured around family-related ‘bounded solidarity’ (Gu et al 2008) and individuals may have little choice as to which network they may be part of. Another point of divergence is that *guanxi* is more frequently practiced than Western-style networking and suggests shared values (Gu et al 2008).

Another question surrounds the continuing importance of *guanxi* as institutions evolve over time (Fan 2002; Gu et al 2008; Peng 2003; Zhou et al 2008). North (2009, p.46) argues that:

> “The move, lengthy and uneven, from unwritten traditions and customs to written laws has been unidirectional as we have moved from less to more complex societies…”

This evolutionary perspective supports a large portion of the earlier *guanxi* literature (Peng 2003), and has led to the assumption that as China evolves from an emerging to a developed economy, it will increasingly strengthen its formal institutions and will witness a decrease in the importance and the role of social networks. As discussed earlier, however, and as argued by Dunning and Lundan (2007), the ‘unidirectional’ nature of institutional evolution is being increasingly challenged. Emerging economies, and in particular China, may not follow a linear pattern of institutional evolution as suggested by North (2009), choosing instead to move towards a system of ‘Socialism with Chinese Characteristics’ (Faure and Fang 2008, p.203); while market institutions may become more codified and formalised, political ones may remain controlled by an authoritarian government with the absence of the rule of law to support the reliance on formal institutions in the conduct of economic activities (Faure and Fang 2008). A recent meta-analysis by Luo et al (2012)
investigated the effect of *guanxi* on firm performance and found a positive and significant relationship; more interestingly, the authors also discovered that *guanxi* with business ties had an impact on economic performance, whereas the effect of *guanxi* with government ties was on operational performance. A more fine-grained approach, as suggested by Luo et al (2012) may explain some of the disagreements found in the literature.

Whatever the prevalence of *guanxi* practice in China, there are signs that the meaning given to *guanxi* may be changing. The power of the state and government, compounded by *guanxi* practices between business and government actors, has been blamed for widespread corruption in China (Fan 2002; Faure and Fang 2008; Luo 2008; Transparency International 2014). Besides, with China’s accession to the World Trade Organisation (WTO) in 2001 and the perception that the pursuit of *guanxi* is undertaken to the detriment of firms’ professionalism (Faure and Fang 2008) and ‘quality of offering’ (Liu and Roos 2006, p.434), the term ‘*guanxi*’ is now often surrounded with negative connotations. As Chinese firms and individuals increasingly interact with foreign network actors and venture out of China and onto the global stage, professionalism and Western-style business practices are increasingly seen as valuable (Tang 2007).

Nonetheless, there is still evidence in the literature that the role of *guanxi* remains significant in China. Zhou et al (2008, p.531) found that the use of *guanxi* “exists despite the rapid and substantial market reforms occurring in China”. Even with the development of market institutions, *guanxi* is likely to remain widely practiced within China, although its benefits may decrease (Faure and Fang 2008; Gu et al 2008) and its ‘dark side’ (Gu et al 2008), i.e. corruption (Luo 2008; Peng and Luo 2000), may increase.

Whether or not the importance of *guanxi* in business activity in China decreases over time, as formal market institutions develop, remains to be seen; nonetheless, for the outsider foreign SME, internationalisation into the Chinese market may require linking with local *guanxi* networks (Fan 2002). In China’s transitional and uncertain institutional environment, firms develop *guanxi* to ‘alter the existing network structure’ (Park and Luo 2001, p.457). *Guanxi* can also help smaller new entrants to the market overcome legitimacy barriers (Park and Luo 2001).

What the above section means for network actors from a dissimilar institutional background developing internationalisation networks with China is that the environment they will encounter differs significantly from their home context. Chinese informal institutions - such as *lian, mianzi* and *renqing* - are also extremely complex and have been built over thousands of years of practice. They are likely to present a challenge in the development of internationalisation networks for non-Chinese actors. To expand on that
observation, the next section will turn to the internationalisation literature and discuss what is known about the impact of institutional differences (sometimes referred to as ‘institutional distance’) (Kostova 1999) on the role and development of internationalisation networks. This last section will lead to the Chapter’s conclusion.

4.6 Internationalisation Network Development across Institutional Distance: Evidence from the literature

4.6.1 Introduction: ‘Institutional Distance’ and Institutional Differences in the Development of Internationalisation Networks by SMEs

Institutional differences are evidenced along three levels: the normative, cultural-cognitive and regulative dimensions (Danis et al 2011; Kostova 1999; Scott 2008). In the situation where network actors are institutionally-similar (Abdi and Aulakh 2012, p.479):

“pre-existing institutions in the form of behavioral norms and rules and expectations define (and socially enforce) the appropriate and acceptable behaviors in (and structures of) interfirm [or network] relationships.”

In situations where network actors’ institutional contexts differ greatly, the ‘institutional distance’ (Kostova 1999; Xu and Shenkar 2002) will be large. Xu and Shenkar (2002, p.608) have defined the institutional distance between two countries as:

“the extent of the similarity or dissimilarity between the regulatory, cognitive and normative institutions”.

Institutional distance focuses on how far countries are apart rather than on what the differences are and how they can be reconciled. In a recent paper, Child and Marinova (2014, p.349) argue that:

‘While considerable attention has been given to the ‘institutional distance’ between the home and host countries, we know little about the implications for managing foreign operations of specific combinations of home and host country contexts’.

In order to improve clarity, although both terms will be used throughout the thesis, when referring to the process of SME internationalisation networks across institutional distance, the emphasis is on institutional differences - and their effect - between developed and emerging economies. The aim here is to understand and explain how and why institutional differences impact the developmental process, rather than simply recognise that regulative, normative and cultural-cognitive differences may have such an effect (which seems pretty obvious from the review of the literature). In other words, the objectives of the thesis are dual:

- One aim is to understand how differences in institutions may impact network development
The second goal is to explain how smaller firms may reconcile these differences and overcome the challenges created by dissimilarity in institutions. Having recognised that there may be challenges related to institutional differences, what does extant academic knowledge say about the development of internationalisation networks across institutional distance? Section 4.6.2 reviews the literature and observes that extant knowledge of the phenomenon is limited. This subsection will then lead to the conclusion of the chapter, which highlights knowledge gaps and related research questions.

### 4.6.2 Institutional Distance and Networks: A Review of the Internationalisation Literature

The internationalisation literature concerned with networks in different institutional contexts tends to focus on either emerging or developed markets. Studies interested more broadly in collaborative endeavours across institutional contexts are numerous but they tend to be concerned with larger organisations. In the context of smaller and entrepreneurial organisations:

> “Insufficient attention is still given…to the transnational or inter-institutional orders.” (Jennings et al. 2013).

Orr and Scott (2008)’s case-studies of large scale global projects for instance introduced the term ‘institutional exceptions’ to describe how variations in rules, norms and cultural beliefs impeded the success of cross-border collaborative projects. Abdi and Aulakh (2012) found that informal arrangements developed between large firms had the capacity to overcome the difficulties created by differences in the informal institutional arrangement. The use of a large survey however did not reveal the mechanisms behind the creation of those informal arrangements. Brunning et al (2012, p.445) highlighted that differences in values, attitudes, norms and beliefs could create ‘dissonance’ between Western expatriates and their local colleagues in China but that the dissonance could be better tuned through socializing activities between expatriates and their hosts. In the context of market versus ex-command economies, Luk et al (2008, p.591) found that the institutional context moderated the effects of social capital through variation in the involvement of non-market influences, such as government bodies, ‘in the coordination of the behaviors of the economic actors’. In other words, government bodies were able to act as facilitators – or brokers - between economic actors. The authors also stressed that in the case of transition or emerging economies and in order for actors to reduce uncertainty, the emphasis was on the use of informal personal relationships rather than formal written rules. Finally, Danis
et al (2011) found that social networks played a bigger role for new business activity in emerging rather than in developed economies.

In the context of smaller firms, studies of social networks that compare emerging and developed markets rarely discuss *internationalisation* networks, with the exception of recent research undertaken by Kiss and Danis (2008; 2010). Kiss and Danis (2008; 2010) argued in their conceptual papers that a country’s institutional context had a moderating influence on the effect of weak and strong ties on the speed of internationalisation. Studies of smaller firms internationalisation networks in a cross-institutional context are extremely rare and do not shed any light on how networks are formed and developed across institutional distance. In order to understand the process behind the development of internationalisation networks by Scottish SMEs across institutional distance, a deeper understanding of the impact of differences in regulative, normative and cognitive institutions must be highlighted. The final section will highlight those key regulative, normative and cognitive factors and bring this chapter to a conclusion.

4.6.3 Institutional Distance: The Challenge of Developing SME Internationalisation Networks across Institutional Borders

In the process of developing internationalisation networks into China, Scottish SMEs network actors will have to connect with internationalisation network ties for two key reasons:

- Get access to the Chinese local networks that are necessary to the firms’ internationalisation
- Obtain the knowledge of Chinese institutions that is required to operate effectively.

Furthermore, connecting with internationalisation network ties entails exchanging information and/or resources across those network links. In this context, shared cognitive and normative institutions will play a key role. There is little knowledge however of the internationalisation network development process by smaller firms in the absence of shared institutions.

Cognitive and normative institutions are path-dependent and transmitted to individuals via their country’s culture and processes of socialization and education (Kostova and Zaheer 1999; North 2009; Scott 2008). Informal institutions take the shape of context-specific behavioural norms, rules and expectations (Abdi and Aulakh 2012; North 2009, Scott 2008), which will vary widely across countries and institutional environments. In the context of cross-border relationships and networks, the absence of institutionally-derived
shared norms, values and cognitive frameworks, will also limit the effectiveness of the reputation-based enforcement mechanisms of social networks (Abdi and Aulakh 2012). Besides, the inability of network actors to anticipate and predict the behaviour of the institutionally-distant network partners will also increase ‘behavioral uncertainty’ (Abdi and Aulakh 2012, p.491) and hinder the development of the (Abdi and Aulakh 2012, p.483):

“central components required for the emergence and maintenance of relational arrangements, such as perceptions of equity and fairness, trust and rich communication...”

In Western environments for instance, there is often a clear separation between business and friendship relationships (Chua et al 2009; Tan et al 2009). Business relationships rely on market-related institutions such as legal contracts and are characterised by values of productivity and efficiency (Tan et al 2009). In emerging markets such as China, economic activity is supported by ‘personal trust-based transactions’ (Tan et al 2009, p.544) and initially involves trust building between parties. In that setting, affect and emotional bonds are closely intertwined with business deals and trust is placed with individuals rather than formal institutions. Tan et al (2009, p.545) describe this dichotomy as ‘system/general trust’ versus ‘personal/particularistic trust’, while Chua et al (2009, p.490) refer to ‘affect-based’ versus ‘cognition-based’ trust. Trust is a complex, multi-level concept: trustworthiness include both expectations of the competence and benevolence of the actor to be trusted (i.e., Alter in the context of networks) (Burt 1995; 2011; Roy 2012; Tsui-Auch and Möllering 2010), by the trustor (or Ego in the network). Ego must feel that Alter has the necessary skills (competence) and the goodwill (benevolence) to behave as expected (Roy 2012; Tsui-Auch and Möllering 2010) and perceptions of both competence and benevolence are critical to the building of trust between Ego and Alter.

Zaheer and Zaheer (2006) also highlight that the nature and institutional support for trust differ across institutional environments. While trust is undoubtedly a key concept in any understanding of social networks and cooperative behaviour, its role and nature in that context also remain poorly understood (Child et al 2005).

Furthermore, when network actors from developed markets are confronted with the task of developing internationalisation networks in order to connect with network actors in emerging markets, the presence of wide institutional differences, based on both diverging formal and informal institutions, will significantly complicate their task. More specifically, as discussed throughout Chapter Four, a key difference between developed and emerging markets is that informal institutions and social networks have to substitute for weak legal
institutions in the latter (Ahlstrom and Bruton 2006; Aidis et al 2008). Nonetheless, in order to develop internationalisation networks into emerging markets, developed markets network actors will have no choice but build links with local social network actors. The lack of network studies researching the development of network relationships across institutional contexts leaves a large gap in the knowledge of the process followed by developed countries actors in order to develop internationalisation networks ‘across the nationally bounded interfirm networks.’ (Abdi and Aulakh 2012, p.478). The higher reliance on informal institutions by emerging market network actors is supported by the literature concerned with comparing the role and nature of social networks across emerging and developed countries. One key ingredient for effective social exchanges in networks or cooperative endeavours is trust (Child et al 2005; Chua et al 2009). In contexts where reliance on informal institutions and social networks is the only safeguard against opportunism, trust and reputation/legitimacy are essential components and they are linked to strong ties and closed networks (Chua et al 2009; Coleman 1988; Roy 2012; Tan et al 2009). Accordingly, a key question is around the process and mechanisms used by Western SME network actors in order to develop internationalisation network links with trust-governed network actors in emerging economies like China.

4.7 Conclusion of the Review of Extant Academic Knowledge: Conceptual and Analytical Research Framework

Section 4.7 summarises findings from the review of extant academic knowledge in the process of SME internationalisation network development across institutional distance and highlight key gaps in the literature. As a result, research objectives are clarified and a comprehensive conceptual analytical framework is delineated. This final section concludes Chapters Two, Three and Four and the review of extant academic knowledge, leading to Chapter Five covering research methodology.

4.7.1 Introduction: Internationalisation of the Smaller Firm, Networks and Institutions

Table 5 below summarises the discussion around extant academic knowledge in the context of the internationalisation of the smaller firm, networks and institutions and highlights key gaps in the literature.
<table>
<thead>
<tr>
<th>Theory</th>
<th>Description</th>
<th>Key knowledge gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Internationalisation</td>
<td>SMEs overcome their liability of smallness and foreignness by using their networks in order to internationalise.</td>
<td>How do SMEs develop internationalisation networks in order to overcome their liability of smallness and foreignness (when no relevant network is available)?</td>
</tr>
<tr>
<td>Young et al 1989</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coviello and Munro 1997</td>
<td></td>
<td></td>
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<tr>
<td>Jones and Coviello 2005</td>
<td></td>
<td></td>
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<tr>
<td>Coviello 2006</td>
<td></td>
<td></td>
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<tr>
<td>Ojala 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child and Hsieh 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME internationalisation network development</td>
<td>Internationalisation networks change over time and may have to be developed strategically by SMEs. Internationalisation networks’ stability over time is critical if internationalisation is to continue. Networks must be understood as multidimensional entities.</td>
<td>How do SME internationalisation multidimensional networks develop over time?</td>
</tr>
<tr>
<td>Coviello 2006</td>
<td></td>
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<tr>
<td>Loane and Bell 2006</td>
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<tr>
<td>Ojala 2009</td>
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<tr>
<td>Prashantham and Dhanaraj 2010</td>
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<tr>
<td>Wakkee 2006</td>
<td></td>
<td></td>
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<tr>
<td>Integrating: Social networks development</td>
<td></td>
<td></td>
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<tr>
<td>Burt 1995; 2011</td>
<td></td>
<td></td>
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<td>Hoang and Antoncic 2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jack 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slotte-Kock and Coviello 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME internationalisation network development and Institutional theory</td>
<td>SME internationalisation networks are developed across home and host countries’ institutions. Emerging and Developed countries institutions differ significantly.</td>
<td>How do SME internationalisation multidimensional networks develop over time and across institutional distance?</td>
</tr>
<tr>
<td>Kiss and Danis 2008; 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manolova et al 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrating: Institutional theory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abdi and Aulakh 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child and Marinova 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dunning and Lundan 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North 2009</td>
<td></td>
<td></td>
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<tr>
<td>Scott 2008</td>
<td></td>
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<tr>
<td>Peng 2003</td>
<td></td>
<td></td>
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<tr>
<td>Sartor and Beamish 2014</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: The Author
4.7.2 Aims and Objectives of the Research

As a result of the integrative review of the internationalisation literature in the context of the process of SME internationalisation network development across institutional distance, the following research question and objectives have been highlighted:

How does the SME internationalisation network develop across institutional distance and why?

The review of extant internationalisation literature and the identification of core knowledge gaps on the topic have also unearthed some key objectives, in order to fully investigate the process of internationalisation network development:

- The holistic understanding of the SME internationalisation network development process through the exploration of all four dimensions of internationalisation networks: structure, governance, relational aspects and content.
- The time-sensitive understanding of how and why internationalisation networks and their ‘four dimensions’ develop by studying the process of network development over time
- The context-based understanding of how and why internationalisation networks develop over time and across institutional distance by taking factors related to the institutional context into account.

The next section presents the analytical conceptual framework that will guide research on the topic of internationalisation network development by Scottish SMEs across institutional distance.

4.7.3 Conceptual and Analytical Research Framework

The conceptual and analytical research framework presented below (Figure 4) has been derived through the integration of the previous three sections covering internationalisation of the smaller firm, networks and institutions. The framework is similar to the earlier version (Figure 3) and also draws from Slotte-Kock and Coviello (2010). In order to research the specific phenomenon of SME internationalisation network development across institutional distance however, the earlier broader framework (Figure 3) has been slightly amended and narrowed around the research question and objectives described in section 4.7.2:

- With regards to the question of ‘what develops’, the focus is on the holistic study of the network across the four dimensions proposed in the social network analytical framework (Figure 3).
- ‘How and why the network develops’ highlights the role of key explanatory factors, and in particular institutional effects. It now revolves around ‘tie identification, tie selection and tie retention.’

- Finally, ‘what happens over time’ is concerned primarily with internationalisation network stability through network embedding (Burt 2011).
Figure 4 - Conceptual Framework for the Study of SME Internationalisation Network Development across Institutional Distance

WHAT DEVELOPS A
INTERNATIONALISATION NETWORK
- Network Dimensions
- Network structure
- Network relational characteristics
- Network content
- Network governance

HOW AND WHY DOES THE NETWORK DEVELOP B & C
HOW
- Network development
  - Tie identification, tie selection, tie retention

WHY
- Internationalisation objectives and resources
  - Opportunity identification, selection and exploitation
- Institutional factors
  - Regulative, normative and cultural-cognitive pillars

WHAT HAPPENS OVER TIME (NETWORK STABILITY) D
INTERNATIONALISATION NETWORK EMBEDDING
- No embedding
- Relational embedding
- Structural embedding

Time

The Author
4.7.4 Summary and Conclusions: Knowledge Gaps and Intended Thesis contributions

The integrative review of the internationalisation, network and institutional literature has highlighted the paucity of knowledge about the process of SME internationalisation network development across institutional distance. In the context of this thesis, institutional distance is defined as: differences in institutions between developed and emerging economies (The Author). The literature recognises that networks are critical to smaller firm internationalisation in order to overcome their liability of smallness and foreignness (Jones and Coviello 2005) but it does not explain how networks are actually developed over time (Coviello 2006). Furthermore, while the literature acknowledges that differences in emerging and developed economies’ institutions will impact the network development process (Child and Marinova 2014; Kiss and Danis, 2008; 2010), it gives no indication as to how these differences actually influence the network development process and how they may be reconciled. Understanding the process of internationalisation network development by smaller firms, across institutional distance, means analysing what is being developed (i.e., the four network dimensions of structure, relational aspects, governance and content), when and where it is developed (i.e., time and context factors) and why it is developed the way it is, (i.e., explanation of the institutions-related factors that will lead from one step to another). In order words, understanding the process also requires explaining the mechanisms that are at work, over time.

Accordingly, the study will investigate the process followed by SMEs in their internationalisation network development efforts and highlight the impact that differences in institutions had on that process. In addition, the thesis will explore how smaller firms managed - or not - to overcome those differences. This is a key gap in the literature where the focus is on institutional distance (Kostova 1999) rather than on how the distance may be bridged (Child and Marinova 2014; Coviello 2006; Kiss and Danis 2008; 2010). Researching a poorly understood topic and providing a description of the mechanisms and factors underlying the developmental process calls for both exploration and explanation of the phenomenon. The exploration must be done in-depth, through rich context-based cases that describe the phenomenon over time, so that process mechanisms and explanatory factors may emerge from the analysis of the data. The next chapter will now discuss and justify the methodology that was selected in order to study this inadequately researched phenomenon.
Chapter Five
Research Methodology

5.1 Introduction

In their introduction to the 2011 Special Issue of the Journal of International Business Studies, focused on qualitative research, Birkinshaw, Brannen and Tung (2011) argued:

In order to understand the complexities of emergent and evolving phenomena scattered over distance, and the differentiated contexts typical to many topics under investigation in IB, it is often inappropriate to engage in large-scale, cross-sectional studies or reductionist methods in the absence of well-developed theory. Rather, thick description, exploratory research and comparative case analysis that focus on inductive theory building and hypotheses generation may be more suitable.

The question surrounding the selection of the methodology to research the process of SME internationalisation network development across countries shaped by significantly differing institutions certainly fit their description of a complex phenomenon spread across differentiated contexts and lacking well-defined theory. This chapter describes and attempts to justify the methodology followed to research the described topic. The selection of a methodology concerns the process of ‘choosing among competing methods of theorising’ (Welch et al. 2011, p.742). Given the differences in context faced by researchers in China (Child 2000; Welch et al. 2011), and the increased importance of non-Western countries on the global stage, the need for more contextualised theories is becoming increasingly obvious and timely.

The researcher’s task in selecting methodology was challenging due to the multiplicity of factors linked to the study of the process of internationalisation network development across institutional distance: the paucity of knowledge of the topic within extant literature, the importance of the context as argued above, and the fact that the phenomenon was characterised by a dynamic process. As a result, the thesis methodology drew on Welch et al.’s (2011) ‘contextualised explanation’ perspective, whose approach is to develop causal explanations of phenomena, through case-study research, in order to retain contextual factors within the explanation.

The nature of the organisations under focus in the research, the small and medium size enterprise, and the narrow and in-depth perspective of the research on network development into a single market, China, further called for a multiple case study method. Table 6 summarises the thesis methodology and the remainder of the chapter further elaborates on the research approach and design.
<table>
<thead>
<tr>
<th>Research methodology aspect</th>
<th>Description</th>
<th>Support literature</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology and epistemology</strong></td>
<td>Critical realist ontology</td>
<td>Welch et al 2011; Yin 2014</td>
</tr>
<tr>
<td><strong>Research Methodology</strong></td>
<td>Contextualised explanation</td>
<td>Welch et al 2011; Yin 2014</td>
</tr>
<tr>
<td><strong>Research design</strong></td>
<td>Theory building as conjunctural causal explanation through multiple explanatory case studies (3 cases)</td>
<td>George and Bennett 2005; Yin 2014</td>
</tr>
<tr>
<td></td>
<td>Theory drawn through both an inductive and abductive process</td>
<td></td>
</tr>
<tr>
<td><strong>Case selection</strong></td>
<td>Abductive process with 2 replication cases, 1 contrasting case</td>
<td>Welch et al 2011</td>
</tr>
<tr>
<td><strong>Data Collection</strong></td>
<td>Interviews, participant observation and archival data</td>
<td>Chidlow et al 2014</td>
</tr>
<tr>
<td></td>
<td>Data collection in original language by bilingual researcher</td>
<td>Greenwood 2015</td>
</tr>
<tr>
<td></td>
<td>Ethics Protocol</td>
<td>Delorme et al 2001</td>
</tr>
<tr>
<td></td>
<td>All cases disguised and anonymised through pseudonyms to avoid risk of recognition</td>
<td></td>
</tr>
<tr>
<td><strong>Data analysis techniques</strong></td>
<td>Explanation building through process tracing, abductive analytical process and replication logic</td>
<td>George and Bennett 2005; Yin 2014</td>
</tr>
<tr>
<td></td>
<td>Data analysis in original language by bilingual researcher</td>
<td>Chidlow et al 2014; Stening and Zhang 2007;</td>
</tr>
<tr>
<td><strong>Unit of Analysis</strong></td>
<td>The internationalisation network from the perspective of Ego and Alter</td>
<td>Burt 2011; Coviello 2006</td>
</tr>
<tr>
<td><strong>Research quality</strong></td>
<td>Research protocol, multiple sources of evidence and repeat interviews, chain of evidence, search for rival explanations</td>
<td>George and Bennett 2005; Yin 2014</td>
</tr>
</tbody>
</table>

Source: The Author
Welch et al.’s (2011) causal explanation perspective draws both from Yin’s (2014) multiple case-study method and George and Bennett’s (2005) process-tracing technique, with the aim of providing knowledge that is ‘context-valid’. Process-tracing analytical charts are presented throughout the Findings Chapter and trace the process from one step to another (see for instance Figure 7). The ability to use replication logic across the three studied cases also further strengthened analytical generalization (Yin 2014).

Section 5.2 clarifies what is meant by theory, while the following section, 5.3 elaborates on research design and contextualised causal explanation (Welch et al 2011) through multiple case-studies. That section is followed by a discussion of the process of case selection (Section 5.4), which was a key and challenging aspect of the thesis methodology. Section 5.5 then describes the thesis’ ontology and epistemology, which leads to a discussion of the issue of cross-national research and differences in cultural-cognitive institutions between researcher and participants and section 5.6. The complexity and relative uniqueness of collecting data across two institutional contexts, in multiple languages, also led to some important methodological learnings that are described in section 5.6.3. Section 5.7 presents data collection and data analysis’ techniques more generally, including a subsection on research quality (5.7.3). Finally, section 5.8 concludes the chapter and summarises the main elements of the research methodology.

5.2 The Process of Building Theory

5.2.1 Defining Theory

The aim of this thesis is to theorise by proposing a contextualised causal explanation (Welch et al 2011) of the process of SME internationalisation network development across institutional distance. Defining the meaning of theory in an academic context is a difficult - and one may argue – a subjective task. Feldman (2004, p.565) boldly argues:

‘Let us be clear: theory is often in the eye of the beholder. What is theory to one reader may not be theory to another’.

It is somewhat easier to concur on what theory is not (Bacharach 1989; Sutton and Staw 1995), although there is general agreement in the literature that academic researchers should aim to generate theory by explaining why certain empirical patterns can be observed or expected (Shah and Corley 2006; Sutton and Staw 1995). This observation fits harmoniously with the research’s proposed causal explanation process model and stated aim to not simply answer ‘how’ SME internationalisation networks are developed, but also ‘why’ one step of the process led to the next.
Furthermore, in order to move from observable and collectable data to a more theoretical level, empirical observations must be abstracted and simplified into sets of concepts and explanatory factors, with the relationships between concepts and/or factors clearly stated. In other words, theory can be broadly defined as (Bacharach 1989, p.496):

“a statement of relations among concepts within a set of boundary assumptions and constraints.”

This definition relies on the premise that theory is bounded by assumptions related to a narrower phenomenon in a specified context, a type of theory described as a ‘mid-range theory’ (Birkinshaw et al 2011, p.576), as is the general aim of the study. Mid-range theories contrast with the more ambitious ‘grand theories’ that seek to explain a phenomenon across all societies (Birkinshaw 2011, p.576).

More specifically however, and in line with the stated methodological approach, theory in the context of the thesis will be understood as ‘a form of explanation that offers a coherent, examined conceptualisation of a phenomenon’ (Welch et al 2011 p.741). The narrower phenomenon herein is the development of internationalisation networks across institutional contexts by SMEs. Causal explanation-derived theory is well-suited to questions of ‘how’ and ‘why’ (Welch et al 2011) as is the case here.

George and Jones (2000), further specify four essential elements in order to achieve a ‘complete’ theory (George and Jones 2000, p.658): what the concepts are, how and why they are related, as well as answers to who, when and where they apply. The last element – to who, when and where the theory applies - make explicit the boundary conditions referred to in the Bacharach’s (1989) definition above; furthermore, it complements the stated research framework for the study of network development (Figure 4), proposed in section 4.7.3 of the literature review: what develops, how and why does the network develops and what happens over time. Indeed, and in relation to network development over time, George and Jones (2000, p.658) further argue that time (when) should not just be treated as a boundary condition. Instead, they propose and further demonstrate through an empirical case-study that the role of time should be fully integrated into the development of theory:

“In other words, we claim that the role of time must be explicitly incorporated into a theory (and not just treated as a boundary condition) if a theory is to provide an ontologically accurate description of a phenomenon. Further we argue that many micro- and macro-organizational theories do not adequately incorporate such a time element and, thus, unintentionally distort the phenomena they are describing.”

As this thesis is interested in understanding a process of internationalisation network development - a dynamic process - the potential impact of past network characteristics
over present and future ones, along with what happens over time (see Figure 4) will be of particular relevance and interest to the proposed causal explanation process model. How and why time should be emphasized in any theory is justified in section 5.2.2, below.

5.2.2 Time as a Factor in Building Theory

Over the years, numerous calls for more process-based theory building in the Management discipline have been heard (Jack 2010; Jones et al 2011; Orton 1997), increasingly so in recent years, and particularly in the context of phenomena that are related to - and studied through - human perception. George and Jones further argue that (2000, p.659):

“Time is intimately bound up with the content of human experience in that [...] the past preconditions the present and is responsible for its taken-for-granted nature; the future is embedded in the present in terms of expectations, possibilities, and strivings.”

In the context of a study of internationalisation network development process across institutional borders, time as a factor had to be considered throughout the thesis, from the initial research design and strategy to the final outcome. Understanding how the past had influenced initial internationalisation network building and how the building process itself had then impacted SME internationalisation network development, and subsequently network stability, was critical to a meaningful causal explanation. The proposed causal explanation process model had to be of a dynamic nature, with a clear understanding of the role that time, along with relevant contextual factors – i.e., institutions - had played in explaining how and why the network had developed alongside a particular pattern.

Having clarified the importance of time within the process of SME internationalisation network development across institutional distance, section 5.3 can now describe the thesis’ research design.

5.3 Research Design

5.3.1 Introduction

The design for researching the process of internationalisation network development by Scottish SMEs across institutional borders is based on Welch’s (2011) ‘multiple conjunctural view’ and contextualised causal explanation approach, that draws from Yin’s explanatory case-study research and George and Bennett’s (2005) process-tracing methodology. As both time (process of development) and contextual factors (institutions) were of interest, researching the phenomenon was best conducted through rich data and context-based case-studies, over time. Besides, contrasting multiple cases-studies allowed
for spurious factors to be singled-out and eliminated, strengthening the proposed causal explanation process model further (George and Bennett 2005; Welch et al 2011). Welch et al (2011), drawing from Yin (2014), advised using multiple case-studies in order to explain – as opposed to solely explore - the phenomenon under scrutiny, hence strengthening the basis of the emerging theory. Although the impact of differences in institutions on internationalisation network development was of core interest to the research, other variables of relevance to the process were highlighted through process-tracing, in order to give a more accurate and holistic explanation of the phenomenon (George and Bennett 2005; Welch et al 2011). A causal explanation perspective argues for complex social phenomena to be apprehended and explained through the interaction of multiple explanatory variables (Welch et al 2011), although it is also recognised that theorising requires some simplification through abstraction (Bacharach 1989). In other words, and in contrast to theory-testing research where a phenomenon is split between hypotheses where effects from multiple variables must be controlled, theory-building, to be valid from a conjunctural view, must acknowledge multiple factors and demonstrate how these different factors may be connected to each other (Welch et al 2011). The ontological and epistemological assumptions that underpin that view will be further discussed in section 5.5.

Furthermore, the proposed causal explanation process model of SME internationalisation network development was drawn both abductively - by selecting cases that are rare (successful internationalisation network development by Scottish SMEs in China for cases Alpha and Delta) (Siggelkow 2007; Welch et al 2011) – and inductively through replication logic (Yin 2014). Abduction theory involves the use of a ‘rare’ case (Siggelkow 2007; Welch et al 2011) that confronts expectations: theory emerges from comparing what is unusual about the case to what one would have expected. The surprising cases studied herein were Alpha and Delta, which had successfully developed internationalisation networks into China. In order to strengthen the emerging causal explanation of the phenomenon, a contrasting case of failure (Beta) was added to the two ‘successful’ cases in order to apply Yin’s (2014) replication logic.

The next subsection will define case-study research in the context of ‘contextualised causal explanation’ (Welch et al 2011) that draws from process tracing (George and Bennett 2005) and Yin’s explanatory case-study research design.
5.3.2 Contextualised Causal Explanation from Multiple Case Studies

A research design is the logical plan that links research findings and proposed contribution to the initial question and the data collected (Yin 2014). The aim of this thesis is to understand how and explain why smaller firms’ internationalisation networks develop as they do in the context of differing institutional home and host environments. Welch et al (2011, p.741) argue that:

*IB is a highly appropriate field in which to discuss the development of rigorous, yet context-sensitive, theory.*

Here, context is an integral part of the research phenomenon and its underlying mechanisms, and is defined as (Welch et al 2011, p.741):

*“the contingent conditions that, in combination with a causal mechanism, produce an outcome.”*

Case studies as ‘contextualised explanations’ (Welch et al 2011, p. 747) allow researchers to develop causal explanations in a contextually-sensitive manner while studying underlying mechanisms; this approach is characterised by ‘a very particular view of causality as a complex and dynamic set of interactions that are treated holistically’ (Welch et al 2011, p.754). Explanatory case-studies describe how a combination of contextual factors and causal mechanisms may have led from one step of the developmental process to the next.

Whereas the role of exploratory case studies in IB has been increasingly recognised, the place that could be played by explanatory case-studies has been neglected (Welch et al 2011; Yin 2014). In conclusion, and drawing from Welch et al (2011), Yin (2014) and George and Bennett (2005), this study endeavours to offer a causal explanation of the developmental process of SME internationalisation networks across institutional distance.

In effect, offering a conjunctural causal explanation of a phenomenon in this case means highlighting the role played by differences in home and host institutions as key explanatory factors of the way SMEs build and develop internationalisation networks over time, while acknowledging that other factors may be at play.

5.3.3 Case Study Definition

Yin (2014) defines a case study as:

*“an empirical enquiry that investigates a contemporary phenomenon (the “case”) in depth and with its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident.”*

In the context of Scottish SMEs developing internationalisation networks into China, it can be said that phenomenon and context are closely intertwined and that understanding the
phenomenon indeed means explaining how and why network development and institutions may interact.

5.3.4 Multiple Case-study Method and Replication Logic

Case-study research can include multiple cases and finally draw from a single set of cross-case findings (Yin 2014). A key aspect of causal explanation (Welch et al 2011) through the study of cases revolves around ‘replication logic’ (Eisenhardt 1989; Yin 2014): each case is studied in isolation, before emerging patterns are then evaluated against alternative explanations (Eisenhardt and Graebner 2007; Yin 2014) by iteratively contrasting empirical data with emerging findings from additional cases. Data from added cases may concur with, or contradict, the emerging explanation. In this way, the proposed theory is strengthened, making it potentially more generalizable in the context of analytical - as opposed to statistical - generalisation (Yin 2014). Analytical generalisation is concerned with generalising to a theoretical explanation rather than statistically representative populations or universes (Welch et al 2011; Yin 2014).

The analytical generalisation was further strengthened through the selection of multiple cases from different sectors of industry, as it reduced the risk of spurious sector-related factors appearing in the research findings. As the research focus was on the development process of Scottish SMEs internationalisation networks - as opposed to Life Science Scottish SMEs for instance - studying multiple cases from different sectors of activity reduced the risk of the emerging explanation being biased by non-relevant sectorial factors (linked to the internationalisation practices of specific industries). Besides, when studying a narrow phenomenon such as internationalisation into a specific market by a smaller organisation, the availability and relevance of multiple respondents within a single organisation may be limited, hence reducing the opportunity to support emerging findings through access to large numbers of respondents in each organisation. By using multiple cases, respondents from separate cases can also act as evidence – or counter-evidence - of support for emerging findings from separate cases. The decision to study multiple cases subsequently led to the selection of the actual cases to be studied, a process described in the next section 5.4.

Furthermore, capturing the network development process over time, while offering an explanation of the role played by home and host institutions, meant working backwards through the phenomenon and trying to understand how and why a specific event (the decision to internationalise to China) had led to a specific outcome (George and Bennett
2005; Welch et al 2011). This method of theoretical explanation is described as process-tracing by George and Bennett (2005, p.6):

“[a process] which attempts to trace the links between possible causes and observed outcomes.”

The next section integrates case-study research with process-tracing.

5.3.5 Process Tracing and Explanatory Case-study Research Design

Process tracing offers similarities with explanatory case studies, described by Yin (2014, p.10) as:

“studies that deal with operational links needing to be traced over time rather than mere frequencies or incidence.”

George and Bennett (2005) present a more comprehensive rationale for their approach than Yin (2014), whose focus is on broader case-study design, be it exploratory or explanatory. It was useful accordingly to draw on both approaches in the context of this study. Welch et al (2011, p.746) further point out that:

“Yin (2009) agrees that case-studies are well suited to exploratory theory-building, but unlike Eisenhardt he does not confine case studies to this early stage in the theorising process. Much of his influential book on case studies can be used for “explanatory” rather than “exploratory” purposes. In fact, he regards case studies as best suited to “how” and “why” questions that “deal with operational links needing to be traced over time.”

While George and Bennett’s (2005) ‘historical approach’ can be challenged as only providing an explanation for the particular, Welch et al (2011) propose a ‘multiple conjunctural view’ and argue that process tracing has much stronger explanatory power than methods based on correlation. George and Bennett (2005) also suggest that both the in-depth study of a deviant case and the analysis of residual differences between two similar cases - through the evaluation of those differences as either explanatory or irrelevant to the phenomenon - can offer valuable theoretical insights.

Through the organisation of events into categories and factors, based on existing theories from IB, IE, institutional theory and entrepreneurship, a conceptual analytical framework was derived (Figure 4). The framework could then act as a guiding tool in the exploration of the ‘black box’ of SME internationalisation network development i.e., as the phenomenon highlighted as a knowledge gap in the literature.

In conclusion, this thesis follows Welch et al.’s (2011, p.749) ‘contextualised causal explanation’ as the basis for case research, where the researcher factors the combination of variables found in the case rather than attempt to measure the effect of a single one. This is justified as single variables’ effects can vary depending on the configuration of variables.
present in the case. This holistic type of qualitative analysis is both conjunctural and multiple given that the same outcome may be produced by different causal explanations: theories are not universal, they are always limited by the conditions under which they do or do not apply (Welch et al 2011). For each case study, a process tracing diagram summarises both the process followed and the conjunctural factors that may explain the move from one step of the process to the next (see Figures 7 and 13 in the within-case findings chapter for instance). The application of this methodological perspective is further described in section 5.7.2, discussing data analysis. First, the next section will clarify the approach followed for case selection and describe the process followed in order to identify and select the three cases investigated as part of the research.

5.4 Case Selection
Case selection is a crucial part of the research design process. Yin (2014) advises researchers to follow a ‘replication logic’ when selecting multiple cases, while Welch et al (2011) argue for the addition of an abductive element (Siggelkow 2007). When a case-study involves two or more cases, cases can either replicate or contradict each other, although they must always appropriately reflect the phenomenon under scrutiny. The phenomenon of interest, the SME internationalisation network development process across institutional distance, required that a specific set of criteria should be established in order to identify appropriate cases. The rationale behind the selection criteria draws from both Yin (2014) and Welch et al (2011) and is clarified in the next four subsections (5.4.1 to 5.4.4.)

5.4.1 Case Selection and Institutional Factors
In order to study the phenomenon of SME internationalisation network development across institutional distance, it was important to identify the most appropriate context from a theoretical and research perspective. Based on the definition of internationalisation established in Chapter Two, internationalisation involves an SME located in a specific home country developing international activities into a separate host country. As the focus of the study also revolves around the process of network development across institutional distance, home and host institutional contexts had to show significant dissimilarity. As a result, the highly contrasted institutional contexts of Scotland and China were identified as well-suited home and host countries for the study of the phenomenon, as they presented clear differences in terms of Cultural-cognitive, Normative and Regulative (Scott 2008) institutions. In addition, a key concern of the researcher, given the interest in informal
institutions, and in particular Cultural-cognitive and Normative Pillars (Scott 2008), was that actors from both institutional contexts should be interviewed and that the data should be collected in each network actor’s native language. Due to the researcher’s command of both English and Mandarin Chinese and her ability to conduct interviews in both languages, along with her significant knowledge of Scottish and Chinese environments, Scotland and China were identified as the best home and host institutional contexts for this specific researcher to conduct the study.

A third factor was the ability of the researcher to access personal and professional networks in both Scotland and China. Previous personal experience of access negotiation with both Scottish and Canadian SMEs, for an earlier piece of research, had highlighted the difficulty in getting SME network actors to agree and take part in academic research. The researcher’s pre-existing network in both Scotland and China could accordingly be leveraged in order to identify cases and help negotiate access with appropriate SMEs. This ability was to prove critical during the very challenging case selection and access negotiation period: the process took an inordinate amount of time and effort - two years. In the end, the support of a local council did have to be sought in order to identify successful cases and get help with access.

Having clarified the choice of context for the cases, the next section will discuss case selection criteria.

5.4.2 Abductive Process and Case Selection Criteria

Welch et al (2011) argue that choosing cases that offer a surprising outcome (Siggeikow 2007) allows for better insights into a phenomenon. They describe this selection and process as abductive (Welch et al 2011, p.748):

“the starting point is a perceived mismatch between an empirical observation and an existing theory, leading to a “redescription” or “recontextualisation” of the phenomenon.”

Siggeikow (2007) made the same point in his earlier ‘talking pig’ essay, arguing that when selecting a case to study, it was desirable to choose a particular organisation precisely because its unusual nature will allow better insights into a phenomenon. Based on the previous institutions-related considerations, the interest in an abductive process and the nature and depth of the research question, the following number of organisational selection criteria were identified:

- The firms had to be SMEs, defined as per the European Union’s definition of having less than 250 employees (European Press Release, 2003).
- The firms and key internationalisation network actors had to be based in Scotland and China.
- The firms had proactively developed an internationalisation network with China, rather than simply follow their existing network into the market.

Besides, as the research process aimed to understand and explain the network development process through a more contextualised explanation of the phenomenon, a surprising outcome would be for a smaller firm to be successful at internationalisation network development with China, in spite of the institutional challenges highlighted by the literature. Based on the researcher’s experience as a previous Scotland-based practitioner working in a commercial capacity with China, successful stories of internationalisation network development by Scottish SMEs into China are relatively rare. This observation was supported by the Scotland Global Connection Survey (2013) which showed that Scottish exports to China only represented 2.1% of total export figures, against 61.3% for the European Union (EU 28) and the USA. Data of exports to China by company size were not available but larger firms accounted for 55% of all international exports, with around 30% of international exports attributable to only 10 businesses (Scotland’s Global Connection Survey 2013). Based on these figures, exports to China by Scottish SMEs are likely to be very small.

Furthermore, and based on the researcher’s 20 years’ professional experience, success had to be evidenced over a number of years. It is not unusual for firms’ internationalisation networks to China to appear successful at first, before suddenly collapsing two or three years further down the line. As a result, additional selection criteria were designed and added to the earlier ones. To be deemed successful, the firms had to:
- Have had a business presence in the Chinese market for at least five years and show evidence of on-going internationalisation networks in the country at the time of selection.
- Show evidence of sustained internationalisation activities for five years or more, such as China-based manufacturing or the sale of products or services within the Chinese market.

Finally, the question arose as to whether cases should include a failure case. In addition to following an abductive process, the thesis also adhered to the analytical method of ‘replication logic’, where sufficient variance must be achieved between cases (Yin 2014) and the presence of a failure case was necessary to allow sufficient variance of the data
across cases. Accordingly, and combined with a research focus on network development, failure in that context was defined in terms of:

- The firms’ internationalisation network to China had collapsed.

and/or

- The firms’ internationalisation activities in the Chinese market had failed.

The next section proceeds to clarify the issue of time in case-studies design and selection. As argued in the section about theory-building, time is a key factor when researching the process of internationalisation network development. Two time options were considered for the study: real time versus retrospective case-studies.

5.4.3 Real-time versus Retrospective Case Studies

The research question revolved around the process of internationalisation network development by Scottish organisations from the initial period, and two alternatives offered themselves: study cases in real time over the course of the thesis period or study cases retrospectively a number of years after the initial process was started. Studying the process in real time had to be rejected as an option for a number of reasons:

- First, the definition of ‘internationalisation network’ selected in the theoretical development section focused upon the ‘process of increasing involvement in firm-level activities that cross international borders’ (section 3.3). For that reason, evidence of internationalisation activities was a key criteria with regard to case selection.

- Second, based on the author’s professional experience with regard to the internationalisation of British firms to the Chinese market, the short time devoted to a PhD thesis (3 to 4 years) did not allow adequate time to pursue a real time process study. Network development in the context of China often takes place over more than five years, especially if sufficient evidence of success is to be secured. As already highlighted in the previous section, it is not unusual for the ‘apparent’ successful internationalisation network in the Chinese market to suddenly and unexpectedly collapse after three or four years. This potential risk of failure after several years was also supported by data from expert interviews conducted early in the research process (see Appendix Two for more detail of the expert interview findings).

As a result, case studies were studied retrospectively, although the researcher was careful to choose cases where initial internationalisation network development had happened around or after 2005, so no longer than five or six years prior to the start of the thesis in
2011: it was critical for the key network actors to have retained a reasonably clear memory of the phenomenon. This aspect was also verified during the initial introductory interviews conducted with prospective case firms, in order to check that the firms adequately fulfilled the above criteria, which leads to the discussion about case identification and access negotiation in the next subsection.

5.4.4 Case Identification and Access Negotiation: The Challenge of SME Internationalisation Research

SMEs are notoriously difficult to research due to their resource limitations (Penrose 1995) and more particularly, the time constraints on most CEOs and high level decision-makers. In a smaller organisation, internationalisation is often the remit of the firms’ CEO or Managing Director, whose responsibilities encompass a wide array of organisational activities. Besides, if they are private firms (as is the case here), SMEs have no formal requirement to publish accounts or activity reports about their firms, and smaller firms’ owners and managers tend to be rather secretive: as a result, they are often reluctant to discuss their firms’ activities with complete strangers. Furthermore, in the small country of Scotland, the pool of suitable candidates, i.e. SMEs that had successfully developed internationalisation networks with China and fitted all the necessary criteria, proved extremely shallow. Additionally, among suitable candidates, few were interested in taking part in academic research. Finding willing candidates required an extraordinary amount of effort and time: in addition to her own existing professional network, the researcher had to enlist the support of two government-related trade organisations to help identify companies and negotiate access. As a result, case identification and access negotiation took the best part of two years\(^\text{18}\), including visits to China to negotiate access with the Scottish firms’ Chinese network counterparts (or Alters). In order to avoid an egocentric perspective of the internationalisation network, it was essential to interview actors on both sides of network, i.e. Ego in Scotland and Alter in China.

Initially, a number of 8 cases were identified and contacted. Following short interviews with the key decision-makers (30 minutes or less), some firms were dropped as either unsuitable or unwilling to take part in the research: five firms were subsequently retained to be included in the study. During the data collection process, however, one further firm was dropped due to difficulties in obtaining access to a sufficient number of network actors. Finally, one more case was dropped, later in the process, as analytical saturation had been reached with the other cases, and as the case itself did not offer any additional insights into

\(^{18}\) One of the two years took place in the context of the researcher’s Masters dissertation, pre-PhD.
the findings. Besides, the firm’s extremely small size and the fact it changed core activity during the course of the research had led to data that was relatively shallower and less insightful in nature.

The case selection process left the researcher with three cases: two rare cases of successful internationalisation network development with China by Scottish SMEs (Siggelkow 2007; Welch et al 2011), allied to a contrasting failure case (Yin 2014). The large amount of data to be dealt with (45 minutes of interview in English with Alpha1 resulted in more than 20 pages of transcript for instance), and the need for depth of analysis rather than spread of data, meant that three cases were considered an appropriate number in this research context, especially when aiming for analytical generalization (Yin 2014).

The next table summarises relevant information about the three case-studies.

Table 7 – Alpha, Delta and Beta Case Studies Characteristics

<table>
<thead>
<tr>
<th>Pseudonym</th>
<th>Alpha</th>
<th>Delta</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year into China</strong></td>
<td>2005</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td><strong>Activity in China</strong></td>
<td>Sales Office Food and drink sector</td>
<td>Wholly-owned production facility of industrially engineered products</td>
<td>Distribution of life science products</td>
</tr>
<tr>
<td><strong>Actors interviewed</strong></td>
<td>2 UK-based key actors for China 2 key China network actors</td>
<td>2 UK-based key actors for China 7 key China network actors</td>
<td>2 UK-based key actors for China 3 key China actors</td>
</tr>
<tr>
<td><strong>Type of data collected and method of collection</strong></td>
<td>Interview data, archival data and company information</td>
<td>Interview data, limited participant information, archival data and company information</td>
<td>Interview data, extensive participant observation and archival data</td>
</tr>
<tr>
<td><strong>Outcome of the internationalisation network development process</strong></td>
<td>Success of internationalisation network</td>
<td>Success of internationalisation network</td>
<td>Failure of internationalisation network</td>
</tr>
</tbody>
</table>

Cases Alpha and Delta were chosen because Scottish network actors had developed internationalisation networks with China in a way that was surprising:

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19 While Eisenhardt (1989) advises for a minimum of four cases, Yin (2014) has no such requirement and argues that even two cases are better than just one; the more important aspect being the appropriate selection of the cases based on set criteria. Besides, the research followed an abductive approach where the nature of the case matters more than the number of cases.
As was argued in the review of the academic literature, differences in institutions between Scotland and China will make the development of internationalisation networks between the two countries challenging. Nonetheless, both cases Alpha and Delta had successfully developed cross-institutional internationalisation networks in China over more than 5 years.

Furthermore, introductory pre-selection interviews had shown that both firms had proactively and strategically developed their internationalisation networks to China rather than follow their existing networks into the country, as can be the case according to the literature (Bell et al 2003; Etemad et al 2001; Johanson and Vahlne 2009):

- Alpha had proactively built its internationalisation network with China
- Although Delta had initially followed a customer into China, they had subsequently built their internationalisation network independently of that initial push factor, again in a highly proactive and strategic manner.

Beta was selected as the variant failure case. Failure cases are notoriously difficult to study, not least because catastrophic failure of internationalisation network development with China for a smaller organisation can threaten the firm’s survival (Sapienza et al 2006; Zettinig and Benson-Rea 2007). Finding suitable respondents following the collapse of a smaller venture may also require detective skills beyond the capability of a lone PhD researcher. Besides, even when suitable respondents have been identified, getting actors to agree and share their story of failure with a researcher can prove more than challenging. Serendipity however had placed the researcher in a position to study such a failure case: an INV interviewed for an earlier piece of research and with whom the researcher had retained a very close connection, suddenly found their network relationship with their Chinese distributor collapse in the summer of 2012, after four years of investment into network development. While the decision to include this case into the research could be perceived as opportunistic, it was felt that the benefits of contrasting a failure case with success cases well outweighed the disadvantages. Furthermore, due to initial data collected as early as June 2011, the quality and depth of the information surrounding - and leading to - the collapse was high.

Following the completion of the research design, the process of collecting and analysing the data could begin. Prior to describing data collection and analysis however, it is essential to clarify the ontological and epistemological assumptions that permeate the thesis. Making the ontological assumptions underlying the study’s methodology explicit is essential when building a contextualised causal explanation from the study of cases.
5.5 Philosophical Considerations Underpinning the Research

5.5.1 Introduction

This thesis fits within a critical realist paradigm (Eisenhardt and Graebner 2007; Ritchie and Lewis 2010; Welch et al 2011; Yin 2014), based on the belief that while there is an independent reality, this reality can only be understood and explained through individuals’ interpretation of it. Whether theory is built through creating or ‘recognizing’ patterns of relationships (Eisenhardt and Graebner 2007, p.25) depends on the researcher’s ontological position. Ontology is concerned with people’s beliefs of ‘the nature of social entities’ (Bryman 2008, p.18) and is closely related to epistemology, defined as the researcher’s belief about ‘the nature of knowledge and how it can be acquired’ (Ritchie and Lewis 2010, p.23). The choice of methodology must concur with the selected epistemology, as epistemology will impact a researcher’s beliefs in how knowledge and its nature can be systematically accessed (Shah and Corley 2006). In other words, a researcher’s beliefs about the nature of knowledge, along with the nature of the research question will impact the type of methodology that can be selected.

The next subsection (5.5.2) will articulate the researcher’s understanding of the critical realist paradigm that underpins this study of internationalisation network development. This section will be followed by a discussion of the researcher’s role and potential impact on the research (section 5.5.3).

5.5.2 Critical Realism in Internationalisation Network Development Research

The thesis fits within a critical realist paradigm (Eisenhardt and Graebner 2007; Ritchie and Lewis 2010; Welch et al 2011; Yin 2014): the author recognises that the aim of ‘striving’ for a more objective approach can never be fully attained and that ‘respondents’ own interpretations of the relevant research issues’ (Ritchie and Lewis 2010, p.19) may result in multiple perspectives and types of understanding. As a critical realist however, the author argues that those multiple perspectives do not equate to the absence of an external reality that can be captured (Ritchie and Lewis 2010).

The critical realism ontology is relatively new and the subject of much remaining debate. Critical realism has been criticised for its ‘toolkit approach’ (Ritchie and Lewis 2010) for instance, as it allows the use of qualitative and quantitative methods within the same paradigm, in spite of the presence of conflicting assumptions on the nature of reality (Ritchie and Lewis 2010). Without entering this debate, which is beyond the aim of this thesis, Jack (2010) argues that reconciling agency and structure is necessary to the understanding of social networks (Jack 2010) and can be achieved through the Theory of
Structuration (Giddens 2013). Welch et al (2011) also subscribe to critical realism and justify the philosophy through the work of Bhaskar (1989), with causal explanation derived from ‘digging beyond the realm of the observable’ (Welch et al 2011, p.749). Both human agency and the social structure in which individuals are embedded may explain the causal effects observed by the researcher. Besides, causal mechanisms must be inferred from the conditions in which they are observed (Welch et al 2011).

Consistent with critical realism, the final subsection 5.5.3 will be concerned with the role of the researcher in the study as ‘all research is an interpretation of an already interpreted world’ (Welch et al 2011, p.744). Informal institutions such as internalised norms and values will have to be inferred by the researcher through verbal and non-verbal clues observed, in context, through the research process. As a result, it is important to point out that the quality of the theory inferred from observable data will be reliant on both a rigorous methodological approach and the ability of the single PhD researcher to interpret the clues. As a consequence, it is further recognised that the characteristics and skills of the researcher will have an impact on the final research outcome. For that reason, the final section below will discuss the researcher’s experience and relevant skills in relation to the research process.

5.5.3 The Researcher’s Characteristics and their Relevance to the Investigation’s Ontology

Although a French native speaker, the researcher has near native proficiency in the English language, as well as a high command of Mandarin Chinese; besides, she has both lived and worked in Scotland for close to twenty years, as well as having studied and experienced the Chinese business environment and institutions over more than 30 years. In addition, prior work experience within British – including Scottish – companies, as an international sales and marketing manager focused on the Chinese market, has given the researcher extensive experiential knowledge of the issue of developing internationalisation networks between Scotland and China. Consequently, the researcher has been engaged in investigating a phenomenon partly-embedded in institutions that she has had long term experience and knowledge of. This is crucial in cross-national research and even more so in the context of China (Stening and Zhang 2007). Stening and Zhang (2007, p. 122) argue that:

“The extent to which a researcher will be affected by potential methodological problems will be heavily dependent on their familiarity with that nation or culture.”

The researcher’s personal experience and knowledge allowed her to overcome one of the regular concerns about research undertaken in China by non-native investigators, which
include the lack of cultural and linguistic knowledge about the environment in which the phenomenon of interest is embedded (Stenning and Zhang 2007). In this instance, this prior knowledge allowed the researcher to:

- Improve her legitimacy and credibility during data access negotiation and data collection
- Access and grow her personal networks in order to identify a sufficient number of appropriate\(^\text{20}\) potential case-studies
- Benefit from a more empathetic and refined understanding of the issues to be discussed during the interviews.

On the other hand, the researcher was careful not to let her own personal opinion of the process of internationalisation network development with China prejudice the data collection procedure through a continual effort at reflectivity in data collection and analysis. An Interview Guide (Appendix Five) was developed as a support tool to semi-structured interviews and was initially checked by the thesis’ supervisors. Open interview questions were favoured and participants were given a lot of freedom to take the topic of network development between Scotland and China in any direction they felt relevant. This was of particular importance given the ontology underlying the research and the aim towards an explanation of the causal mechanisms of the internationalisation network development process through the participants’ own perceptions. The researcher had to be particularly careful that the findings reflected participants’ experience of the phenomenon rather than the investigator’s pre-existing opinions; there is recognition however that researchers will always impact research findings, as they are participants themselves in the research process. Having explicitly discussed the ontological and epistemological aspects, and building on aspects related to the researcher’s potential impact on qualitative research, the next section will proceed to discuss the impact of cultural-cognitive differences between the researcher and the participants in the context of data collection and analysis across two separate institutional backgrounds.

5.6 The Issue of Cultural-cognitive Differences between Researcher and Participants in Data Collection and Analysis across Institutional Contexts

Due to the nature of the research question and the interest in informal institutions, and in particular cultural-cognitive ones, from the earliest stages of the research design, decision was made by the researcher to both collect and analyse data in the respondent’s native

\(^{20}\) Appropriate is defined here as cases demonstrating all of the pre-established required criteria.
tongue; in effect, data collection and analysis were conducted without having recourse to translation, i.e., in the original collection language.

For instance, when interviewing Chinese Alters and seeking their perspective on the network building process with Scotland’s network cluster, in order to explore the impact of home and host market institutions, it was essential that interviews should be mostly conducted in the actor’s native tongue, Mandarin Chinese. While most of the China-based respondents had fluency in the English language, it was necessary to retain the meaning connected to the respondents’ native language and avoid using the translation of Chinese data into English. The thesis’ treatment of language follows Chidlow et al (2014, p.563) and assumes that languages between two institutional contexts are asymmetrical or that:

“a word or concept may have a fundamentally different meaning in another language or be absent altogether.”

Accordingly, it was of particular importance for a piece of research concerned with the influence of informal institutions to retain the language of origin when collecting and analysing data.

Furthermore, the pitfalls of using translation in academic research are well known: translation creates distortions. Translating data should not be seen simply as a mechanical process but as (Holden and Michailova 2014, p.909):

“the conversion of meaning in one language into the frame of reference and grammatical system of another.”

Having said this, there is no perfect methodology for dealing with research in two different languages and across two different institutional frameworks. The narrow discussion of methodological alternatives related to cross-language research in the IB literature around translation issues (Chidlow et al 2014) meant that the investigator had to rely on extant knowledge from cross-cultural methodological papers. The challenges of cross-national investigations are already well documented (Harzing et al 2011; Holden and Michailova 2014; Obadia 2013; Stenning and Zhang 2007; Volk et al 2014) but the practice of a single bilingual investigator collecting data in two separate languages, without recourse to translation less so, with only a few occurrences (Chidlow et al 2014; Gamble 2006; Moore 2003) identified across the internationalisation literature. A review of extant knowledge of data collection and analysis in multiple cultural-cognitive frameworks is presented in the next subsection.
5.6.1 Data Collection and Analysis in Multiple Cultural-cognitive Frameworks: A Review of the Literature

Based on recent discussions from the cross-cultural management field and in relation to the validity of the research in terms of accuracy of language and meaning (Harzing et al. 2011; Holden and Michailova 2014; Stenning and Zhang 2007), the decision was taken to retain two separate native languages for data collection and analysis. The thesis concurs with Chidlow et al.’s (2014) assumption that languages are asymmetrical and produce - as well as transmit - meaning. As a result, translating from one language into another generates fundamental questions around the concept of equivalence at three separate levels: cognitive, pragmatic and linguistic. Cognitive equivalence is concerned with the transfer of meaning into another language’s frame of reference; pragmatic equivalence relates to contextual factors that influence – positively or negatively – the transfer of meaning from one language to another, while linguistic equivalence is focused on the selection of the appropriate semantic form or structure to offer the closest content of the original text into the translated version (Holden and Michailova 2014). The two main problems of translation lie with the common presence of ambiguity in the original language version and the issue of cultural interference or (Holden and Michailova 2014, p.910):

‘the tendency to be influenced by one’s own language and cultural background when producing a translation’.

As a result of translation, misconceptions can be easily introduced into the analysis of the data.

One alternative method for multi-lingual research is the recourse to ‘committee or team translations’ (Chidlow et al 2014, p.564) which has similarities to the approach followed herein, notwithstanding the fact that in the context of a doctoral thesis, the limitations of a single PhD researcher on a meagre budget brought its share of difficulties. Nonetheless, the decision to retain both English and Chinese languages for data collection and analysis came with multiple benefits, as well as some unexpected challenges: these are now described in section 5.6.2.

5.6.2 The Benefits and Challenges of Data Collection and Analysis in Participants’ Native Tongues by the Investigator

The ability of the researcher to collect data in the respondents’ native tongue, both in Scotland and China, proved an advantage, as it removed the need to translate data collected in Chinese at both collection and analysis stages: Chinese respondents were able to relay their thoughts freely and accurately, using native expressions and concepts that would have
been difficult to translate accurately into English. At the data analysis stage, the researcher was able to analyse the original text in all its richness, without the equivalence-related risks attached to data that has been translated. As informal institutions are highly context- and language-specific, being able to retain the native language for data analysis proved highly beneficial.

The occurrence of researchers collecting and/or analysing data in two separate languages, without having recourse to either separate native speakers in data collection - or translation at the data analysis phase - is still rare. The researcher could only identify a small number of papers where a single researcher had conducted research in multiple languages in the internationalisation literature (Gamble 2006; Moore 2003). Furthermore, only a single recent IB paper (Chidlow et al 2014) that discussed the issue of cross-language transnational research, and attempted to develop guidelines for this type of data treatment, was unearthed. As a result, the researcher had to extrapolate coping mechanisms from extant cross-cultural and China research guidelines (Stenning and Zhang 2007), in a heuristic fashion, in order to overcome – sometimes unexpected – data collection challenges. This is a methodological contribution of the thesis and the next section, building on Stening and Zhang (2007), summarises methodological learning issues from the conduct of research in China by a non-Chinese investigator, in a non-native tongue.

5.6.3 Methodological Learning about China-based Research by a Non-native Investigator

A. Interview-related Learning

Participants’ access and interview effectiveness

Data collection and access negotiation can be a challenge for non-native researchers in China (Stening and Zhang 2007). The initial introduction of the researcher to Chinese Alters by their Scottish Egos really helped with the process of negotiating access. Nonetheless, the researcher still had to spend significant amounts of time in China, over multiple trips, in order to build some preliminary trust and legitimacy with key respondents. The aim was to obtain participants’ agreement to the interview being recorded, without stifling key respondent’s behaviour and answers during the interview process. The investigator's experiential knowledge of Chinese institutions also helped break down barriers through appropriate social practices. Examples of such ‘ice-breaking’ activities were sharing food, explaining the focus of the research in a way that appealed to a Chinese audience and, what may appear surprising in a Western research context, the sharing of
personal private information such as discussing family status. Talking about the researcher’s prior interest in - and experience of - China before the interview also helped build a good rapport with Chinese respondents, who can be uncomfortable exchanging personal opinions and information with complete strangers (Stening and Zhang 2007). From a more practical perspective, the use of a small recorder positioned discreetly also helped make its presence less intrusive; it was observed that key respondents soon appeared to forget about the recording and relax into the interview. One participant actually enjoyed the interview so much that he kept talking to the researcher for more than three hours.

A further observation was that it was common for interviews in China to be interrupted by numerous phone calls and that these disruptions had to be taken into account when considering the time required for a research interview.

*Bias towards the use of English with a Caucasian investigator*

In the initial stages of data collection in China, the researcher failed to stipulate the use of the native language, Chinese, during interviews. Consequently, all Chinese respondents that were fluent in the English language made the instinctive decision to employ English in their first interview, even though the researcher had clarified that Mandarin Chinese could be used. When subsequently asked why they had made that decision, Chinese Alters either failed to account for their decision or mentioned that they felt that English should be used in the interview as the researcher was Caucasian.

Following that initial experience, the researcher clearly stipulated in all follow-up interviews that Mandarin Chinese should be used during the interview. Although most respondents complied (and in some cases, additional respondents in stage 2 of the interview could not speak English anyway), some interviewees often moved frequently between English and Chinese, repeating the same answer twice using each language. In effect, and in the case of native Chinese participants whose command of English was extremely good, resulting data was truly bilingual. One of the benefits of having bilingual data from the same respondents was the clear evidence of the loss of semantic depth when English was used as a medium, as well as the clear problem of inaccuracy due to poor cognitive equivalence (Holden and Michailova 2014). One single English word, ‘trust’, was used by Chinese respondents in replacement of a multitude of different Chinese semantic terms that referred to dissimilar forms of trust with complex varying connotations or nuances. Discussions around ‘network’ and ‘connection’ were difficult in Chinese due to the multiple meanings of ‘guanxi’ as network, connection and practice. The researcher
often had to clarify and dig deeper into what was meant by the respondents, when terms like ‘guanxi’ were used in the interview; as it happened, the same respondents often gave different meanings to guanxi during the same interview depending on the context. At times guanxi was understood as simply a connection, at other times it described the whole guanxi network of the interviewee, and it could sometimes refer to the corrupt practice of paying officials in order to obtain a favour. China-based interviews were a clear illustration of the dangers of translation (Chidlow et al 2014) or naive – and often non-native - researchers (Stening and Zhang 2007) conducting data collection in China. When conducting research in environments with multiple cognitive institutions and dealing with complex social concepts, one should question the value of translating data into English - or any other language - prior to conducting data analysis. Further discussion on the issue of translation in research is not the focus of this thesis; nonetheless, as this thesis will argue in its findings, access to knowledge in cross-border environments, may require not just cross-cultural teams but teams made of individuals that have extensive personal experience and institutional knowledge of the multiple environments under scrutiny.

Non-native investigator fatigue

Another challenge encountered when conducting interviews in China was an appropriate illustration of the findings of Volk et al (2014) with regard to cognitive fatigue. Volk et al (2014) used neuroscience techniques to research cognitive processes, highlighting the intra-individual effects that foreign language use has on non-native speakers. Their findings showed that the use of a foreign language by non-native speakers engendered significant fatigue on working memory, as well as the increased risk of heuristic errors in the decision-making process (Volk et al 2014).

In one instance during the data collection process, and due to the high cost and distance involved in interviewing multiple respondents from the same organisation in China, the researcher had to interview 6 separate participants, in Mandarin, over a single day. This turned into an exhausting session and the digital recording of the interviews proved a life- (and data-) saving procedure; much valuable data would have been lost without the post-interviews retained soundtrack of the exchanges. Although obtaining agreement about the digital recording of interviews from Chinese respondents can be challenging, it is essential in this context.

21 Non-native speakers were defined as individuals who had learned a foreign language after the age of five.
B. Data Treatment Learning

Data transcription and analysis in a foreign language: cultural-cognitive differences and the need for the involvement of Chinese collaborators

Analysing data in a foreign language, no matter how proficient in that language a researcher is, increases the risk of misinterpretation of what was meant by the participants as data is interpreted through the researcher’s own institutional filter (Stening and Zhang 2007). The issue of inaccurate understanding by researchers can be due to cultural-cognitive differences (Scott 2008) and is usually discussed in the context of the translation of interview data for analysis (Chidlow et al 2014; Harzing et al 2011; Holden and Michailova 2014; Stenning and Zhang 2007). The recommended strategy in order to improve accuracy, and by the same token the internal validity and reliability of the research (Yin 2014), is the involvement of collaborators who are native speakers of the foreign language, as well as highly cognisant of the local culture - in this case China (Stening and Zhang 2007) - throughout the data collection and analysis process.

While the lone PhD researcher does not have access to a collaborator as part of the research team, the increasing presence of PhD students from China in Scottish Universities offers a pool of more than willing participants. Two Chinese Politics PhD students, based in Scotland, were selected for their knowledge of both UK and Chinese institutions and their understanding of the academic research process. The two doctoral students were recruited from the initial stages of data collection through to data analysis. Those ‘external’ team members were able to check all Mandarin Chinese transcripts using the digital recordings available, as well as comment on the researcher’s understanding of the data through regular meetings and discussions as data analysis progressed. The presence of both English and Chinese data from key Chinese respondents in relation to concepts of interest such as ‘guanxi’ and ‘trust’, led to interesting exchanges about the differences in meaning between some very common English and Chinese concepts. These discussions went beyond the aim of this thesis however, but they re-affirmed the dangers of literally translating more abstract terms from one language to another. A critical implication of this practice however is that, even in the case of the involvement of Chinese collaborators to strengthen the interpretation of the collected data, it was important for the non-native researcher and the Chinese collaborators to have a thorough understanding of both the Scottish and Chinese institutions under discussion. Had the researcher had limited knowledge of China, or the native Chinese collaborators only limited knowledge of Western institutions, the depth of the exchanges between the researcher and her Chinese collaborators would not have been possible. The argument here is that cross-national
research should be conducted by teams where at least one of the researchers has dual knowledge of the institutions which are under focus, and preferably where two or more researchers fit that profile.

This observation leads to another important point: even native Chinese PhD students were prone to make mistakes in their transcription and interpretation of the digital recording of the Chinese interviews, due to their more limited knowledge of the overall case context. For that reason, it was essential that the researcher should keep track of changes and check again the amended transcripts as opposed to taking native collaborators’ corrections as necessarily correct. In case of doubt, extensive discussions of areas of disagreement also took place. Had the researcher not been bilingual herself, this process of ‘back-checking’ between researcher and collaborators would not have been possible.

Only after all transcripts had been checked back and forth - and interpretation of some of the less explicit meaning discussed - was the researcher able to finalise each within-case analysis.

Having discussed the issues surrounding research of the internationalisation network development of cross-institutional networks in China by a non-Chinese researcher, the more general aspects of data collection and analysis will now be described in section 5.7.

5.7 Data Collection and Analysis

Notwithstanding the cultural-cognitive challenges related in the previous section, data collection and analysis also proved extremely challenging from a resource perspective: travelling between Scotland and China represented a high cost both in financial and time-related terms.

5.7.1 Data Collection Process: Interviews, Participant Observation and Archival Data

Due to the nature of the research question, data collection proved an expensive and time-consuming exercise. Multiple respondents in both Scotland and China had to be interviewed, some on multiple occasions over a three year period covering 2011 to 2014. A large part of the data was collected through digitally recorded interviews, although in cases of participant observation, the researcher was only able to work from handwritten notes and post-meeting reports. In addition, archival data about each case study organisation was collected during the interview sessions, while publicly-available information about the case-study companies was also obtained through internet and media searches.
No research participant should suffer harm or prejudice as a result of being involved in a research study (DeLorme et al 2001; Greenwood 2015). In line with the University of Glasgow’s ethical approval guidelines, all information about the case-study firms was disguised and anonymised and informed consent (Appendixes Three and Four) was sought from all participants prior to interviews taking place and data being collected. In total, the researcher conducted more than 40 interviews or instances of participant observation over a period of 3 years (full interview schedule included as Appendix One); company brochures, press releases and web-based company information were also collected. Due to the nature of the research question, i.e., the process of internationalisation network development, interviews and participant observation were the most pertinent modes for data collection in order to build theory from the cases. Archival data was mostly used as support evidence and triangulation material. As discussed in section 5.6, interviews were collected both in English and Mandarin Chinese, as data was needed in the participant’s native tongue. The next section discusses the data analysis process and techniques.

5.7.2 Data Analysis

Methodology for data analysis was drawn from a combination of three key authors: George and Bennett (2005) for process analysis, Miles and Huberman (1994) for data displays and general analytical process and Welch et al (2011) and Yin (2014) for explanation building and replication logic through cross-case analysis.

One of the great challenges of qualitative data analysis is the sheer volume of rich context-based data to be managed and Miles and Huberman’s handbook (see Figure 5 below) was a welcome addition to George and Bennett (2005), Yin (2014) and Welch et al (2011), in order to tackle the more practical aspects of qualitative data analysis.
According to this model, data analysis involves three concurrent flows of activity: data reduction, data display and conclusion drawing/verification (Miles and Huberman 1994). Data reduction includes the process of selecting, transforming and abstracting the data in a way that allows for analysis and sense-making. This process was done by splitting the data – usually quotes from the participants – into categories drawn from the conceptual framework (Figure 4) in section 4.7. The quotes were then entered into an Access database table with links to interview transcripts and reference number. Data display organises the data in graphic form (tables, charts, matrices etc.) in order to facilitate the drawing of conclusions from the reduced data. Displays of the data were developed by drawing both from Miles and Huberman (1994) and George and Bennett (2005). George and Bennett’s (2005) approach concentrated on developing descriptive explanations of the case under study and turning them into analytical explanations by transforming the descriptive data into the analytical concepts and categories developed in the conceptual framework. Descriptive timelines and network structure diagrams, along with process tracing analytical charts are presented with each within case findings in the next Chapter. In addition, Yin (2014) advocates a dual approach of individual within-case analysis followed by cross-case analysis through replication logic. The initial within-case analysis having identified a specific pattern – or patterns - that may explain the outcome of the phenomenon under investigation, the researcher is then able to compare that first pattern to the one observed in
a separate case, and establish whether that predicted pattern fits the one observed in the second case. Yin’s (2014, p.145) argument is that by attempting ‘theoretical replication’ across cases, the investigator is able to ‘draw stronger conclusions’, as well as evaluate rival explanations as to how and why an outcome may have happened. Cross-case analysis tables are again presented with the cross-case findings in Chapter Seven (Table 14 for instance).

Finally, conclusion drawing happens throughout the research data process, from data collection to data display, as the researcher is attempting to create meaning from the information. Final conclusions however will only be reached after a process of continual verification and testing of the early findings, whereby the validity (plausibility, sturdiness) of the conclusions initially drawn are evaluated and tested by going back to the collected data (Miles and Huberman, 1994).

A. Within-case Data Analysis

Data Analysis and Coding during Data Collection

Due to geographical and access constraints, both in Scotland and China, interviews had to take place during multiple stages and visits. Besides, as key respondents (Egos and Alters) were interviewed more than once, a shallow first analysis of the interviews after each phase of data collection had to be conducted. Interviews were accordingly transcribed and the data was coded into categories of interest, in order to highlight emerging themes and allow the next phase of interviews to delve deeper into specific areas of interest (Miles and Huberman 1994; Yin 2014).

In order to present a time-sensitive display of the network development process, an initial timeline was drawn from the interview, highlighting key events chronologically. Subsequently, relevant units of interview data were categorised and assigned descriptive codes (first order codes) based on the research’s conceptual framework (Yin 2014) and entered into a specially developed Microsoft Access database. In order to guarantee traceability of the data, all quotes were linked to the interview, interviewee and interview transcript’s page. Typical first order codes followed categories highlighted through the conceptual framework, with labels such as Formal institutions (Home vs Host), Informal institutions (with sub-labels formal, cultural-cognitive and normative), Alter search, Alter identification, Ego and Alter characteristics, Ego and Alter roles, Network building, Network development, Information flows. The coded units of interview data, usually sentences, were then manually entered into the specially-created database. Queries and reports drawn from the database allowed coded data to be easily organised within specific
categories, as well as comparisons between respondents to be made around similar concepts or categories.

Data collection and analysis were intertwined in an iterative process throughout as advised by Miles and Huberman (1994). This procedure highlighted areas of interest or areas requiring further clarification and allowed increasing depth to be achieved in follow-up interviews. When attempting to identify causal mechanisms that led from event X to outcome Y, as required when process tracing a specific phenomenon (Georges and Bennett 2005), it is useful to be able to return to a respondent for a follow-up interview and probe further into emerging patterns; in addition, on that occasion, the understanding of - and inference from - the initial information collected by the researcher can also be checked with the interviewed actor, improving the research’s internal validity (Yin, 2014).

**In-depth data analysis: Emerging importance of time sequences in the process of network development**

After collection of a full case data was complete, a more in-depth analysis of all interview and archival data was conducted. Due to the presence of bilingual data in English and Mandarin, data analysis was done manually by arranging units of data in tables organised alongside three analytical levels: process over time, network structure and institutions over time and first order - or descriptive - codes. Process over time highlighted three clear stages of network development with regard to the number of new links and the speed of the development process: network creation, network building and network expansion/failure.

In order to study the key causal mechanisms at work within the process of internationalisation network development, the decision was made to create a separate process tracing chart and network structure graph (see Figures 6, 7, 8 and 9 for instance) for each network development stage. This was justified as differences in the way the network developed at distinct stages may be explained through dissimilar causal mechanisms or factors. Within each stage, the role of the categories described as first order codes were assessed through process tracing (George and Bennett 2005). Questions such as ‘how did the decision to internationalise to China led to the creation of the initial network connection’ highlighted the mechanisms (how) and factors (why) that had led from event A (decision to internationalise to China) to outcome B (identification of Chinese Alter). This procedure was carried out across the three separate stages of network creation, network building and network expansion/failure and led to the development of second order codes – or analytical concepts - (Yin 2014) such as ‘institutional consonance’ or ‘shared cultural-cognitive institutions’.
Network structure graphs and internationalisation network development process charts are included with the findings in Chapter Six. Throughout data analysis, emerging findings were continually matched back against the rich context-based interview data to ensure a close fit between the collected data, emerging causal explanation and developing network development process model, in an iterative process of verification (Miles and Huberman 1994). Once all three within-case analyses had been completed, the researcher was able to move to the next stage of analysis: cross-case analysis (Yin 2014).

**B. Cross-case Data Analysis**

Drawing from Yin’s (2014) technique of replication logic and Miles and Huberman’s (1994) analytical displays, cross-case tables that allowed the comparison of all three cases were developed for each stage of network development: Network Creation, Network Building and Network Expansion (see Tables 15 and 16 for instance). The patterns observed for each distinct case, at each stage of internationalisation network development, were compared across cases to decide whether the predicted pattern fitted the one observed in the second and third case. Attempting ‘theoretical replication’ across cases allowed the investigator to draw stronger conclusions by identifying and evaluating rival explanations (George and Bennett 2005) of how and why each step of the network development process could be traced and explained (Yin 2014).

In addition, the cross-case comparison of the process of internationalisation network development highlighted differences between the three cases that allowed the researcher to separate effective causal mechanisms from purely spurious ones (George and Bennett 2005). The comparison of the process and causal factors that led to successful network development against those whose outcome led to network failure also underlined key explanatory factors in network development across institutional borders. All cross-case analytical tables and data are presented and further discussed with the findings in Chapter Seven.

The next subsection will conclude section 5.7 by discussing research quality, leading to the methodology chapter conclusion (section 5.8).

**5.7.3 Research Quality: Validity and Reliability**

Yin (2014) describes four separate tests of research quality to be applied to any research design: construct validity, internal validity, external validity and reliability; these tests apply at different stages of the study. The research design was developed with rigorous
attention given to the quality of the methodology, from case selection to data collection and analysis. Table 8 below summarises research quality tactics and tests (Yin 2014).

**Table 8 - Case Study Tactics for Four Design Tests (Yin 2014, p.41)**

<table>
<thead>
<tr>
<th>TESTS</th>
<th>Case Study Tactic</th>
<th>Phase of research in which tactic occurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct validity</td>
<td>◆ Use multiple sources of evidence ◆ Establish chain of evidence ◆ Have key informants review draft case study report</td>
<td>Data collection Data collection Composition</td>
</tr>
<tr>
<td>Internal validity</td>
<td>◆ Do pattern matching ◆ Do explanation building ◆ Address rival explanation ◆ Use logic models</td>
<td>Data analysis Data analysis Data analysis Data analysis</td>
</tr>
<tr>
<td>External validity</td>
<td>◆ Use theory in single-case studies ◆ Use replication logic in multiple-case studies</td>
<td>Research design Research design</td>
</tr>
<tr>
<td>Reliability</td>
<td>◆ Use case study protocol ◆ Develop case study database</td>
<td>Data collection Data collection</td>
</tr>
</tbody>
</table>

**A. Triangulation (Construct Validity) and Reliability**

A research protocol was designed early in the thesis process, highlighting relevant extant theory, research gap and a broad research question, along with samples of the semi-structured interview guide describing the key questions related to data collection and the Observation Pro-forma (included as Appendixes Five and Six).

The researcher relied on multiple sources of evidence to draw conclusions from the analysis of the data. Interview data was collected from several key respondents within the same organisation and further supported through internet research and documents supplied by the companies (Yin 2014). Expert interviews of long time business and trade and government actors involved in the development of networks between Scotland and China were also carried out to strengthen - and sometimes refine or guide - the findings. The interviewed ‘experts’ were two native Chinese citizens, based in China and two British individuals, one based in China, one based in the United Kingdom.

Separately, site visits in both China and Scotland of Firms Alpha, Delta and Beta also took place before and at the time of the interviews and allowed the researcher to gather additional observations. Expert interview findings, along with a table listing all interviews and instances of participant observation, are attached as Appendix One and Two.
For ethical and practical reasons however, no case-study report was shared with the interviewee. As the raw data from the case-studies sometimes contained sensitive information shared with the researcher under the agreement of anonymity and confidentiality, on both sides of the Scotland-China network, there was a concern that sharing that information with respondents may lead to damages to some of the relationships between participating network actors or put the investigator in a difficult position. Instead, timelines and understanding drawn from the first set of interviews were checked with key respondents during the second phase of interviews. It was also noticed that, as the data collection took place over a long period of time, a number of Scotland-based respondents felt uncomfortable with some of the answers given during their earlier interview. A simple explanation may be that, as the respondents’ experiential knowledge of China increased, they may have felt that some of their initial responses had sounded naive or ignorant. Research participants should be treated sensitively and carefully by the researcher who has the moral and ethical obligation of avoiding any potential harm to study participants as a result of the research (DeLorme 2001; Greenwood 2015).

B. External and Internal Validity

The use of ‘replication logic’ in the cross-case comparison, along with the focus on how and why questions, strengthened the external validity of the research (Yin 2014). Ensuring internal validity was also critical in the context of this explanatory multiple-case study (Yin 2014): inferences had to be made on occasions where the relationship between the network development process and external factors, such as institutions, cannot be observed directly. The researcher had to ‘infer’, for instance, that the lack of host cognitive knowledge by Scottish respondents had limited their ability to learn about host formal institutions. In order to overcome this issue, the researcher used multiple tactics as recommended by Yin (2014) and George and Bennett (2005)²². One example was the conscious search for rival explanations when conducting process tracing analysis²³: alternative plausible factors were considered, and discarded only with evidence from the data. In addition, an effective case selection, based on rigorous criteria drawn from research objectives, allowed causal relationships to be distinguished from spurious ones. A ‘chain of evidence’ was established throughout the study as data collected was entered into a database that linked raw data (quotes) back to interview transcripts or emails (when appropriate) for each specific case, as well as referring to initial first order codes.

²² In his 2014 edition, Yin himself draws from George and Bennett’s 2004 handbook on Case Studies and Theory Development. This study refers to the later 2005 edition.
²³ Yin (2014) uses the term explanation building for that same analytical technique.
notes were also kept, although they were of limited use as most interviews were digitally
recorded and offered more comprehensive information about the research topic than the
notes. As a further tool in the chain of evidence, tables linking the data to the first and
second order categories were drawn during data analysis, alongside network process charts
for each case study at each stage of the analysis. Logic models (or process tracing charts)
were also developed, alongside the tables, and compared with the explanation being built.
Finally, boundary assumptions of the proposed causal explanation process model were
clarified and made explicit in the concluding chapter (Chapter Eight) of the thesis.

5.8 Conclusion: Research Design for the Study of the Process of
Internationalisation Network Development across Institutional Distance

Chapter Five has described the research methodology followed in this thesis. The nature of
the research question covering multiple institutional contexts, combined with the novel
approach of collecting and analysing data in two separate languages, led the researcher to
consider many methodological aspects when developing the research design; it was at
times necessary as well to draw from disciplines and methods outside of the usual
International Business literature. A complex research design and methodology,
summarised as Table 9 below, was the result of this endeavour (see Table 6 for a more
detailed description of the research methodology):

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative approach</td>
<td>Paucity of knowledge in the literature of a dynamic process where context is part of the explanation</td>
</tr>
<tr>
<td>Conjunctural causal explanation technique (Welch et al 2011) based on process tracing (George and Bennett 2005) and replication logic (Yin 2014)</td>
<td>The nature (process) and complexity of the phenomenon (importance of contextual factors)</td>
</tr>
<tr>
<td>Retrospective abductive and inductive analysis over time of two surprising cases and one variant case.</td>
<td>The requirement for evidence of success and failure outcomes in order to offer a causal explanation of the process over time The need for variance between cases in order to identify effective factors and eliminate of spurious ones from the causal explanation</td>
</tr>
</tbody>
</table>

Based on the research design, the process of SME internationalisation network
development across institutional distance was investigated, analysed, described and
conceptualised with key explanatory factors delineated. Chapter Six will now present the
within-case research findings that lead onto Chapter Seven and both the cross-case
research findings and the main contribution of the thesis: the causal explanation process model of SME internationalisation network development across institutional distance.
6.1. Introduction: the Ego-Alter Bridge as Key to the Internationalisation Network Development Process

Following the review of the internationalisation literature, the research aim was clarified as:

*How does the SME internationalisation network develop across institutional distance and why?*

An analytical framework was developed around the process of internationalisation network development across institutional distance by taking both a social network perspective and an institutional lens (Coviello 2006; Burt 2007; North 2009; Slotte-Kock and Coviello 2010). The research design drew from Welch et al.’s (2011) conjunctural causal explanation and Yin’s (2014) replication logic and investigated the phenomenon through the qualitative exploration of multiple (three) abductive and comparative case-studies that were analysed over time and retrospectively. What quickly emerged from the analysis of the data was the key role played by a Scottish Ego and a Chinese Alter in the SME internationalisation network development process across institutional distance. As a reminder, Burt’s (2011, p. 97) definition of ego and alter was:

“Let ego refer to the person being asked to trust. Alter is the person to be trusted.”

An important aspect of the internationalisation network development process was that the initial lack of relevant network actor between the Scottish and Chinese parts of the network, or between the case-study companies and China, resulted in the presence of a structural hole between the two sides (Burt 1995; 2011). As predicted by Burt (1995), the Scotland-based Ego had to resort to using a broker in order to identify an appropriate network connection, the China Alter, which would allow the SME to internationalise into the Chinese market. Interestingly, the initial broker was located in the home network in all three cases. The initial broker’s role was to identify a pool of potential Alters for Ego to select from. Once Alter had been identified, the initial broker was not needed anymore and a bridging mechanism between Ego and Alter, across the structural hole, allowed the Chinese internationalisation network to grow. Based on that early finding, three separate stages of network development that were common to all three cases were identified:

- Internationalisation Network Creation: Initial China Alter identification through home-based brokers and selection by Ego (tie identification and tie selection, no embedding in the conceptual research framework (Figure 4)
• Internationalisation Network Building: Ego’s and Alter’s relationship building allows the internationalisation network to develop slowly (tie retention and relational embedding in the conceptual research framework)

• Internationalisation Network Expansion/Failure: Continued relational and limited structural embedding around Ego and Alter permits a much faster expansion of the internationalisation network (tie retention, relational and structural embedding in the conceptual research framework).

Based around those three stages, a thorough within-case analysis was conducted for each firm - Alpha, Delta and Gamma – and findings for each case, along with representative data, are detailed in the next three sub-sections. In terms of presentation, the chapter is broadly structured as follows:

- A descriptive timeline, in the form of a table, summarises key events chronologically.
- A process-tracing chart highlighting conjunctural factors, and institutions-related factors more particularly.
- A diagram depicting the network structure and institutions underpinning the relationships (cognitive, normative and regulatory)
- Finally, a narrative, illustrated with quotes from the actual data and discussing the process first illustrated by the figures above, is offered.

The network structure diagram - integrating institutional factors - and the process-tracing chart offer an analytical display of the data around the internationalisation network development process. The aim is to clearly highlight conjunctural and institutional factors as recommended for process tracing and causal explanation analysis (George and Bennett 2005; Welch et al 2011). The conjunctural causal explanation that led from one step of the internationalisation network development process to the next is depicted through the diagram. This presentation format will be repeated for each network stage - Creation, Building and Expansion/Failure - and every single case-study - Alpha, Beta and Gamma.

Table 10 below (already displayed as Table 7 in the Methodology Chapter) summarises the three cases studies. Alpha, Delta and Beta network actors’ names have been replaced by pseudonyms with the case name, i.e. Alpha, followed by either a number (Alpha1) for Scotland-based actors or both a capital C and a number for participants based in China (AlphaC1). Alpha1/Delta1/Beta1 are also described as Ego in the network structure diagram, while AlphaC1/DeltaC1 and EpsilonC1 (in the case of Beta as Alter is external to Beta) are also Alter. The network relationship between Ego and Alter is described as the
bridging connection or dyad between the Scotland and China network clusters of the internationalisation network.

Table 10 - Alpha, Delta and Beta Case Studies Characteristics

<table>
<thead>
<tr>
<th>Pseudonym</th>
<th>Alpha</th>
<th>Delta</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year into China</strong></td>
<td>2005</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td><strong>Activity in China</strong></td>
<td>Sales Office Food and drink sector</td>
<td>Wholly-owned production facility of industrially engineered products</td>
<td>Distribution of life science products</td>
</tr>
<tr>
<td><strong>Actors interviewed</strong></td>
<td>2 UK-based key actors for China 2 key China network actors</td>
<td>2 UK-based key actors for China 7 key China network actors</td>
<td>2 UK-based key actors for China 3 key China actors</td>
</tr>
<tr>
<td><strong>Type of data collected and method of collection</strong></td>
<td>Interview data, archival data and company information</td>
<td>Interview data, limited participant information, archival data and company information</td>
<td>Interview data, extensive participant observation and archival data</td>
</tr>
<tr>
<td><strong>Outcome of the internationalisation network development process</strong></td>
<td>Success of internationalisation network</td>
<td>Success of internationalisation network</td>
<td>Failure of internationalisation network</td>
</tr>
</tbody>
</table>

Source: The Author
6.2 SME Internationalisation Network Development Process across Institutional Borders: Alpha

6.2.1 Introduction

Company Alpha is a Food sector SME with offices in Scotland, London and China, as well as production facilities in Scotland. All China-related activities are the responsibility of the Managing Director, Alpha1, who joined the company in 2004. While Alpha was initially contacted by their local Scottish Council with regard to a potential opportunity in China, that early occurrence did not lead to any subsequent network development activities. Instead, the main shareholder and owner of the company (Alpha0) decided that the company should become active in the market after watching a TV programme about China. Alpha0 then placed the responsibility of turning this initial decision into reality with the company’s Managing Director, Alpha1. Table 11 describes the key network development phases over time.

Table 11 - China Internationalisation Network Development Timeline Summary – Alpha

<table>
<thead>
<tr>
<th>NETWORK DEVELOPMENT PHASES</th>
<th>TIME</th>
<th>EVENT</th>
<th>OBSERVATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Creation</td>
<td>2004</td>
<td>Alpha1 joins Alpha</td>
<td>Had previous experience of Taiwan, Hong Kong and India</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>Alpha1 contacted by local Council about a potential China opportunity</td>
<td>Opportunity related to a large local Chinese state-owned enterprise (SOE)</td>
</tr>
<tr>
<td></td>
<td>early 2005</td>
<td>Alpha1 visits the Chinese SOE as part of a Greater China trip</td>
<td>Initial visit of SOE in China does not lead to any outcome</td>
</tr>
<tr>
<td></td>
<td>early 2005</td>
<td>Owner of Alpha/Alpha0 watches a TV programme about China.</td>
<td>Leads to his decision to have a presence in the Chinese market.</td>
</tr>
<tr>
<td></td>
<td>early 2005</td>
<td>Alpha1 approaches a number of home-based organisations.</td>
<td>Alpha1 selects a China-specialised trade organisation, Lambdaα, to get help and internationalise to the Chinese market.</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>Alpha1 visits the Beijing office of the trade organisation. Lambdaα China office advertises for a position with Alpha on their website.</td>
<td>Alpha1 wants to recruit a Chinese national to work for the company in China.</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>Alpha1 returns to Beijing to interview candidates.</td>
<td>Only a single candidate, AlphaC1 is deemed appropriate.</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>AlphaC1 is recruited to open a Shanghai sales subsidiary for the company.</td>
<td>Alpha1 disengages from Lambdaα as deemed ‘not needed any more’ but continues to pay for membership as a ‘safety net’.</td>
</tr>
<tr>
<td>Network building</td>
<td>2005</td>
<td>Alpha1 visits China about 6 times, 2 weeks at a time, while the new business is being set up.</td>
<td>Alpha’s sales subsidiary, AlphaC, is registered in China in late 2005. AlphaC1 quickly recruits an office assistant.</td>
</tr>
</tbody>
</table>

2004-2005 (From no network to Alter search and selection)
### 6.2.2 Alpha Internationalisation Development Process over Time

As discussed in the introduction, three separate network development stages have been identified, based on the speed and focus of network development:

- **Network Creation** starts in 2004, when Company Alpha first becomes interested in China; it finishes once Alter has been selected in 2005. During that phase, Alpha’s internationalisation network is moving from a situation of structural hole, with no access to Chinese internationalisation networks, to one where the structural hole has been bridged. Ego (Alpha1) has identified and recruited Alter (AlphaC1) through the mediation of a broker with China expertise and China-based offices, Organisation Lambdaα.

- **Network Building** begins with the set-up of the office in 2005 and finishes when the China-based organisation first becomes profitable. During that period, the network is slowly developing with new links being gradually formed, mostly between Alter and the China-based part of the network. The transfer of information and resources between the UK and China network clusters is conducted through the Ego-Alter bridging dyad.
- Improved performance from 2008 allows for a much faster development of the network in China and this stage is described as *Network Expansion*. This phase sees both a sharp increase in new network connections and a strengthening of extant relationships, as well as the creation of additional links between UK and China network actors that are internal to Organisation Alpha.

Having split network development into those three phases, each stage will be discussed in turn in order to highlight how and why key factors - and in particular institutions-related variables - did influence the process of SME internationalisation network development across institutional borders.

### 6.2.3 Internationalisation Network Creation: identifying and selecting Alter and the impact of institutions

#### A. Network Structure, Key Relationships and Institutions

The first diagram (Figure 6 below) describes the China internationalisation network structure at Network Creation stage and highlights the institutions-related governance underpinning the network relationships.

As discussed in the introduction, the initial *lack of relevant network actor* between the Scottish and Chinese parts of the network, or between Ego and China, was equivalent to a structural hole between the two sides (Burt 1995; 2011). As predicted by Burt (1995), Ego/Alpha1 had to resort to using a broker, Lambdaα, in order to identify an appropriate China Alter. As can be seen from the diagram however, this is where the institutional differences between both parts of the network created an additional layer of complexity: there had to be at least two brokers. One broker was a member of staff from Lambdaα, an organisation embedded in UK institutions, whereas the second broker was a member of staff from Lambdaα China’s office, embedded in Chinese institutions. The UK broker’s role was to allow access to the China-based broker, whose function was then to identify potential Alters able to develop an internationalisation network for Alpha.

Once Alpha1 (Ego) had selected AlphaC1 (Alter), the initial structural hole between the Scottish and Chinese networks could be bridged and additional network links, that permitted Alpha’s internationalisation to China, could start building from the initial Ego-Alter dyad. The key difference between the initial two brokers – Lambdaα/ Lambdaα China network actors – and Alter, was their function over time and the type of network actors they could access. In the context of the process of internationalisation network development into China by Alpha, Lambdaα brokers only allowed access to China-related
information and networks, on a short term basis, whereas Alter was required over the longer term, if Alpha was to internationalise effectively. While brokers allowed the formation of the initial bridge, their key function was to allow the identification of Alter, in order to form a *stable* connection across the structural hole.
Figure 6 - Alpha Internationalisation Network and Institutions- Network Creation Stage (2005)

UK network

Country

Alpha 0/Owner

Alpha1/Ego

Lambdaα (Broker organisation) staff

China network

Country

Lambdaα China Office staff

AlphaC1/Alter

Key

Actor with UK Institutions

Actor with China Institutions

Actor with dual institutions

Formal institutions- based relationship, UK informal institutions operating

Informal institutions- based relationship, UK informal institutions operating

Formal institutions- based relationship, Chinese informal institutions

Source: The Author
The next figure (Figure 7) describes the process by tracing a causal chain of events and highlighting explanatory factors (George and Bennett 2005; Welch et al 2011). The decision for Alpha, a manufacturer of Scottish food products, to internationalise to China, originated from two key separate events in 2004 and 2005. In 2004, Alpha1, the MD of the company was contacted by the local Council about an opportunity to supply a large state-owned Chinese manufacturer. Although Alpha1 subsequently visited the company in China, no business activity or China network contact was derived from the visit; this first encounter did have some impact however:

‘So anyway, I went to see them and I tried but did not get anywhere; and that's no big deal, that happens often when you're trying to do business but it did wet our appetite a little bit.’

The key factor for the decision to build a network with China happened in 2005. In Alpha’s words:

‘But the main driver, so that was a starter [the initial visit to China], the main driver though was the Chairman of Alpha. …he called me up one morning and he simply said to me: 'I was watching a programme about China last night; we've got to go there and be there'.

At the time this decision was made, Alpha had no existing and relevant network link to enable internationalisation to China and Alpha1 had to decide how to proceed next:

‘But then, when we decided we actually wanted to move into China, it was ‘where do we start?’'
Figure 7 - Alpha Internationalisation Network Creation: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Process

Institutions-related factors

Decision to internationalise to China following TV program

Lack of strategic planning

Alpha1 asked to 'just do it'

No local China network
Limited resources

Ask UK Broker Lambda and China Office for help

Lack of China institutional knowledge

Lack of functional (recruitment) expertise by broker
Limited resources

Lambda China Office identify a single suitable candidate

Scarcity of Chinese Nationals with Western institutional knowledge

Limited resources

Alpha1 select AlphaC1 to set up a China sales subsidiary

Lack of China institutional knowledge in UK network

Source: The Author
B. Identification of Alter: The Impact of Institutions on Alter’s Desired Characteristics

From the initial stages, Alpha1/Ego was keenly aware both of his lack of knowledge of Chinese institutions - formal and informal - and of the fact he wanted to recruit someone able to develop the China internationalisation network on his behalf. As a result of Ego’s knowledge limitations, he prioritized knowledge of Chinese institutions as a key criteria for the future Alter. Ego was looking to recruit a Chinese National who had relevant knowledge of the Chinese environment, in addition to the ability to access the appropriate networks, as Alpha itself had no network links in the Chinese food industry:

‘We always wanted a Chinese national and never considered an alternative. We wanted someone who knew the food business, who had operated in China, who spoke Chinese, Shanghainese, Mandarin, and who knew their way around[...] but it was really the food thing: we wanted someone who had contacts in the food’s industry.’

It was essential that the future Alter should speak English due to Alpha1’s lack of Chinese language knowledge:

‘They had to speak English for sure...’

Chinese formal institutions also influenced the type of market set-up the organisation had to select and the role that the future Alter would need to play within the structure. Alpha, as an organisation, did not necessarily set-up offices in all of their international markets but Ego felt that, due to Chinese regulatory and normative institutions, setting up an office in the market was necessary:

‘We have not set-up a company [in Thailand], because we did not need to, because India and China you need a company to make things happen, to import products and to have stock there and sell.[...] I think it’s an awful lot to do with the duty structure and the difficulties in operating in them.’

The alternative option of partnering with another firm was not considered due to the preference by the company’s owner, Alpha0, for a 100% control of the Chinese business. As Ego neither had any appropriate China-based network connections nor any knowledge of the recruitment process and practices in the host market, he initially looked in his home network for information as to how to identify potential candidates. He contacted Scotland-based trade organisations and quickly selected a specialised trade body with offices in China, Lambdaα, which offered to help with the identification of the desired candidate. Ego felt that the convenience of a one-stop organisation to manage the recruitment process in China was ideal and he looked no further:

‘we talked to Lambdaα, they sold themselves to me very quickly, you know, ‘we can help you do this, and we’ve got these facilities, we’ve got offices, when you start your business, you can implant people in, you know, we can give you secretarial services.’
Ego instructed Lambdaα to conduct the full organisation of the recruitment exercise in China on behalf of Alpha.

**C. Alter’s Selection: Institutional and Network Access Requirements Lead to Limited Choice**

The list of requirements, both institutions- and network access-related, along with the fact that Lambdaα’s expertise did not rest in recruitment in China, resulted in a small number of candidates being interviewed. Furthermore, out of the 10 pre-selected candidates, only a single one was deemed suitable by Ego:

‘The reality is they actually identified one candidate for us, and that was not great because, you know, there was no choice. […] at least he [AlphaC1] had some connections, but he had never been a salesman, he had never been an MD.’

Ego’s decision to use a home-based organisation in order to identify the future Chinese Alter appears to have limited his choice of potential candidates. Although Lambda has numerous offices in China, the organisation’s service offer is broad and focused on market knowledge, not recruitment. As a consequence, their recruitment process turned out to be relatively ineffective. Resource limitations, typical of a smaller firm, also played a part: it led Ego towards the least expensive option, while making him reluctant to extend the search further, even after a sole acceptable candidate had been identified:

*It would be fair to say, Alpha as a company does not like using consultants, does not like using agencies of any sort and so there is a kind of reluctance there. In my old company, which was reputedly much larger than this, I welcomed outside consultants regularly on projects…but anyway, at that point…*I knew the company didn’t like paying fees.*

As will be discussed in the next section on the network building stage, Alter’s lack of functional experience would prove both detrimental, as well as – somewhat surprisingly – beneficial to the later network development process. In any case, by the end of the recruitment process, Alter had been identified and offered the position of General Manager of the future Alpha’s Chinese sales subsidiary.

**6.2.4 Internationalisation Network Building: Ego’s and Alter’s Roles and the Impact of Institutions**

Once Alter had been identified and selected, the process of developing the China internationalisation network further could begin. Alpha China was set-up in less than a year (2005) and, as mentioned in the earlier section, the quick set-up period was followed by two very difficult years for Ego, Alter and the network development process:
'I have to say we got it completely wrong and we made mistakes in the first few years... [...] AlphaC1 was searching around for ‘how am I going to sell food? And we had a bad couple of years, very difficult for selling any product...’

The problems encountered by Alpha in China were partly due to Alter following a flawed strategy in order to sell the product in the host market. Alter’s lack of commercial experience—he was mostly involved in Marketing roles in his previous career—did not equip him with the right functional knowledge required by a General Manager’s position. His network was also related to his past marketing role, with a lack of customer-related connections. These limitations in Alter’s skills and competence did however have an unexpected benefit with regard to relationship-building between Ego and Alter, a benefit that was even more beneficial in the context of differing Scotland-China institutional frameworks. These aspects are elaborated on next.

A. Network Structure, Key Relationships and Institutions

Figure 8, below, displays the structure of the internationalisation network, which is expanding from the Ego-Alter dyad. Structural holes clearly remain between Ego and a large part of the China network, due to a lack of shared cognitive and normative institutions. Within the Scottish network cluster, network relationships’ key governance mechanism is based on formal institutions (contract); whereas within the Chinese network cluster, connections are mainly governed by informal institutions, such as normative rules of guanxi, renqing and trust discussed in Chapter Four24. Even when formal institutions do matter, in connection with government networks for instance, they have to be underpinned with informal practices to be effective. In AlphaC2’s words while discussing the tax authorities:

‘礼物, 然后么，经常要跟老师要保持一个沟通关系，电话要多打一下，那时间长了以后， 他觉得你们公司非常正规，可能是在避税方面他就会给与他指导性的建议。[Translation by The Author: Gifts, and, ...you must constantly preserve your communication channel with the official, you must call him often, and after a long period of time, if he feels your company really operates according to tax rules, he may make suggestions and offer guidance in relation to avoiding paying too much tax. ’

24 These Chinese informal institutions were discussed in section 4.5
Figure 8 - Alpha Internationalisation Network and Institutions- Network Building Stage (2008)

UK Network

Alpha0/Owner

Alpha1/Ego

Lambdaα UK staff

Accountants

China Network

AlphaC1/Alter GM

AlphaC2/Assistant GM

Lambdaα China Office staff

Ex-colleagues

Chinese Government

Warehouse Manager

Sales Team

Actor with UK institutions

Actor with China Institutions

Formal institutions-based relationship, UK informal institutions operating

Informal institutions-based relationship, UK informal institutions operating

Formal institutions-based relationship, Chinese informal institutions operating

Informal institutions-based relationship, Chinese informal institutions operating

Bridging connection

Key

Source: The Author
As can be seen from the structure of the network, the main connection between the UK and China network clusters is the Ego-Alter dyad. This dyadic connection is strengthened through the development of relational embedding between the two actors. There are no connections linking both Ego and Alter with additional network actors within the China network cluster and only one of minor importance within the UK network cluster (the accountants): structural embedding of the network is not happening. This is due to the lack of shared institutions as can be seen from the colour of the arrows between the two clusters. New network connections are limited and the network is building slowly.

The following process-tracing chart (Figure 9) describes the internationalisation network building stage by tracing a causal chain of events and explanatory factors (George and Bennett 2005; Welch, 2011) from the selection of Alter to the end of the first three years of development. Alpha China’s performance improving from loss-making to first profit from 2008 will signal the start of the next phase, Network Expansion, which will be covered in the next subsection.
Figure 9 - Alpha Internationalisation Network Building: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

**Conjunctural causal factors**

- Limited resources
- Limited resources Co-dependence Ego-Alter
- Selection of Alter by Ego
- Alter’s characteristics

- Influential network position (Ego) and Low functional experience (Alter)
- Low initial performance
- Ego’s personal characteristics

- Regular interaction Ego-Alter
- Ego’s network position

- Limited resources
- Ego-Alter are co-dependent

**Process**

- Alpha recruits Alter

- Alpha asks Alter to set up a China sales subsidiary
  - Reliance on Alter

- Ego and Alter ‘trust’ each other
  - Alter ‘translates’ and communicates Chinese institutions to Ego
  - Ego plays a role of ‘firewall’ and mentor

- Alter ‘translates’ and communicates Chinese institutions to Ego
  - Ego plays a role of ‘firewall’ and mentor

- Relational embedding Ego-Alter strengthens

- Reliance on Ego-Alter dyad increases
  - Internationalisation network only builds slowly

**Institutions-related factors**

- Lack of China institutional knowledge (Ego)
- Lack of China institutional knowledge (Ego)
- Contracts ineffective, Relationships matter more
- Lack of China institutional knowledge by Ego
- Alter as institutional hybrid
- UK-China conflicting institutions
- Institutional learning and harmony Ego-Alter
  - Alter has dual institutional knowledge
- Relational embedding Ego-Alter
  - Lack of knowledge of host informal institutions
- Chinese business normative practices require long term orientation

Source: The Author
B. Ensuring Network Stability: Ineffectiveness of Formal Institutions and Reliance on Relational Embedding

From the beginning, Alpha1 realised that relying on a contract to ensure network stability and protect Alpha against the risk of opportunism by Alter would be unrealistic; instead, building trust and loyalty with AlphaC1 was perceived as essential:

‘I mean the contract; it's more there for him [AlphaC1] than for us. When he joined the company, it was something nice for him to have; but it wouldn't help us. I mean, the thought of taking a law case out in China or something, forget it. [...] I mean, the guy in Hong Kong and the guy in Delhi and the guy in Bangkok as well; I mean if you can't trust these guys then it's a disaster; it cannot work…’

Accordingly, and from the start, Ego decided that, he would trust Alter; Alpha1’s trusting personality and his focus on relationships in business also facilitated the process:

‘I'm a trusting person. Luckily. The owners of Alpha are not, they're completely different from me. It takes them a long time to trust anyone but I reckoned this was a good guy...’

In order for trust to strengthen, Alpha1 maintained regular communication with AlphaC1 through Skype, as well as conducting regular visits to the market, especially in the early stages:

‘I was in China, probably 6 times over the next 12 months, maybe six or seven times, I'd go for two weeks at a time; and it was a combination of helping to get the business started, although AlphaC1 was brilliant.’

In social network terms, Ego relied on relational embedding - as opposed to contractual means - to govern the relationship with Alter and protect Alpha against the risk of opportunistic behaviour. Some of AlphaC1’s characteristics also helped with initial trust-building. For instance, Alpha1 was aware of AlphaC1’s prior position with a reputable Western multinational when he selected him:

‘...and he had been a relatively senior Marketing guy in Psi [big multinational]. He was the brand X, basically the brand X Marketing guy in Psi.’

Alpha1 also liked AlphaC1’s motivation and personality, which was made possible by the fact that Alpha1 had been responsible for the selection of Alter in the first place; so it was important that Ego himself had selected Alter, even if AlphaC1 was in the end deemed the only suitable candidate.

‘I liked his motives and I understood what he was trying, what he wanted to do. [...] and so I thought his motivation was good; but on a personal basis, we just got on really well. [...] And very quickly, yeah, that built up so I did trust him very early.’
C. Relational Embedding between Ego and Alter: The Role Played by Chinese Informal Institutions

For relational embedding to be effective, Alter had to develop feelings of trust and loyalty towards Ego. Building trust and loyalty with Alter was unexpectedly facilitated by the circumstances of Alter’s recruitment: Alter was desperate to return to Shanghai from Guangzhou in order to join his wife. As result, he felt indebted to Alpha1 for giving him the job of General Manager in Shanghai when he needed it most, and in spite of his lack of relevant experience:

“So, I want a GM [General Manager role]; nobody gave me a chance because you’re working for the luxury brand, your role is just with money, you have no any other value, so I was in a dilemma situation. [...] I’m a Buddhist, I just, you know, for the Buddhist guy is you should return, return, return... your favour. [...] So the only thing I want to do is thanks for Alpha1 give me this opportunity.’

This personal feeling of gratitude was underpinned with the Chinese norm of renqing25, itself further reinforced by the support Alter received from Ego, throughout the difficult first three years of the China subsidiary’s existence:

‘就是说，滴水之恩，涌泉相报. If I'm very thirsty, you give me just a water, a small water, I will always remember you. [...] Yes always... because sometimes I actually, in the first three years, I make a lot of mistakes... strategy-wise it's different and then which caused big loss for the company. Alpha1 has never any scold me; he knows I do very well, I do my best but there was some lesson. So he was very kind to me... I'm working for Alpha1 seven years; I think I will still working for Alpha1 because he is a very open boss. Very trustworthy.’

Ego’s ability to take a long term view and his openness to Chinese ways was in sharp contrast to Alter’s otherwise negative perception of Westerners:

‘Few Western people like Alpha1. So sometimes when he comes to China, we take him to very poor places but the food is very nice. We just have some noodles because I like, love some noodles. It's very cheap, just five renminbi. [...] ...just sit over the road, lots of dust and the chair is like so small, Alpha1 is very huge guy... because just like that, we have noodles together.’

In line with Chinese normative expectations, a warm and sociable personality was also deemed very important by AlphaC1 in order for the relationship to be viable:

‘I told Alpha1, you know, if he [Western Director from Alpha] was my boss, tomorrow I resign because I didn't have anything to complain for this guy, he's very professional, he thinks the Western ways, but I feel very cold. You know why I feel very cold? Because in Chinese we have the guanxi, is a mix with business... And social. If you 100% in the social way, you know, that's we like it.’

25 As a reminder renqing norms guide Chinese individuals in terms of returning favours done to them (section 4.5)
Again, Ego’s superior functional knowledge and constant support of Alter allowed him to take on the role of mentor that coincided with positive perceptions of ‘teachers’ in Chinese culture:

‘Obviously I support AlphaC1. I give him advice and help and information and guidance and education and these other things; but he does the business.’

It could be said that Ego’s behaviour with Alter was usually in harmony - as opposed to conflict – with Chinese normative expectations, albeit without Ego being necessarily aware of the fact. The close and positive relationship between Ego and Alter had a significant impact on the continued existence of the struggling China business in the first three difficult years. Ego was able to act as a ‘human firewall’ between Alter and the UK network; as a result, Alter’s indebtedness to Ego further deepened in a virtuous cycle of relational-embedding.

D. Ego’s Role as a Firewall between Alter and the UK Network: Differences in Informal Institutions between Scotland and China

AlphaC1 perceived Alpha1 as a type of ‘firewall’ between himself and the UK network.

‘So Alpha1 is also...sometimes it's a...firewall...so I always say Alpha1 gives me support. Filter. He gets the heat, so Alpha1 is a...let me feel very simple, so I can focus on business...’

This role is acknowledged by Alpha1 who describes himself as a ‘buffer’ between the UK and China network, thanks, in great part, to his senior role within the network and derived ability to make decisions:

‘I have to say for the first two or three years when we did start operating and we're posting losses every month, the owners got pretty difficult about it. And I kept saying to them: look, give it another three months, just back off... And I really did not mean that, it was give us another year or two but I just kept trying to push back, cause all we did was post losses for two to three years, so that was quite tricky.’

Without Ego playing that part within the network, there is a high chance that the bridging mechanism between the two sides of the network would have collapsed prematurely through the withdrawal, by the UK-based network actors, of the resources necessary to internationalisation network development in China. Both the UK actors’ lack of appreciation of the institutional environment at work in China and the often conflicting expectations created by differences in informal norms - differences that may not be easily reconciled - would have made Alter’s position quickly untenable.
E. Relational Embedding and Normative Institutional Tensions

Paradoxically, tensions linked to differences in normative behaviour between Scotland and China also reinforced both the need for - and the strength of - the relational embedding between Ego and Alter. On the one hand, institutional tensions would have been difficult to manage and overcome without deepening trust between Ego and Alter. When a disagreement occurred between Alpha1 and AlphaC1 on the appropriateness of paying tax in China for instance, Ego and Alter were able to conduct a very heated exchange without damage to their relationship [exchange related by Ego/Alpha1]:

‘He [AlphaC1] said: ‘Alpha1, we are the most stupid company ever. You buy invoices, you…’ I said: ‘You buy invoices? We're not buying invoices.’ [AlphaC1 replies] That’s what everybody does. [Alpha1 says] ‘I don't care! (Laughing). We're not doing it, we'll pay our tax.’ [AlphaC1 retorts] ‘We’re stupid.’”

On the other end, Alter’s respect and loyalty to Ego also deepened, thanks to Alpha1’s efforts to adapt and learn about Chinese informal institutions.

‘...without Alpha1 I don't think I can survive, I don't think I can stay at Alpha. […] I think Alpha1 really, really, special for the Western and I know a lot of Western people. So in terms of a business, a lot of the people I feel is cold; besides the money, besides the contract, besides the rules, there is nothing, nothing to talk about.’

When difficult situations arose and when sensitive or complex communication had to be exchanged between China and Scotland, Ego also acted as a sort of information filter between the UK network and Alter. In AlphaC1’s words:

‘He [Ego] gets the heat, so Alpha1 is a...let me feel very simple, so I can focus on business...actually if there's some communication with the, you know, Alpha0, very complicated, he just filters.

In Alpha1’s words:

‘So it comes through me, basically; it filters through me and I give them what they need.’

While Ego ‘filters’, Alter, thanks to his understanding of both home and host institutions as is able to both ‘translate’ and teach Chinese cognitive and normative institutions for the benefit of Ego:

Just like that, we have noodles together. We can share; I think few Western people like Alpha1 to do that but we are very happy, we enjoy. I just, that's why, you know, Alpha1 can accept some things, so I’m willing to share with Alpha1, that's the Chinese way to do that. You know the more we share together, the more...
Notwithstanding the above, Ego’s actual learning about Chinese formal and informal institutions remained limited as he fully relied on Alter to deal with all China-related aspects, as well as building China-based network connections:

‘Alpha1, you know, in the first few years he comes to China, he said: ‘AlphaC1, you know, I don’t think I have value, because […] every time I’ve been there, I’ve got nothing to do.’

Ego’s limited knowledge and learning of Chinese institutions, combined with his deepening relational embedding with Alter will prevent effective structural embedding of the network during the Network Expansion stage, which is discussed next.

6.2.5 Internationalisation Network Expansion: The Impact of Institutions on Relational and Structural Embedding

After three difficult years (2005 to 2007), a new commercial strategy was developed by Alter in cooperation with Ego; as a result, the subsidiary’s sales performance improved substantially. From being a loss-maker, the Chinese business started to become profitable towards the end of 2008. Alter’s continuous efforts to build relationships with customers also started to bear fruits as sufficient time had elapsed for trust to develop in the context of Chinese commercial network relationships. By 2012, the annual profit of the China sales operation reached Rmb3 million. By that stage, there was evidence that the relational embedding between Alpha1 and AlphaC1 had further strengthened. In AlphaC1’s words:

‘But Alpha1, if you see our conversation, although we are very professional, but sometimes Alpha1 treats me like a brother.’…because we're close, yeah, we're close.

Echoed by Alpha1’s:

‘And I [Ego] think he [Alter] knows how much it would damage me, so I don't think he would [leave me].’

While relational embedding between Ego and Alter was deepening further, new network links to China-based network actors were also developing much faster; as a result, the reliance on the Ego-Alter bridging dyad also increased, due to a lack of structural embedding as can be seen from the following diagram (Figure 10).

A. Network Structure, Key Relationships and Institutions

From a network structure perspective, loyalty to Alpha by AlphaC1 was also facilitated by AlphaC1’s sense of ownership and responsibility towards the company’s Chinese subsidiary, highlighting the importance of Alter’s network position within the China internationalisation network:
‘我觉得最重要一点 要把这个公司当做自己的公司来在盘。 [Translation by the author: I think it’s very important to pretty much manage this company as if it was your own].’

This sense of ownership would have been more precarious with the presence of an expatriate General Manager in the China network, and with Alter being ‘second-in-command’, as is often the case with Chinese subsidiaries of Western firms.

While the relational embedding of Ego and Alter was deepening, there were also attempts at embedding the network structurally, i.e. by creating parallel connections that linked both Ego and Alter with additional UK and China-based network actors. For instance, new connections developed between Alpha2 and AlphaC2, both also linked to Ego and Alter. Those connections removed the need for information between Alpha2 and AlphaC2 to travel through Ego or Alter. While it removed some control over that network cluster from Ego and Alter, it also reduced their workload and made the internationalisation network more efficient in terms of information transfer. The Alpha2/AlphaC2 connection was made possible following English language training for AlphaC2. As a result, her English improved enough to communicate in writing with some colleagues in the UK. Ego’s perspective is that:

‘[Reliance on AlphaC1] I’d say in the initial stages, completely. But now AlphaC2 in fact is extremely competent; she’s not a secretary, she’s much more rounded than that as well.[...] In fact, I have to say, as things have developed in China, AlphaC2 actually would be able to hold the fort if AlphaC1 wasn’t there.’

Although Ego now had two separate routes to access parts of the Chinese network - one via Alter and one via AlphaC2 - AlphaC2’s cognitive ability was limited to the written form; she also could not connect Alpha UK/Ego to Chinese customers. Accordingly, the restricted structural embedding of the network remained of limited benefit to the stability of Alpha’s China internationalisation network.
Figure 10 - Alpha Internationalisation Network and Institutions- Network Expansion Stage (2013)

**Alpha UK Network**
- Alpha0 - Owner
- Ego/Alpha1 - MD
- Alpha2 – Supply Chain Manager
- Accountants
- Lambdaα UK staff

**Alpha China Network**
- Alter/AlphaC1-GM
- AlphaC2-Assistant Manager
- Internal Alpha staff
- AlphaC3 Senior Sales Manager
- Lambdaα China staff
- Chinese Customers
- Chinese Government

Actor with UK institutions
Actor with China institutions
Actor with UK and China institutions

Formal institutions-based relationship, UK informal institutions operating
Formal institutions-based relationship, Chinese informal institutions operating
Informal institutions-based relationship, UK informal institutions operating
Informal institutions-based relationship, Chinese informal institutions operating

Bridging connection

Source: The Author
Separately, one of the earlier attempts by Ego at ensuring network stability had been the deliberate choice to retain his connection to the trade organisation, Lambda\(\alpha\), in order to create a ‘safety net’ in case of problems suddenly arising in China. This decision was made at the cost of £2,000 annually although Ego did not have much confidence in its effectiveness:

‘We still subscribe to this [Lambda\(\alpha\) organisation], absolutely, if there was some...I mean it would really have to be some catastrophe or something like that I wouldn't know what to do with.’

This connection was indeed of limited benefit to Alpha’s internationalisation network stability in China as key structural holes between Ego/Alpha UK actors and Chinese customers remained for instance. Looking at the network structure diagram (Figure 10 above), it is easy to see why: in the occurrence of a sudden withdrawal by Alter from the internationalisation network, it is unclear as to how Lambda\(\alpha\) could be of help, especially in the short term. The organisation is not connected to any part of the China network cluster.

The next diagram summarises the internationalisation network expansion process through a conjunctural causal explanation (George and Bennett 2005; Welch et al 2011) and is followed by an explanatory narrative.
Figure 11 - Alpha Internationalisation Network Expansion: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Process

Institutions-related factors

Alpha China becomes profitable (late 2008)

Respect for Chinese informal institutions (Ego)

Relational over-time
Long term Trust

Ego-Alter relational embedding strengthen

Lack of shared institutions
Institutional tension
English as shared language (AlphaC2)

Relational over-embeddedness of Ego-Alter dyad
Increased competence-based trust for Alter
Alter’s network position

Only limited structural embedding develops

Guanxi-based business norms (China)

Relationship-building over time
Focus on external network (Alter)

China internationalisation network expands faster

Lack of China institutional knowledge (Ego)
Institutional learning challenging

Relational over-embeddedness of Ego-Alter dyad

Alpha’s Reliance on Ego-Alter bridge increased

Network stability based on relational embedding Ego-Alter dyad

Relational over-embeddedness of Ego-Alter dyad

Source: The Author
Structural embedding of the network around Ego and Alter - i.e., the development of parallel network connections linking both Ego and Alter with additional UK and Chinese actors - would have been necessary to reduce the critical importance of the internationalisation bridging dyad and strengthen network stability over time. There were two key reasons why structural embedding remained limited: lack of shared informal institutions between the two network clusters (Scotland and China) and the relational over-embeddedness of the network around the Ego and Alter connection.

**B. The Impact of Institutions on Structural Embedding**

Structural embedding of the China network cluster was primarily limited by Ego’s lack of knowledge of Chinese cognitive institutions. A new Senior Sales Manager, AlphaC3, was appointed in the China office in 2012 for instance, but he did not speak English and had accordingly no direct contact with Alpha1.

‘But eventually he got someone. Only speaks Chinese and I don’t think he’ll ever do anything else.’

Furthermore, Alpha0 and Ego’s earlier attempt at directly recruiting a senior member of staff for Alpha China, during Alpha0 single visit to the market, failed: all the candidates pre-selected by Alter proved totally unsuitable for the position. Besides, in spite of English competency being one of the requirements on the advertisement for the position, none of the potential candidates spoke any English:

‘And these people, you know, stipulation: must speak English, you know, should have some experience in the food industry…so they come in, don’t speak any English, do not know what a [food product] is…’

Alter had full control of all network connections to Chinese customers, arguably some of the most valuable connections within the network, as they all were the result of Alter’s relationship-building work over the past 8 years. Ego’s lack of knowledge of cognitive institutions made building business relationships in China more than challenging as acknowledged by both AlphaC1 and Alpha1:

‘[When visiting Chinese customers] You know what Alpha1 doing? Alpha1 just sitting and watching all, watching or reading, plays with his i-phone.’

‘And I mean I [Alpha1] sit at these things and I don’t do very much because generally speaking they don’t speak English.’

Visits to Chinese customers by Ego were always conducted in company of Alter. Ego also had limited knowledge of both Chinese normative practices and regulatory environment, and this limited knowledge was compounded by his lack of Chinese language. More
interestingly, institutional tensions, i.e., Alpha1’s reluctance to get involved in some of the more ‘sensitive’ Chinese business practices that conflicted with Western expectations of acceptable behaviour, further increased Alpha’s reliance on Alter in China. Preference for cash transactions, the practice of double-invoicing or low Chinese salaries are examples of conflicting normative behaviour between China and Scotland:

‘Some of the people deal in what seems to be in large loads of cash, but I don’t get involved.[...]/I mean, he gets paid about 2 or 300 pounds a month, means nothing; I feel embarrassed but AlphaC1 says: ‘that’s the right amount to pay so don’t worry about it.’

Eight years after the set-up of the Chinese subsidiary, structural embedding around Alter remained limited, in large part due to the barriers created by the inability of Ego to operate within Chinese normative and cognitive institutions. This inability was due to both a lack of knowledge and some tension between what Alpha1 deemed appropriate practices and what was acceptable according to Chinese customs.

Furthermore, limited structural embedding around Ego and Alter appears to have solely benefitted Ego and Alter, not Alpha as a whole. Direct communication lines between Ego (Alpha1) and AlphaC2 (Office Manager) had removed the pressure on Alter to be involved with minor internal issues. In turn, AlphaC1 could better focus on expanding the external network (sales network), further strengthening his information and control benefits over Chinese customers, some of the most valuable - and difficult to replace - China internationalisation network ties. Likewise, direct lines of communication between Alter and Alpha2 (production and NPD Manager in Scotland) had relieved the pressure on Ego to be involved with non-important internal issues. Ego’s focus was again on external commercial ties rather than internal ones. This limited structural embedding of the internationalisation network did not reduce any of the control and information benefits that Ego and Alter profited from, within their respective parts of the network. Put simply, Alpha’s owners would find replacing either Ego or Alpha extremely difficult:

“And replacing me would be very difficult for them, and I'm not blowing my own trumpet here, just... And without me, you know, AlphaC1 and T. and S. in India and Bangkok...all of these, these are my relationships that have been built up and the family operates differently... So they would miss me, would miss AlphaC1 hugely, S. in India right now, would not miss him at all, T. in Bangkok, we'd miss him hugely because he's been with us for two years...”(Alpha1).

As Alpha’s internationalisation network kept increasing over time, so did Ego and Alter’s control and information benefits, and so did Alpha’s vulnerability to the withdrawal of either actor from the network.
Limitations to the structural embedding of Ego and Alter within the internationalisation network were further compounded by the over-embeddedness of their personal relationship. This issue is discussed in more detailed next.

**C. The Impact of Ego and Alter’s Relational Embedding on Structural Embedding**

There was evidence that relational embedding between Alpha1 and AlphaC1 also hindered efforts at structurally embedding Alter within the Chinese internationalisation network. Ego expressed concerns that Alter may perceive the company’s desire for additional China-based senior staff as a sign that Alter was not trusted by Alpha UK:

‘...and we kept saying to him: ‘Look AlphaC1, this is not because we don't want you, trust you or anything. You need more support.’

Alpha UK was also dependant on Alter’s agreement for additional China-based senior staff to be recruited and he resisted the move for a long period of time:

‘...and he just kept saying: Alpha1, forget it, we don't need someone like that.’

Eventually Alter relented but his new Senior Sales Manager, AlphaC3, did not speak any English, making direct network links between Ego or any other Alpha UK network actor - and AlphaC3 impossible. As a result, Alpha’s reliance on the Ego/Alter bridging dyad was likely to remain a reality for the foreseeable future. Ego was himself aware of Alpha’s vulnerability when considering his future retirement:

_and replacing me would be very difficult for them, and I'm not blowing my own trumpet here, just... [...] But at some point in the next five years, I will say to the company: 'you really want to start looking at someone coming in behind me for a few years'. I'm not saying I want to retire when I'm sixty-five if I'm healthy and fit and still enjoying it...

In addition, any attempt to replace Alter, especially at short notice, was likely to be even more challenging for Alpha. This was mostly due to Alpha UK’s lack of knowledge of both cultural-cognitive and normative Chinese institutions and to the continued lack of parallel network connections with China-based actors, 8 years after the set-up of Alpha China.

**6.2.6 Summary of Case Alpha Findings**

Alpha’s internationalisation network development into China can be split across three stages: Network Creation, Network Building and Network Expansion. Network Creation meant bridging the institutional structural hole between Alpha and China through the identification and selection of a Chinese Alter, often via a home-based broker. At Network
Building stage, the internationalisation network started developing slowly around the Ego-Alter dyad, with a focus on the relational embedding of the bridge connection. By Network Expansion, the network started to grow much faster, with some limited structural embedding and a deepening of the relational embedding of the Ego-Alter connection. Both Ego and Alter retained significant information and control benefits within their respective network clusters and the overall network was strongly reliant on the bridging dyad for ensuring network stability.

Differences in institutions impacted the process throughout:

- The lack of knowledge of Chinese institutions by Ego, Alpha’s Managing Director and decision-maker, meant that he was forced to use a home-based broker in order to identify and select a Chinese Alter, as well as prioritise knowledge of Chinese institutions as the main criteria in his selection of Alter.
- Ineffective formal (legal) institutions in China to safeguard the internationalisation network stability meant relying on relational embedding instead.
- A persistent lack of knowledge of host institutions by home network actors over time, due their inability to learn cultural-cognitive institutions meant permanent reliance on Alter to develop the China network cluster.

Surprisingly, differences in institutions were also shown to have positive effects on Ego and Alter’s relational embedding, through Ego’s harmonious behaviour with host normative expectations.

These findings will be discussed further in section 7.2 that covers cross-case findings. In the meantime, Delta’s findings are presented next in section 6.3.
6.3 SME Internationalisation Network Development Process across Institutional Borders: Delta

6.3.1 Introduction

Company Delta is a manufacturer of engineered products for the oil and gas industry, first established in Scotland in the 19th century. All China-related activities are the responsibility of the company’s Managing Director, Delta1, who is also a key shareholder of Delta. Before moving part of its manufacturing to China, the company was struggling to remain in business, due to its inability to compete successfully against powerful European competitors.

In 2006, Delta was given an ultimatum by one of their largest customers: in order for Delta to retain their supply contract, they had to start manufacturing in China. Delta was left with no choice but comply with the demand. Although the company was initially reluctant to move some of their production to China, the decision proved to be a life-saving and highly beneficial exercise. By the end of 2013, Delta was thriving, both in Scotland and China, having taken over a key market from some of their European competition, through the integration of their global network around two manufacturing centres: Scotland and China. Each centre represented 50% of Delta’s total profit. Table 12 below describes the three key network development phases over time.

<table>
<thead>
<tr>
<th>NETWORK DEVELOPMENT PHASES</th>
<th>TIME</th>
<th>EVENT</th>
<th>OBSERVATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-7 Network Creation (From no network to Alter selection)</td>
<td>Early 2006</td>
<td>Delta’s largest UK-based customer forces the company to set up manufacturing in China</td>
<td>Delta, on the verge of closing, has no choice but to start manufacturing in China and avoid losing their largest customer.</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>Delta1/Managing Director/Ego contacts SDI/SE and arranges to visit China on a fact-finding mission, with logistical support from SDI on the ground</td>
<td>Delta1 cannot make sense of the information he is given in relation to setting up manufacturing in China. He decides to search for a Chinese National in order to carry out a market evaluation and potentially represent Delta in China.</td>
</tr>
<tr>
<td></td>
<td>mid 2006</td>
<td>Delta1 contacts Scotland Networks International (SNI) to identify Chinese MBA graduates in Scotland</td>
<td>After two rounds of candidates are rejected, Alter is finally identified.</td>
</tr>
<tr>
<td></td>
<td>Late 2006</td>
<td>The potential Alter, DeltaC1, is offered a 6 months Chinese market evaluation project, based out of Scotland’s Head Office.</td>
<td>The intention is to both test DeltaC1 and ‘institutionalise’ him further into Scottish ways. Ego conducts a strategic and proactive relationship and loyalty-building exercise on Alter while Alter remains at the company in Scotland.</td>
</tr>
</tbody>
</table>
| Network building 2007-2008  
(from Alter’s recruitment to manufacturing subsidiary set-up, slow progress and establishment phase) | Jan-Mar 2007 | DeltaC1 conducts the market evaluation, regularly travelling to China, while being trained at the Head Office in Scotland. DeltaC1 requests the help of a close friend and classmate, DeltaC2. | DeltaC1 has little knowledge of the company’s sector of activity and no knowledge in relation to the company’s products or technical area. DeltaC1 and DeltaC2 share a long-term, close, trust-based relationship. DeltaC2 cannot speak English. |
| | Apr 2007 | DeltaC1/Alter is formally offered the position of General Manager of Delta China. | Delta’s intention was always to recruit DeltaC1 if the initial work experience proved satisfactory. |
| | May 2007 | Delta China is registered in municipality Z., within an Industrial Park Zone. | Alter formally recruits DeltaC2 as No. 2 of the Chinese structure; a third member of staff is subsequently recruited. |
| | September 2007 | Manufacturing equipment is shipped to China. Two Scottish technicians, one of them DeltaC3, are sent from the UK to help with equipment commissioning. | Alter is still flying back and forth between the UK and China. At the request of Alter, DeltaC3 eventually remains in China permanently. |
| | Late 2007–Early 2008 | The core administrative team and a small manufacturing team are recruited. | Staff numbers quickly go from 3 to 17. |
| | Early 2008 | Production starts. Ego and Alter visit the Chinese subsidiary of the large UK customer that initiated the move to China. The local managers refuse to purchase products from Delta China. | The large customer’s China subsidiary, the initial push factor for Delta to start manufacturing in China, never ever buys product from Delta China. |
| | Spring 2008 | Alter moves to China full time. | From then on, Alter only visits the UK once a year. |
| Network expansion 2012-2014  
(faster expansion after correct strategy identified) | 2009 | Ego makes frequent visits to China to support Alter in building relationships with Chinese raw material suppliers and China-based customers. | Ego and Alter focus on building close relationships with their China-based suppliers and customers. The signing of an exclusive agreement with a Chinese supplier of a key raw material eventually allows Delta to control the European market for the related product. |
| | 2009-2012 | Delta exports increase by 200% over three years. Ego and Alter re-organise their global network by integrating the Scotland and China manufacturing activities. | By 2012, China represents 50% of the overall profit of the company and manufacturing in China is perceived as the decision that saved Delta UK. |
| | 2012 | DeltaC3, a Scottish technician, initially sent from the UK, is moved from an expatriate to a local China contract. | Tension between Alter and Delta C3/Scottish Technical Director increases. |
| | 2012 | Decision is made to expand manufacturing in China and add a second manufacturing plant. | A new local Production Manager, DeltaC6, who only speaks Chinese, is recruited. |
| | Mid 2013 | An English company offers to buy Delta and visits the China site. | The purchase offer eventually falls through. |
Late 2013 | An agreement for Delta China to lease land and build its own manufacturing facility is reached with municipality Z’s local government. | Alter has lobbied from the start for Delta to build their own plant in China, as opposed to renting a production facility, as was the case until now.

2013 | The number of staff in China reach 130. | Delta China now directly oversees the Japanese market and Alter uses the loyalty-building model that was used by Ego with Delta China’s Japanese representative.

2013 | Delta UK sets up a subsidiary in India by following the same model as China in order to identify and select an Indian Alter. | The model is poorly replicated and the initial Alter selection is a failure. A separate Indian Alter has to be recruited to go and resolve serious problems in India.

2014 | Delta signs a manufacturing and distribution agreement with a separate Scottish company. | Delta China now also acts as a network broker into the Chinese market for other Scottish companies.

Source: The Author

6.3.2 Delta’s internationalisation development process over time

As was the case with Alpha, and as discussed in the chapter’s introduction, three separate network development stages were articulated around the speed and focus of network development:

- Network Creation starts in 2006 when Company Delta is forced to start manufacturing in China and ends once Alter (DeltaC1) has been identified and offered a six months’ China market evaluation project. This stage is focused on identifying a suitable network bridging actor in order to reach the relevant China internationalisation network connections for Delta to set-up manufacturing and internationalise successfully.

- Network Building commences when Alter begins work on the set-up of Delta China while based at Delta’s headquarters in Scotland; it finishes as the new Chinese structure starts production. During that period, network development is slow, with new connections being gradually added to the internationalisation network in China, around Alter.

- As production starts in 2008, Delta’s China internationalisation network starts to develop at a much faster pace; that phase is described as Network Expansion. Alter focuses on links external to the organisation, such as suppliers and customers, while his second in command, DeltaC2 is left in charge of network actors that are internal to Delta China. New connections between UK-based and China-based actors - internal to Delta as an organisation - develop and, in parallel, the existing network relationships between Ego and Alter, and between Alter and DeltaC2, strengthen.
Nonetheless there are signs that relational embedding between Ego and Alter may be under threat.

Each stage of network development will now be discussed in more depth.

6.3.3 Internationalisation Network Creation: Identifying and Selecting Alter and the Impact of Institutions

Delta’s decision to start manufacturing in China was instigated at the demand of one of the company’s largest customers, with the benefit of a guaranteed supply agreement for the future Chinese manufacturing subsidiary. That initial customer connection however did not give Delta access to Chinese networks or allow internationalisation into the Chinese market. As a matter of fact, Delta never even supplied their large customer’s Chinese subsidiary in the end. Unaware of this future development, the promise of a guaranteed customer in China led Delta to finally make what had felt like a daunting move. In Delta1’s words:

‘we had indecision rather than there was somebody saying we should not go to China. It was just an enormous thought’.

Ego’s first encounter with the Chinese market, on a fact-finding mission, opened his eyes to the challenges ahead:

‘We saw six different cities, very hard, were told different wage rates and it was very hard actually for us to form our own opinion on what we had been told’.

Even with the support on the ground of both the large, China-experienced, customer and of a Scottish Government’s trade organisation, making sense of the Chinese institutional environment proved difficult for Ego. He quickly decided that Delta would need a Chinese national in order to operate in China.

A. Network Structure, Key Relationships and Institutions

The network structure at network creation stage, as can be seen in the following diagram (Figure 12), clearly depicts a paradoxical but nonetheless successful bridging process: Ego both identified and selected his Chinese Alter within the home network of Scotland, using a home-based broker. This procedure differs from the process followed by Alpha where Ego had to travel to China to identify and select Alter. The wholly home-based process had two consequences:

- First, the pool of candidates proved extremely small, smaller even than in the case of Alpha, with a higher risk of failure to identify a suitable candidate. It could be argued that Delta/Ego were lucky to find their Alter in such a small population.
- On the other hand, Delta’s Alter had first-hand knowledge and experience of Scottish institutions through his significant, long-term exposure to Scottish culture, education and practices.

The fact that Alter was recruited in Scotland, as opposed to China, was to present clear benefits during the Network Building phase, with regard to both loyalty-building and the strength of his relationship to both Delta as an organisation and Ego.
Figure 12- Delta Internationalisation Network and Institutions - Network Creation Stage (2007)

Source: The Author
**B. Identification of Alter: The Impact of Institutions on Alter’s Desired Characteristics**

Delta1’s awareness of his lack of knowledge of Chinese institutions, be they formal or informal, along with his previous experience of operating in India, a very different environment from Britain, had sensitised him to the need for a local network actor to operate in China; in Ego’s view, employing a European in the Chinese market could only be done in parallel to having a native representative and would result in higher costs for the company:

> ‘The reason for that is that, particularly in China and India, actually, the culture is so totally different; I think that if you sent over a European person, they would still have to have a local, the next layer down, and then all you're doing is end up doubling up costs,…’

From the earliest stage however, Ego/Delta1 was clear about the fact that this local actor had to be well-versed in Scottish institutions as well, and particularly in Scottish informal institutions; Delta’s Chinese representative was expected to adopt a behaviour in line with Scottish norms as was later stressed by Delta1:

> And that's the key[…] with him, having enough Scottishness where we can, and we do, and we say, and even he has to force himself to say blunt things to me […] ‘And with DeltaC1, because he was in Glasgow for a year, we always say that we would do it the Scottish way…’

As access to networks and maturity or experience also mattered, Delta1 was looking for:

> ‘And also their own network, they'll build up very much faster I would think and they will probably start with one already. […] DeltaC1 was ex, before he did his MBA, he worked in customs in China; so he's got a very good mind-set with government, having worked in China…’

As with Alpha, the idea of partnering with an existing Chinese manufacturer or firm was not a favoured option as ‘… we were concerned about JVs’.

Figure 13 on the next page summarises the process by tracing a causal chain of events and explanatory factors (George and Bennett 2005; Welch et al 2011). It is accompanied by a detailed explanatory narrative, illustrated with representative quotations.
Figure 13 - Delta Internationalisation Network Creation: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Risk of bankruptcy and guaranteed initial customer

Lack of market knowledge
Lack of relevant internationalisation network

Process

Key customer demands China-based supply

Delta decides to set up manufacturing activities in China

Ego visits China for a market evaluation

Delta1 decides to ask a Chinese national to help with setting up Delta China

Delta1 asks Scottish organisation to find Chinese MBA student in Scotland

Scotland-based search

Delta1 interviews only two candidates

Delta1 selects DeltaC1

Institutions-related factors

Lack of institutional knowledge

Lack of institutional knowledge compounded by cognitive limitations Resource limitations/Cost

Requirement for dual home and host institutional knowledge

Requirement for dual home and host institutional knowledge

Superior home institutional knowledge

Source: The Author

The pre-requisite for the potential Alter led Delta1 to approach a home-based organisation to help him identify a potential Chinese network bridging actor. He accordingly contacted a Scottish organisation, SNI, specialised in the identification of international student graduates from Scottish Universities:

‘So then we decided we would employ, we got that through the Scottish Networks International. ...we went to them and they said yes, we've got Chinese who we have organised to come over and do an MBA and we can organise for you to do an interview with them.’

The small pool of candidates available in Scotland, allied with rather numerous requirements, meant that the brokering organisation had to organise two separate searches before two suitable individuals were identified. The two candidates were then interviewed by Ego: DeltaC1 was chosen to run the initial project for his superior knowledge of Scottish institutions:

‘The most significant difference was that DeltaC1 came over and was single and was in a flat in Glasgow and was still on his course I think[...], but he was exposed to English and Scottish culture. The other person we met was over with his wife, Chinese, and was clearly still much more Chinese.’

Consequently, Delta’s Alter was selected for his institutional rather than industry-related or technical knowledge. As was the case of Alpha’s Alter, this limitation would prove beneficial in relation to the subsequent relational embedding of the Ego/Alter connection in the second stage of network development. Alter’s selection signalled the beginning of the next stage of internationalisation network development for Delta: Network Building.

**6.3.4 Internationalisation Network Building: Ego and Alter’s Roles and the Impact of Institutions**

Once Alter had been selected, he was first given a short term contract based within Delta’s Head Office in Scotland, and asked to conduct a feasibility study of Delta’s Chinese subsidiary.

‘And when he went out to China, it was on the basis that the project might last only three months, four months, and then that would be the end.’

From the earliest stage of the search, Ego had clear objectives: he was planning to use that initial period in order to both train and test Alter. Over the next 12 months, as Alter travelled between China and Scotland, Ego pursued a highly strategic and pro-active loyalty-building exercise with Alter. This clear intent arose from Ego’s insistence that the desired Alter should have a significant understanding of Scottish institutions. Consequently,
Network Building was both focused on the further ‘institutionalisation’ of Alter into Scottish institutions and on the development of relational embedding between Ego and Alter.

In parallel, Alter’s lack of technical and product-related knowledge led to an intensive training programme in Scotland, which further allowed DeltaC1 to build useful connections with Scotland-based network colleagues, i.e., with Scottish actors located within the organisation. The next two subsections will discuss and explain the China internationalisation network building process in more detail.

A. Network Structure, Key Relationships and Institutions

Figure 14 below depicts the China internationalisation network structure and the institutions-related governance mechanisms of the key relationships. It clearly shows that Alter, as broker into the Chinese-based network cluster, has valuable information and control benefits over the Chinese network cluster. Due to their lack of knowledge of Chinese cultural-cognitive institutions and their reliance on Alter to develop the China internationalisation network, Ego and Delta have no linkages with Chinese suppliers, customers or government-related actors. The development of direct links between UK-based and China-based actors is inhibited by the lack of shared cognitive knowledge.

Alter’s direct relationships with numerous UK-based network ties, on the other hand, means that Alter’s reliance on Ego is less significant. These links were facilitated by Alter’s extended training period within the Scotland Head Office, when he was able to conduct regular face-to-face exchanges with many UK-based network actors and build connections. Alter also possesses the dual institutional knowledge that is necessary to form relationships across the UK-China internationalisation network.

Conversely, although located in China, the Scottish Technical Director (DeltaC3), is isolated from China-based network relationships because of his lack of knowledge of Mandarin Chinese and the absence of technical-related staff with knowledge of English. In addition, DeltaC3’s lack of knowledge of Chinese institutions and related institutional disharmony is creating tension with Alter, his key network connection in China. This lack of institutional fit is preventing relational-embedding between Alter and DeltaC3.
Figure 14 - Delta Internationalisation Network and Institutions- Network Building Stage (2008)

UK Network

- Home-based UK Trade organisations
- Delta0/Co-shareholder
- Global supply chain
- Delta UK colleagues
- Delta1/Ego
- UK MNE customer

China Network

- UK Trade Organisation China Office
- Delta1/Ego
- Sales Executive
- DeltaC1/Alter
- UK MNE customer China subsidiary
- DeltaC2/Director
- DeltaC3 Scottish technician
- Chinese Government
- Core Internal Staff
- China-based customers and suppliers

Source: The Author

Key

- Actor with UK institutions
- Actor with China Institutions
- Actor with UK and China institutions
- Formal institutions-based relationship, UK cognitive institutions operating
- Informal institutions-based relationship, UK cognitive institutions operating
- Formal institutions-based relationship, Chinese cognitive institutions operating
- Informal institutions-based relationship, Chinese cognitive institutions operating

Bridging connection
B. Ensuring Network Stability: Ineffectiveness of Formal Institutions and Reliance on Relational Embedding

From day one, Ego was keenly aware of the importance of the future Chinese Alter, and of the potential vulnerability of the Delta internationalisation network from a sudden withdrawal of Alter. Ego felt that formal institutions would be ineffective in ensuring network stability and protecting the company against opportunistic behaviour:

‘What we were signing is something whereby if it all goes wrong, could we lose the company? And the truth of it, my view on that is: if DeltaC1 wants to steal the company from us, he could do it anyway.’

As a result, and with cost-related factors in mind, Ego spent little time focusing on written legal documents and he did not invest in translating documents either:

‘I don't think a piece of paper would stop it. So I don't think it's worth spending enormous amount of time, because if it got translated, we know a lawyer here would then try and chop and change a lot of things…’

Instead Ego made it his priority to build and strengthen Alter’s loyalty to Delta - and to himself in the first instance, i.e. his focus was on relational embedding. Ego went to remarkable lengths to develop Alter’s loyalty to the company, even bringing Alter’s parents across from China on a Delta-paid visit of the UK; Ego’s concern was that the distance and differences in institutions would become a threat to Delta:

‘Otherwise they would just go native and you're actually not, you know, they're running a company without you in their mind.’

The significant amount of effort put towards loyalty-building was not missed by Alter himself:

‘So, some things they really spent a lot of effort and money on me or my family; so, I did get the loyalty thing.’

Nonetheless, when asked if the efforts had been successful, Alter candidly admitted that they had and that the fact he had been identified in Scotland, home-base of the company, had also been a positive factor:

‘从逻辑分析上没有太大的区别。但是从感觉归属上我是比较喜欢苏格兰人的，因为我在格拉斯哥读书，我认为那是我的第二个故乡。所以说感情上，有一种归属感。
[Translation by author: From a theoretical perspective, not much difference. But from a loyalty (sense of belonging) perspective, it means] I rather like Scottish people, because Glasgow is where I studied, I consider it my second home. So on an emotional level, I feel a sense of belonging.’

The next diagram (Figure 15) summarises Delta’s Internationalisation Network Building Process through a conjunctural causal explanation (George and Bennett 2005; Welch et al 2011).
Figure 15 – Delta Internationalisation Network Building: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Process

Institutions-related factors

Concern about opportunistic behaviour

Lack of host institutional knowledge within Delta UK

Ego asks Alter to conduct the China subsidiary evaluation project for Delta UK

Limited functional competence of Alter

Alter receives training in UK while setting-up Delta China

Alter’s initial location within the home network

Alter asks DeltaC2 for help in China and travels in and out of Scotland

Ego as mentor and training within Delta UK

Alter build connections with Delta UK actors and strengthen relationship with Ego

Regular face-to-face communication

Alter offered the role of General Manager of the future Delta China

Relational embedding Ego and Alter

Ego relies on Alter to build China internationalisation network

Resource limitations and relational embedding Ego-Alter

DeltaC3 sent to China with manufacturing equipment

Lack of technical knowledge (in China)

DeltaC3 isolated and Reliance on Alter increased

Perceived importance of home institutional embedding for future Delta China broker

Lack of host institutional knowledge in UK network

Knowledge of both UK and China institutions (Alter)

Lack of host institutional knowledge within Delta UK

Lack of host institutional knowledge in UK network

Lack of host institutional knowledge (UK actors)

Lack of host institutional knowledge and institutional disharmony

Source: The Author
C. Identification of Alter within the Home Network: Effect on Relational and Structural Embedding

The fact that Alter was identified within the home network, as opposed to the host network, appears to have had benefits. First of all, it meant that Alter had both an improved experience and a deeper understanding of Scottish informal institutions than if he had been identified in China; this was particularly the case since he was able to spend significant time at the company’s Head Office following graduation from his MBA. Ego used that opportunity to increase Alter’s familiarity with Scottish culture:

‘...like I go with Delta1's family to some Scottish traditional game, like running fast from the field down...the winner gets a big cheese. Do you know that one?’

It also created strong empathy between Alter and the Scottish company and facilitated the development of network relationships with multiple Scotland-based colleagues, supporting loyalty-building at both personal and organisational level. By extension, it enabled the structural embedding of the UK internationalisation network cluster around the Ego/Alter dyad:

‘They're all nice guys. And honestly, I like Scottish guys. They are natural [...] they are good. ’[When I get the training, of course I need involved with Finance...[...] Close working, I [am] close with the Directors; the Production Director which is Delta0[owner] himself I think, and the Financial Director Delta2, and all aspects I need to know as training for General manager in China.’

Thanks to the significant amount of time spent in Scotland in 2007 and 2008 and through getting technical training and experiencing Scottish institutions, both relational and structural embedding was able to take place.

D. Ego and Alter's Relational Embedding: The Role of Informal Institutions

Unbeknown to Ego, during the network building phase, his behaviour and role in relation to Alter tapped into positive Chinese institutional norms with respect to the role of teachers for instance. Alter’s lack of technical knowledge and industry sector experience meant that Ego had to act as mentor and teacher. In Alter’s words:

‘首先的说， 他是我的老师；因为我在苏格兰的时候， 我从格拉斯哥大学毕业的时候， 我对 [ 工程] 一点都不懂，因为我以前学的是法律， 管理。虽然是 MBA 但是我对 [工程] 一点都不懂。一点点都不懂。从那个时候，他。。。他就从零开始教我， 然后刚到中国来， 自己建立工厂。这段时间他当教师的成分很大。...所以我认为他很好。这是一个很关键的时候。’ [Translation by the Author: First, he is my teacher; because when I was in Scotland, after I graduated from Glasgow University, I understood nothing about engineering, because from the start I studied law, management. In spite of the MBA, I had no understanding of engineering, not even a tiny bit. From that time, he...So he taught me from scratch, then as soon as I arrived in China, I set up the factory myself. The effect this period
of time when he was my teacher had [on me] was significant….So I felt he is a very good person. This was a crucial period.]

我们中国人就认为老师是在我们生命当都是很重要的，都应该听老师的，这是我们中国文化当中一个很重要的成分；所以这个时间那段时间都是他在照顾和培训我，...[Translation by the author: Us, Chinese, consider that teachers are very important to our lives; we must always listen to teachers. In our Chinese culture, this is a very important principle; so it’s during that time, that particular time, that he looked after me and trained me,...]

The effect of Ego’s harmonious behaviour with host informal institutions helped strengthen relational embedding between himself and Alter. Accordingly, while loyalty-building was pursued both at organisational and personal levels, relational embedding was strongest at the level of the bridging dyad, i.e., between Ego and Alter. Ego was Alter’s direct report and most communication and interaction was conducted between the two network bridging actors:

‘And after I left Delta Scotland, to go to China to build up the Company in China, I mainly in contact with Delta1 because he’s the people I speak, report to and also talk about the daily business.’

When problems occurred, Ego acted as buffer: for instance, Alter found it easier to receive negative feedback from Delta Scotland if it was delivered by Ego:

‘...sometimes also [there have been] bad comments from Head Office to me but when Delta1 told me, I think okay, right, that’s fine, I’ll change that. If it was someone else I would feel unhappy: ‘get out of my door!’ So I think Delta is some kind of middle-size multinational company [...] but from this kind of, this style of company, the most important thing is the relation between the people in charge.’

On a less positive note, the strength of the relationship between Ego and Alter was to have a negative impact on the structural embedding of the China internationalisation network at network expansion stage.

6.3.5 Internationalisation Network Expansion: The Impact of Institutions on Relational and Structural Embedding

As production began at Delta China, the internationalisation network started to expand much faster in China; the whole of Delta’s global network was gradually restructured towards a greater integration of the Scotland, Chinese and global network clusters. In parallel, existing connections between Alter and Scotland-based network actors deepened and expanded. As a result, the importance of Ego, from Alter’s perspective, started to decrease over time. Conversely, reliance on Alter by both Ego and Delta UK increased, intensifying the vulnerability of Delta UK in relation to the China internationalisation network. Structural embedding of the Chinese network cluster was inhibited in great part
by the lack of shared institutions between network actors, as well as in some respect because of Ego and Alter’s relational embeddedness.

A. Network Structure, Key Relationships and Institutions

By 2013, and as can be seen on the network diagram below (Figure 16), Alter had multiple direct connections to UK-based and global network actors, whereas Ego had few connections to actors positioned within the China network cluster. This pattern was even more pronounced in relation to China-based network actors that were external to Delta China. Alter had direct connections to global customers and suppliers. Ego, on the other hand, was limited by his lack of Chinese informal institutional knowledge and unable to build direct links with Chinese customers and suppliers. Most information flows between UK network ties and Chinese external actors had to travel via Alter. This situation gave Alter significant information and control benefits, with reliance on Alter by Delta increasing over time, as each additional network connection was built in China. What the diagram does not show is that although Alter had direct connections with UK-based actors internal to Delta, these connections were weak ties and remained shallow due to the over-embeddedness of the network around the Ego-Alter bridging dyad. In effect, Ego retained control of information flows between China and the UK network. Finally, there was a clear clustering of the China internationalisation network around shared cognitive institutions: the lack of shared language acted as a barrier to information flows within the network.
Figure 16 - Delta Internationalisation Network and Institutions – Network Expansion Stage (2013)

Source: The Author
B. Structural Embedding of the Internationalisation Network: The Impact of Differences in Institutions and the Importance of Institutional Knowledge

Alter’s institutional knowledge of both Scottish and Chinese culture, along with his time spent at the head office had allowed him to build direct connections with Scotland-based network actors and reduce (somewhat) his reliance on Ego.

‘[if Ego not there anymore] I would be able to carry on but, as I said, the most important thing for this middle-size multinational company is the relation with people, people in charge.’

There was no structural embedding of the China network cluster however, in large part due to the lack of knowledge, by anyone within Delta UK, of Chinese institutions; as a result, Delta had become totally reliant on Alter for the development of the China internationalisation network. Besides, when Alter was setting-up the new China network, he had selected actors who had either limited or no knowledge of Scottish or UK institutions. His second in command, DeltaC2, an ex-classmate from his earlier days in a Chinese government college, who Alter fully trusted, spoke no English whatsoever. Alter remained Ego’s unique point of contact within the China-based network:

‘See DeltaC2 doesn’t speak good English, and he’s definitely DeltaC1’s right-hand man; my entire connection is with DeltaC1.’

What compounded the constraint of the network around the bridging connection was Ego’s egocentric view of the internationalisation network, which did not allow him to see the benefits, at the wider internationalisation network level, of developing structural embedding:

‘So there is no one else who I would communicate with, at all, in the company, even if they spoke English.’

There was a lack of recognition, by Ego, both of the importance of English skills among the China-based network actors and of the need to develop additional connections with China-based internationalisation network actors. When asked about the need for Delta China network actors to speak English, Delta1 replied:

‘So I think you would have to watch […]. You don’t want to employ people who speak English and actually are not good at their job. ’ […]Well no, we have DeltaC5 and DeltaC6, who are the key interaction with our customers and us, are okay in English. And other than that, it does not… DeltaC4, actually, it would be better if she spoke English, the accountant, but it’s better at their jobs for DeltaC1. You know, we’re not, I’m not speaking with… The ones who can speak English it’s better but it’s…the most important is that they can do the job properly. And English is an extra…”

Cost and convenience concerns—finding qualified staff with knowledge of Western institutions in China is expensive - made job-related functional skills the priority when
recruiting new China-based network actors. Institutional competence, such as mastering English, was considered of less importance. Delta2, the UK-based Finance Director who had to communicate regularly with DeltaC4, the Finance Manager based in China, admitted that the lack of shared cognitive institutions between himself and DeltaC4 came at a cost:

A question here which will take ten seconds to answer can be a five, ten, fifteen, twenty minute conversation; or not a conversation, a twenty minute slog, to try and get where we're going. so...it is difficult but we usually get there.

Nonetheless, discussion of the costs related to the lack of effective communication between both sides of the network, due to the absence of shared cognitive institutions, does not seem to have taken place.

There were also structural holes between Ego and China-based network actors who were external to the organisation, such as government actors, whose links were with Alter rather than Ego or Delta. Due to his lack of knowledge of Chinese informal institutions, Ego could only play a supportive role alongside Alter: he never, for instance, visited suppliers or customers without Alter by his side.

'Always with DeltaC1. We go to key European [customers in China], we go to suppliers, but I never go to any of them without DeltaC1.'

As a consequence, reliance on Alter increased with time, with both Ego and Alter fully aware of the fact:

'...and I see it in many ways as the more dangerous thing, you know, if he actually just left, we would have a mess.' [Ego]

'If one day, Delta Scotland send another people here, to replace me, that's big trouble. I am sure something wrong, not even one week; but I said before, if I disappear, or DeltaC2 [disappears] for one month, [the company] will self-run.' [Alter]

Had Ego been able to operate effectively within Chinese institutions, he could have built connections with additional China-based network actors which would have allowed him to structurally embed Alter in the network. Furthermore, the reliance on relational embedding between Ego and Alter during the network building stages had also inhibited Ego’s structural embedding activities: as Ego ‘trusted’ Alter, he showed no inclination to look for alternative methods of protecting Delta against either the withdrawal of Alter from the network, or against the risk of opportunistic behaviour by Alter. This point will be elaborated on next. First, the process-tracing chart (Figure 17) below summarises Delta’s Internationalisation Network Expansion Process through a conjunctural causal explanation (George and Bennett 2005; Welch et al 2011).
Figure 17 - Delta Internationalisation Network Expansion: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Process

Institutions-related factors

Focus on integrated global network

Scotland-China internationalisation network becomes more integrated

Knowledge of both home and host informal institutions

Increased functional experience

Alter develops direct connections across institutional contexts

Institutional tension and asymmetry of institutional knowledge

Selection of new China-based network actors focused on functional criteria

Alter starts acting more autonomously as reliance on Ego diminishes

Lack of shared institutions and institutional knowledge

Lack of structural embedding impact information flows

Ego is unable to structurally embed Alter within the China network

Lack of knowledge of host institutions

Lack of structural embedding

Ego questions the quality of information received from China

Lack of knowledge of host institutions by Delta UK

Over-embeddedness Ego-Alter connection

Delta's reliance on Alter and vulnerability increases

Cost concerns

Source: The Author
C. Impact of Ego and Alter’s Relational Embedding on Structural Embedding

Ego’s early emphasis on the use of relational embedding in order to protect Delta against opportunistic behaviour, along with a reluctance to duplicate roles, also appears to have had a detrimental effect on the possibility of structurally embedding the internationalisation network. In effect, the Ego-Alter network relationship had become over-embedded.

From the network creation’s stage, Ego’s awareness of the ineffectiveness of formal institutions in China (to protect Delta against either a sudden withdrawal of Alter from the internationalisation network or opportunistic behaviour) had switched his focus to relational embedding. Ego’s intention was to use trust and loyalty-building mechanisms in order to retain control over Alter’s behaviour and his sole focus was on strengthening his relationship with DeltaC1:

‘It's very difficult to do it [duplication] because, there's not a business position for that and I guess I feel quite safe with DeltaC1 so [...] it's more if he died or something happened to him that was out of his control and then DeltaC2 would hold the thing together...’

As seen during the network building stage, Ego also wanted to ensure that Alter was operating according to Scottish institutions, spending a lot of energy teaching Alter about Scottish culture:

‘Yes and I think [trust] is an important thing. Now say, we've just taken on a guy in India and we're seeing that we have to do the same but these people... Otherwise they would just go native and you're actually are not, you know, they're running a company without you in their mind.’

This perception by Ego that he could partly control Alter’s actions through trust, loyalty-building and cultural training, reduced the perceived need for alternative strategies, such as structurally embedding Alter within the internationalisation network.

Furthermore, concerns by Ego and other UK-based network actors not to upset Alter inhibited Delta’s ability to develop new (parallel) links between the China and UK network clusters. In order to retain Alter’s loyalty, for instance, Ego felt that Alter must occupy the highest position in the China-based network, as he was concerned that having Alter working underneath a European Manager would be perceived as demeaning:

‘One is cost, the other one is...it's slightly demeaning to the number 2, you know; are we really saying to DeltaC1 the only reason he's not General Manager is because he's not European? In which case, that's not a particularly good incentive. And I'm not sure then you would have the duration of employment that we’ve got you know; DeltaC1 is still there from day 1 and I don't expect him to go.’
Separately, direct connections between Alter and the remainder of the UK-based network could only remain shallow as regular communication between Alter and Delta UK remained the prerogative of Delta1:

‘我跟 Delta1 我几乎是每天都交流, 跟他们就一年, 有个一两次, 跟 Mike and Alan 就一年一两次.’ [Translation by the author: I communicate with Delta1 pretty much every day, with them [other Delta UK network actors], once or twice a year, with Delta0 and Delta2, twice a year. ]

This was also the perception of Delta2 who was aware of the closeness of the Ego–Alter tie and hesitated or even refrained from communicating directly with Alter:

*Generally I would go to Delta1 first, depending on the issue, because Delta1’s got a very good relationship with DeltaC1 and I don’t want to upset that.*

The awareness of the close relationship between Ego and Alter also inhibited information flows and communication between Alter and other Delta UK actors. Delta2, the Financial Director was wary about contacting Alter directly and would rather communicate with him through Ego:

*So I don’t want to be annoying DeltaC1 or asking DeltaC1 anything I shouldn’t be asking him, so, generally, I speak to Delta1 first. Sometimes, he’ll want to, depending on the issue, want to speak to DeltaC1 himself, and then come back to me.*

Delta2’s concern about ‘annoying’ Alter, just through carrying out the financial responsibilities of his position, is rather telling. Ego’s over-reliance on relational embedding had created an environment where Alter’s relationship with Ego had to be protected at all costs. As a result, information flows could not circulate freely within the China internationalisation network and tended to be under the control of the Ego–Alter bridging dyad.

Reliance on Alter was total and worsened by the absence of attention given by Ego - or Delta UK network actors - to learning about formal and cognitive Chinese institutions. After seven years in the market, Ego had no understanding of the host market formal institutions:

‘The employment law and that, and the details of that, I don't know, not at all. [...] And we definitely don't know the... What is legally required.’

After 8 years in China, Delta2, Delta Group’s Financial Director, had no knowledge of Chinese financial systems; although he had appointed auditors to oversee Chinese accounts, he agreed that a lot of his valuable time was wasted as a consequence of the lack of shared cognitive institutions with Delta China employees; Delta UK had no choice but heavily rely on trust when it came to financial reporting:
Oh, very definitely, very definitely. There's a lot of trust involved to get things done [...] I mean, quite literally, the screen opens up and it's full of Chinese characters and, you know, there's no way I can understand what's going on..

This inability to learn about key host institutions, and the full reliance on Alter to operate in the Chinese market, made Ego – and Delta – highly vulnerable.

**D. The Impact of the Lack of Structural Embedding of the China Internationalisation Network on the Ego-Alter Relational Embedding**

As a result of the lack of structural embedding around Alter within the Chinese network cluster, and paradoxically, trust between Ego and Alter also appeared to become fragile. One reason appears to be the paucity of information flowing from the network cluster back to Ego and Scotland. Information could only travel through Alter due to both the over-embeddedness of the network around the bridging dyad and the lack of shared cognitive institutions between actors on both sides of the bridge.

As the China internationalisation network expanded over time, Ego’s comments in a later interview started casting doubts as to how much he really trusted Alter:

‘I mean the only reason to send somebody from Europe out, or from Head Office out is: one because you don’t trust the people that are there or because you can’t find the quality there. And in the old days, maybe that was true but now, you know, Chinese and Indian MBAs much better qualified than the managers we are recruiting here.’

As argued within this thesis, and based on case-study data, trust is dynamic and must be nurtured; over time, both the lack of structural embedding and the lack of knowledge of Chinese institutions had an impact on information flows between home and host markets’ networks. Some unrequited and worrying feedback received from DeltaC3 may have compounded the problem and as a result Ego’s perception of ‘not knowing what is going on’ also started to damage relational embedding – or trust - between Ego and Alter. In a later interview, again, Ego sounds slightly more wary:

‘...what the European [...] person brings is trust back to the company and you know what is going on better, that's almost the only thing that they bring I feel.’

The implication of this quote is that a non-European, i.e., Alter, is not bringing the same amount of trust back to the company and that Ego did not feel he fully knew what was going on in China. Ego’s lack of knowledge of Chinese institutions and the lack of structural embedding around Alter limited information flows to the Ego-Alter dyad connection, further increasing Ego and Delta’s reliance on Alter in relation to the China internationalisation network. As time went on and as stakes and investment increased, this
was far from a comfortable situation for Delta as a whole, especially given the interconnectedness of the Delta global network. In parallel, there was also a noticeable change in the way Alter perceived his relationship with Ego. Although the relationship was still close and strong, Alter saw himself as more of an equal to his boss and mentor:

‘But it's difficult to see a clear relation between me and Delta1; generally-speaking we are very good, very close colleagues and friends. Very very closely. [...]In my feeling, he's not my boss but in my feeling, he's definitely a friend. And in some kind of view, when I supply something to Europe market, he's my salesman.’

It was also clear that Alter felt less reliant on DeltaC1:

‘[if Delta1 not there anymore] I would be able to carry on but, as I said, the most important thing for this middle-size multinational company is the relation people, people in charge.’

E. Network Stability through Relational Embedding: the Continued Importance of a Special ‘Ego’ Over Time

Nonetheless, trust-based relational embedding with a single key Scotland-based network actor - i.e., an ‘Ego’ - remained important for Alter: while, in theory, the current Ego could be replaced with a new one, the time required for effective relational-embedding of the new Ego would still make replacing him very challenging, especially at short notice:

‘...if Delta1 retired, that is something different which I haven't experienced; I don't know what would happen but it will be some kind of different (unclear). Maybe you get another guy and the other guy is also as good as Delta1; who knows? [Cause at the moment there is nobody that could be a second Delta1?] No, no, because nobody gets that chance. The first Delta1 is there... (laughing lightly)’

The initial failure of Delta India had also highlighted the key role played by a dedicated Ego in protecting Delta against opportunistic behaviour by Alter, especially in the early stages of network development, as explained by Delta1/Ego:

‘One of the key differences was that, when we took DeltaC1, it was the first time we had ever done it. I think I mentioned it to you, we would skype each other every single weekend, we were constantly talking and trust, and got to know him very well as a result of that. With India there were two things: one, it’s Delta subsidiary...I’m not involved with that part of the business, and we ended up with a bit of a no man’s land looking after the person. We have a General Manager in Delta Subsidiary who is not a Director of Delta, he is a technical person. ...and he was given the job of getting involved with the company set up; but the Director from here was not clearly defined and then it ended up dropping on myself; ...but I never was speaking to the guy, Delta1, never speaking to him every weekend like DeltaC1, so we never got that same bond.’

In addition, any future replacement Ego would have to be sensitive to - and in tune with - China’s normative institutions, as highlighted by Ego:
...and if you have someone who says 'I will look after China' but actually he's not interested in going into all the idiosyncrasies of their culture, you know, going out drinking, this sort of things, then he wouldn't be adding any value.

Should Ego disappear or leave the company at short notice, the future of the China internationalisation network would rely on the success of the relational embedding between a future ‘replacement’ Ego and Alter. Should Alter withdraw from the network however, the consequences, again highlighted by Ego, would be more dramatic:

‘I don’t think he [DeltaC1] would walk away and leave us in a lurch in the business; and I see it in many ways as the more dangerous thing, you know, if he actually just left, we would have a mess.’

Both Ego’s lack of knowledge of Chinese institutions and his relational embeddedness with Alter had inhibited his ability to create the necessary China links to reduce his reliance on Alter, and by extension, Delta’s reliance on Alter.

**F. Institutional Tensions: The Difficulty for a non-Chinese to Operate within a Chinese Institutional Environment**

The final finding from the study of Case Delta offered an insight in the difficulty for network actors shaped by non-Chinese institutions to operate within the Chinese network cluster, according to Chinese business practices and values. The sole Scottish network actor based in China, DeltaC3, who was originally appointed Technical Director for Delta China, was soon marginalised:

‘I report to…I think I'm supposed to be third, we call [it]. DeltaC1 is the boss, he's the General Manager; his assistant is DeltaC2 and then I'm the next level. [...] I'm only a Director here as a...In fact, it looks good on my business cards for Chinese guys to see in the meetings, that's all. When I first arrived, I'm a Director, a Technical Director, but I don't get to the Directors’ meeting, because I was told, you know, I don't really need to know what is going on financially and all that kind of stuff.’

Even Ego seemed dismissive of the role played by DeltaC3; the fact that his permanent stay in China had not been ‘planned’ in advance by Ego - or Delta UK - may explain the lack of strategic importance represented by DeltaC3:

‘DeltaC3 is unusual and it was not planned, it's happened; and it's a bone of contention a little bit with DeltaC1. ...it's good and nice to have, it's not an essential. So if he left tomorrow, I think we would just, we would say: well that's that. And we would not be taking on a new person.’

Alter partly attributed DeltaC3’s lack of Chinese institutional knowledge to his lack of effectiveness in the Chinese environment:
'And DeltaC3 is a Westerner; he is not...This one I said. If somebody can stand in the middle, then that’s okay. I don’t think DeltaC3 stands in the middle [...] Too far to the West. He is the West.'

There was evidence that the lack of institutional fit within the Chinese environment was indeed a source of tension and conflict between DeltaC3 and Alter. One example was DeltaC3’s annoyance at being treated like a Chinese member of staff:

‘I have no problem with him [Alter] being a step above me, he's the one who has the MBA, he's the one who's going to have the Doctorate, you know, I have nothing against that at all; but then, don't treat me the way you treat Chinese workers. Cause that's the problem I do have with, he treats me the same, I feel he treats me the same as he does to them and I will not cower down. I will have an opinion and I will tell him.’

DeltaC3 differed from Ego both in terms of network position and ability to adapt his behaviour harmoniously to Chinese institutions. As a result, tension between DeltaC1 and C3 grew, inhibiting the possibility of relational embedding between them and eventually increasing to overt conflict.

### 6.3.6 Summary of Case Delta Findings

Delta’s internationalisation network development into China can be split across three stages: Network Creation, Network Building and Network Expansion. Network Creation meant bridging the institutional structural hole between Alpha and China through the identification and selection of a Chinese Alter, at home, via a home-based broker. At Network Building stage, the internationalisation network started developing slowly around the Ego-Alter bridging dyad. By Network Expansion, the network started to develop much faster: some partial structural embedding was able to take place but the relational embedding of the additional connections was inhibited by the over-embeddedness of the network around the Ego-Alter bridging dyad.

As Alter’s reliance on Ego reduced, his network position strengthened along with his control benefits. As a result of this imbalance between Ego and Alter, and the lack of structural embedding that would allow information from China to travel independently of Alter, Ego’s position weakened and his trust in Alter started to suffer. The imbalance between clusters in terms of structural embedding also increased Alter’s control dramatically. The network was constrained (Burt 2011) around the Ego-Alter bridging connection.

Differences in institutions impacted the process throughout:
- The lack of knowledge of Chinese institutions by Ego, Delta’s Managing Director and decision-maker, meant that he decided to prioritise dual knowledge of Scottish and Chinese institutions as the main criteria in his selection of Alter.
- The awareness of the ineffectiveness of formal institutions in China to safeguard the internationalisation network stability led him to rely on strategic relational embedding instead.
- A lack of shared institutions between Scotland-based and China-based network actors, compounded by concerns about cost and an emphasis on relational embedding between Ego and Alter also prevented the structural embedding of the Chinese network cluster. The internationalisation network had become over-reliant on Alter.

Surprisingly, over-reliance on Alter appeared to lead Ego, in a sort of feedback effect, to question the quality of the information he was receiving in China and consequently the trust he had in Alter. As a result, over-reliance on Alter, over time, seemed to threaten relational embedding between Ego and Alter.

These findings will be discussed further in section 7.2 that covers cross-case findings. First, Beta’s findings are presented next in section 6.4.
6.4 SME Internationalisation Network Development Process across Institutional Borders: Beta

6.4.1 Introduction

Company Beta is a life science SME with a small manufacturing base in Scotland. The company was formed in 2008 with distribution networks across Europe and North America. By the time the company was identified by the researcher in 2011, and the Chief Executive Officer (CEO) (Beta1) interviewed, the initial Chinese co-founder (Beta0) had left the company. As a result, all China-related activities had become the responsibility of Beta1. China was identified as a key market by Beta0 from inception and the failure of Beta to internationalise into the market can partly explain why the firm was placed into administration in 2014. Table 13 below summarises the development of the China internationalisation network.

Table 13 - China Internationalisation Network Development Timeline Summary – Beta

<table>
<thead>
<tr>
<th>NETWORK DEVELOPMENT PHASES</th>
<th>TIME</th>
<th>EVENT</th>
<th>OBSERVATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Creation 2008-2009 (From no network to Alter search and selection)</td>
<td>January 2008</td>
<td>Beta1 founds Beta in the UK with a Chinese co-founder, Beta0, an R&amp;D scientist and previous colleague.</td>
<td>Beta0, who is Chinese, identifies China as a key market for their products.</td>
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<td></td>
<td>January 2008</td>
<td>Beta joins a technology incubator programme. Beta1 is connected to support networks, including a local home trade organisation.</td>
<td>Decision is made to exhibit at a Trade Fair in South China.</td>
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<td></td>
<td>April 2008</td>
<td>Beta0 and Beta1 visit China for a week and exhibit at a Trade Fair in South China. On day 1 of the trade fair, Beta1 meets EpsilonC1, the senior manager of a branch of a state-owned Chinese importer and distributor of life science products, Epsilon. Other Chinese distributors show interest in the product but are swiftly rejected.</td>
<td>Beta0 is away visiting family and relations in a different location at that time. Beta1 agrees to help EpsilonC1 during the trade fair in relation to interactions with a German firm, Qi, at the fair. Due diligence of all potential distributors for the product is carried out in China over a week.</td>
</tr>
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<td></td>
<td>May-October 2008</td>
<td>On-going interactions and discussions between Beta0 and EpsilonC1. In parallel, Beta1 continues to help EpsilonC1 with Qi and eventually brokers a formal agreement as Qi’s agent in China.</td>
<td>EpsilonC1 generally asks for Beta1’s help in relation to non-Chinese firms. Beta0, who has knowledge of Chinese cultural-cognitive institutions handles most of the communication with EpsilonC.</td>
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<td></td>
<td>November 2008</td>
<td>Beta0 and I meet EpsilonC1 at a trade fair in Germany. EpsilonC1 notices that there are strong disagreements between Beta0 and Beta1 on the future of Beta.</td>
<td>From thereon, EpsilonC1 decides to communicate with both actors simultaneously. Beta1 is unaware of EpsilonC1’s perception.</td>
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<td></td>
<td>January-April 2009</td>
<td>Beta0 and EpsilonC1 continue to discuss the possibility of Epsilon becoming the exclusive distributor for Beta’s product in China.</td>
<td>Beta0 remains the main contact and carries out most of the visits to China, with Beta1 only visiting once every six months.</td>
</tr>
<tr>
<td>Date Range</td>
<td>Event Description</td>
<td>Notes</td>
<td></td>
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<tr>
<td>April to August 2009</td>
<td>After Beta fails to raise the expected finance from investors, Beta0 loses interest in Beta and gets another job. As a result, decision is made by Beta’s board to start proceedings to remove Beta0 from the company.</td>
<td>Beta1 is forced to take over most of the communication with EpsilonC1.</td>
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<tr>
<td>August to November 2009</td>
<td>In the run-up to sign the distribution agreement, the number of visits by Beta1 to China increases.</td>
<td>Due both to EpsilonC1’s limited English and increasing workload, EpsilonC2, who has good English skills, is recruited.</td>
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<tr>
<td>December 2009</td>
<td>Beta and EpsilonC sign an exclusive distribution agreement for Beta’s products, covering Hong Kong, China and Vietnam.</td>
<td>Shortly after the agreement is signed, Beta0 officially leaves the company and Beta1 remains the sole contact for EpsilonC1 and C2.</td>
<td></td>
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<tr>
<td>January 2010</td>
<td>Following the signature of the agreement, work towards obtaining regulatory approval is initiated in China. Approval is expected to happen within 12 to 18 months.</td>
<td>EpsilonC2 is in charge of registration and becomes the main point of contact for Beta1. EpsilonC1 is also described as ‘too busy’ to deal with Beta1.</td>
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<tr>
<td>January-October 2010</td>
<td>Beta1 visits China on multiple occasions to assist and support EpsilonC with the registration of the company’s products. In addition, he uses the branch of a UK trade organisation in China to try and identify Chinese suppliers of components for his products, distributors for a product manufactured by a separate European company and potential investors for Beta.</td>
<td>Beta1 is successful in sourcing new suppliers in China but less so with finding distributors or investors. Beta1 blames the lack of quality of the network connections of the trade organisation’s Chinese staff. In parallel, Beta1’s brokerage activities between EpsilonC and the German company, Qi, continues.</td>
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<tr>
<td>November 2010</td>
<td>During a visit to a Trade Fair in Germany, EpsilonC1 requests Beta1’s help in his dealings with a South-African company, Mu.</td>
<td>Beta1 ends up signing an agency agreement with Mu, although EpsilonC1 and C2 are not aware of the fact at the time.</td>
<td></td>
</tr>
<tr>
<td>Network building 2010-2011 (from Alter’s selection to regulatory approval)</td>
<td>Beta1 and EpsilonC’s interaction continues both with regard to Beta’s product registration and Beta1’s brokering activities with Qi and Mu. While awaiting regulatory approval in China, EpsilonC1 plans to launch Beta’s product in Hong Kong through a local distributor. He suggests Beta1 visits Hong Kong in the summer to meet and train the potential distributor.</td>
<td>The relationship between Beta1 and EpsilonC1 becomes closer (they are now calling each other’s ‘brother’).</td>
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<tr>
<td>January-June 2011</td>
<td>Beta1 and his wife visit Hong Kong and China on the occasion of the signing of a distribution agreement between Epsilon and Mu. Beta1 fails to meet any Hong Kong distributor during his visit.</td>
<td>Beta1 is very optimistic about the future sales of his product in China and expects registration to be approved very soon. Beta1 is given an excuse (which he accepts) by EpsilonC1 as to why he failed to meet any distributor in Hong Kong.</td>
<td></td>
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<tr>
<td>Autumn 2011</td>
<td>EpsilonC1 requests Beta1’s assistance with negotiations with a US company, Pi. Pi is not interested in dealing with EpsilonC and this has dire financial consequences for EpsilonC. Expected timing for regulatory approval of Beta’s product is not met and problems with some of the technical documents supplied by Beta start to appear. Communication between Beta1 and EpsilonC2/C1 becomes difficult and confused at times. A new junior member of staff, EpsilonC3 is made responsible for the communication with Beta and the regulatory work on Beta’s product. Beta1 is uncomfortable at some of the behaviour exhibited by EpsilonC1 in the context of his negotiations with Pi. He is also getting frustrated with the lack of progress in relation to regulatory approval for his products. Conversely, in the context of getting regulatory approval, EpsilonC1, C2 and C3 have been having concerns with some of the technical information received from Beta1 but have failed to clearly communicate their concerns to Beta1.</td>
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<tr>
<td>October 2011</td>
<td>Beta1 declines to help EpsilonC1 further with Pi. Through a chance encounter, Beta1 meets a China consultant in the UK, Beta2, and asks Beta2’s opinion as to the situation with Beta’s product in China. Beta2 agrees to join, as an observer, Beta1 on a visit to a trade fair in Germany where he is to meet EpsilonC1, C2 and C3. Beta1 is getting increasingly frustrated by the lack of progress and is unclear about the reasons behind the delay. He hopes Beta2’s knowledge can help him work out what is going on. Separately, and following numerous problems during the registration process, EpsilonC1 and C2 have come to the conclusion that Beta’s product is of average quality. They decide to delay the launch of the product in Hong Kong to give time to Beta to improve quality. They again fail to tell Beta1 of that decision for fear of Beta1 ‘losing face’.</td>
<td></td>
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<tr>
<td>November 2011</td>
<td>Beta1 and Beta2 visit the trade fair in Germany, also attended by EpsilonC1, C2 and C3. Beta1 puts pressure on Epsilon to meet at the fair to discuss progress and launch plan. Beta2 mostly acts as observer during the meeting and notices problems with the relationship between Beta1 and EpsilonC1 and C2. EpsilonC3 is present at the Fair but does not take part in the meeting.</td>
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<tr>
<td>December 2011-March 2012</td>
<td>The relationship starts to break down. Some angry emails are exchanged between EpsilonC3 and Beta1 when Beta1 fails to supply documents required for regulatory approval. In comparison to previous months, little communication and no interaction takes place between Beta and Epsilon. Beta1 has lost confidence in Epsilon as a competent distributor for his product in China. In turn, EpsilonC1 and C2 have lost confidence in the quality of the product.</td>
<td></td>
<td></td>
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<tr>
<td>April 2012</td>
<td>Beta1 is horrified to learn that a competitive product has achieved regulatory approval ahead of Beta’s in China. Beta1 (erroneously) believes that the competitive product’s regulatory process in China was started after Beta’s application.</td>
<td></td>
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<tr>
<td>May 2012</td>
<td>Beta1 and EpsilonC1/C2 exchange heated messages. Evidence that both parties are angry at each other.</td>
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<tr>
<td>June 2012</td>
<td>Beta1 gives EpsilonC1 an ultimatum in relation to obtaining results with regard to regulatory approval. Beta1 threatens to withdraw from the relationship. There is no reply from EpsilonC1.</td>
<td></td>
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</tbody>
</table>

Source: the Author
6.4.2 Beta’s Internationalisation Network Development Process Over Time

Based on the above summary, three separate network development phases were identified:

- Network Creation starts with the company’s inception and ends when Beta0 and Beta1 meet the future China distributor, Epsilon C1.
- Network Building begins with the signature of the distribution agreement between Beta and Epsilon, as Beta0 unexpectedly departs the company, leaving Beta1 solely in charge of the China internationalisation network development.
- Network Failure commences as Beta1 starts to question the competence of Epsilon with regard to the registration and distribution of his product in the Chinese market, while Epsilon also begins to doubt the product’s quality.

Each network development phase will now be discussed in more detail in the next three subsections.

6.4.3 Internationalisation Network Creation: Identifying and Selecting Alter and the Impact of Institutions

The decision by Beta, a life science SME, to internationalise to China was made from inception as Beta0, one of the two Beta’s co-founders, was Chinese and responsible for product development. From the earliest stages, he identified China as a key market for the company’s product, as related by Beta1:

‘We had an idea for a product [...] and we had, in particular, specified China; and because my partner in starting the company was Chinese. I mean, from the product inception, we talked about the market in China; and then, from the first trade show, we showed up with Chinese stands and literature, we did presentations…’

A. Network Structure, Key Relationships and Institutions

Figure 18 below shows the structure of Beta’s internationalisation network creation in 2008, before the departure of Beta0.
Figure 18 - Beta Internationalisation Network and Institutions (2008) – Network Creation Stage

UK network

Beta0/Ego0 R&D Partner

Beta1/Ego1 CEO

German Company Qi

Home Trade Organisation Account holder

Trade Fair

Family, friends and acquaintances

EpsilonC1/Alter

Other distributors

China network

Actor with UK Institutions

Actor with China Institutions

Actor with dual institutions

Event

Formal institutions-based relationship, UK cognitive institutions operating

Informal institutions-based relationship, UK cognitive institutions operating

Formal institutions-based relationship, Chinese cognitive institutions operating

Informal institutions-based relationship, Chinese cognitive institutions operating

Key

Bridging connection

Source: The Author
As described on the network creation diagram (Figure 18), it was via a trade fair in South China that Alter was identified. Although Beta0, the initial co-owner of Beta was Chinese, Beta still turned to a Scotland-based trade organisation in order to identify network access into the Chinese market. This decision was partly due to the type of product (life science) and partly due to the fact that Beta0 had no relevant China-based network connections in relation to the company’s internationalisation. In other words, the fact that Beta0 was Chinese and had personal connections within the Chinese market proved not to be a guarantee that his connections were appropriate to allow the internationalisation of Beta’s products into the market. As a matter of fact, Beta0’s connections proved useless in that context.

The trade fair was selected on the advice of the Scotland-based trade organisation and Beta was connected through an incubator program. The search and identification of a distributor through a serendipitous overseas trade fair (Evers and Knight 2008) is a pattern that was not unusual in relation to SMEs. Although the choice of fair proved poor, due to questionable advice from the home-based trade organisation, it still led to encounters with a small number of potential distributors:

‘And at the CMEF, it was all electronics and we stood out like a sore thumb, I tell you that. And there wasn’t a lot of customers that came to us because we were more [biotechnology] and they were more ‘hard devices […] But the ones who did come to speak to us knew really well what we were doing.’

Among the companies showing an interest in Beta’s products were a number of local distributors, including representatives of a large state-owned pharmaceutical distribution company, EpsilonC:

‘Well, the only kind of stuff is when we went to the CMEF we met, well we met a number of companies. And some of them fizzled out. Now, so there was four or five companies in different parts of China that we met but the big one was Epsilon.’

During the initial discussions with EpsilonC1, Alter’s limited knowledge of UK-related institutions did not allow him to communicate effectively with Beta1. Instead Ego0 (or Beta0), who was located within the UK network cluster of the newly formed China internationalisation network, had to handle most of the communication.

The departure of Beta0 from the network, just as the distribution contract with Epsilon was being signed, would leave Beta1 solely in charge of Network Building, discussed in section 6.4.4.

The next chart (Figure 19) summarises the conjunctural and institutional factors that explain Beta’s internationalisation network creation process and is followed by a detailed narrative with illustrative quotations.
Figure 19 - Beta Internationalisation Network Creation: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Process

Institutional Factors

Beta0 identifies China as a key market

Beta0 and 1 attend a Chinese Trade Fair

No relevant China internationalisation network

Beta1 meets and helps EpsilonC1 on day 1 of Fair

Serendipity

EpsilonC1 wants to help Beta distribute its product in China

Brokage by Beta1

Other contenders for China distribution dismissed

Quick evaluation on rational criteria (size, fit for product) for Beta

Epsilon Guangzhou and Beta sign a distribution agreement for China

Inadvertent congruence with host informal institutions

Failure to raise expected finance and diverging objectives

Epsilon Guangzhou and Beta sign a distribution agreement for China

‘Honesty’ perception based on informal normative expectations

Beta0 leaves Beta

Loss of host institutional knowledge by Beta

Beta1 remains sole Ego for China internationalisation network

Source: The Author
B. Alter’s Characteristics: Differences in Institutions not Considered

In order to develop internationalisation networks in China, what Beta0 and Beta1 were looking for was not a suitable individual Alter: they were looking for an organisation, i.e., a suitable distributor for their product in the market. Factors linked to differences in institutions were not considered; what mattered was that the potential partner company was reputable and financially strong:

‘Well, they had a good size office, they had a team, you know, I guess you are looking, you are doing the diligence exercise, aren’t you? The requirements are: you want to see a company, you want to see their logos on the front door, or you want to see, you know, they’ve got a car and they’re driving you in and they’ve got secretaries and business people and, you know, these types of things.’

A relatively large organisational size was seen as a positive sign:

...when we went to the CMEF we met, well, we met a number of companies. And some of them fizzled out. Now, so there was four or five companies in different parts of China that we met, but the big one was Epsilon.

There were a number of reasons for the lack of consideration given to institutional differences. As a start, Beta0 was Chinese and Beta1 relied on Beta0’s knowledge of Chinese institutions to handle communication and manage activities related to the Chinese market:

‘No I think the key one for China, in this stage you are at [2008], was Beta0. [...] he was driving it. He was Chinese you know...’

Besides, Beta1 had no knowledge or experience of China or any other emerging market prior to entering the market:

‘I mean I knew nothing, I studied nothing of China.’

Beta1 saw China as just another market with identical challenges to the USA or Europe, such as obtaining regulatory approval and managing the supply chain:

‘So we knew that, we knew that there were going to be challenges; I think the bigger challenge that we knew would come about would be regulatory, which is all about the registration process of your product within China. [...] obviously there are many challenges in the supply chain. Getting the product in and getting the sale, but then getting the second sale and continuing to build that relationship.’

When asked in 2012 how he would approach the US market, in comparison to China, Beta1 replied:

‘I think if I looked at the US, I’m going to do the same approach as I have done in China. So it’s going to be a huge market, 10 trips, get to really know the customers and everything. [...]So, if I was to approach the US compared to China, I, I don’t think it would be any different.’
Beta0 on the other hand, although Chinese, was an R&D scientist with no commercial experience. His network was science-related, research-focused and local government-oriented.

Having encountered a number of interested distributors, Beta0 and Beta1 wasted no time in selecting an organisation to distribute their product in China.

**C. Alter Selection: Fast Evaluation and Process of Elimination**

While the initial criteria for the company to be selected were of an organisational nature, once the evaluation and selection process began, factors of a more personal nature also influenced the final decision. EpsilonC1, a senior executive of EpsilonC, the South China branch of a large state-owned company (Epsilon Sino) met Beta1 on the first day of the trade fair, while Beta0 was away from the fair, meeting personal connections. EpsilonC1 had a limited command of English and little knowledge of Western business practices. He asked Beta1 for his help in discussions with a foreign exhibitor and Beta1 was happy to oblige. Unbeknown to Beta1, due to his lack of knowledge of Chinese normative institutions, his eagerness to help EpsilonC1 tapped into Chinese norms of renqing\(^{26}\), creating positive feelings of trust between himself and the Chinese manager:

> ‘就是说，因为他帮助了我，所以我觉得他是一个，是一个。。。帮助了我的人，我觉得他是一个值得信赖的人，我们可以开始合作.’ [Translation by the author: ‘So, because he helped me, I felt he was, he was...I think that someone who helps me is someone that can be trusted, we can start collaborating.’]

EpsilonC1’s personal characteristics, developed through a traditional Chinese education, contributed to the early development of relational embedding between himself and Beta1:

> ‘那么，传统教育，我的父亲在传统教育，教育我一件事情，就是说：你帮了人家，你一定要回报人家。你帮了别人，你需要忘掉这件事情。叫施惠勿念，授思莫忘。所以呢，因为我是授这种传统教育影响的，所以呢，他帮了我以后，我觉得一定要更多的，更多的要回报给他.’ [translation by the author: ‘Well, in [Chinese] traditional education, my father taught me one thing: if other people help you, you must return the favour. If you help other people [however], you should forget that they helped you. It’s called: ‘do not make a fuss of the charity you give but never forget the charity you receive’ (Chinese proverb). So, because I was influenced by this traditional upbringing, after he helped me, I feel I must return the favour a hundred times.’]

Following the meetings with several distributors at the trade fair, Beta0 and Beta1 conducted a quick evaluation of 4 or 5 contenders, within a week, with little time to obtain

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\(^{26}\) Again, as a reminder, renqing norms guide Chinese individuals in terms of returning favours done to them (section 4.5)
reliable information, or make decisions based on a thoroughly-researched understanding of the companies involved:

‘...I think we did it all within the week [...] We went the last day of the show, we didn’t even go to the show, we just went up to Guangdong with EpsilonC1. Then, from there, we went back down to Shenzhen and also we went to...then we went to...cancelled Beijing and went up to Shanghai and saw the guys in Shanghai.’

Besides, Beta1 felt that EpsilonC1 appeared to be the most honest out of the different potential network actors they had met:

‘Well we evaluated each one, we went and met with each one; hum...we decided that EpsilonC1 was the most...was honest. We didn’t think the others were honest because as soon as we were there they were asking us to make competitive products, to copy other products.’

Beta1 was also positively impressed by EpsilonC1’s demeanour and the decorum with which he was surrounded:

‘Okay, very friendly, had a nice, then, he had an entourage of people back then, [...]He was still the boss, he had loads of people with him. He had an entourage.’

Following continuous discussions between Beta and Epsilon over the next few months, EpsilonC eventually emerged as the sole contender:

‘...the only relationship by 2009 was EpsilonC. The others had gone. When Beta0 left in 2009, uh, I took it upon myself, uh, to focus on EpsilonC.’

During that early period, most of the communication was handled, in Chinese, by Beta0. When decision by EpsilonC1 was made to cooperate with Beta, the presence of a Chinese co-owner, Beta0, had been a positive factor from EpsilonC1’s perspective, especially as his own command of English was poor. This was confirmed by EpsilonC1 then asked about Beta0’s role initially:

‘[He was] Chinese. So our communication was a bit easier; so it was also a reason [for wanting to collaborate with Beta].

However, after a few months, Beta0’s was removed from the Board and left the network. Beta4, a non-executive Director on Beta’s Board attributed the reason for the departure of Beta0 to the failure, by Beta, to raise the expected funding for developing the companies’ activities:

‘The relationship with Beta0 effectively failed when the money wasn’t raised and he couldn’t be paid.’
EpsilonC1 also remembered some divergence of opinion between the two partners:

They have differences of opinion in our exchanges, so I started communicating with both at the same time.

As a result of Beta0’s departure, Beta1 suddenly found himself solely responsible for the next stage of internationalisation network development to China: Network Building. This next stage will now be discussed.

6.4.4 Internationalisation Network Building: Relationship-building and the Impact of Institutions

After Beta0’s departure, Beta1 and EpsilonC1 were forced to communicate with each other on a more regular basis: both their lack of shared cultural-cognitive institutions, and the need to start the regulatory process, led EpsilonC1 to recruit a new member of staff, EpsilonC2, as the main network actor for all communication with Beta1:

‘First time I met Beta1 was to discuss about the contract. [...] But also very long after the...you first met with Beta1 [to EpsilonC1]. Because I am responsible for the registration. [...] and then EpsilonC1 doesn't have enough time...’

Beta1’s realisation that he was now in charge of a market he knew nothing about also encouraged him to try and learn about Chinese institutions; he had been told by Beta0 and other UK-based network actors that relationships were what mattered in China:

‘Well, China, all it is, is relationships...’

As a result, he engaged wholeheartedly in a relationship-building exercise with EpsilonC1, first in company of Beta0, then on his own, after Beta0’s withdrawal from the internationalisation network:

‘We would go out there every six months or something. But then, as we started to get close to the contract signing, we were going out every, I was going out every three months and I've now taken that relationship, so I go out by myself now.’

The following diagram (Figure 20) depicts the network structure of the developing internationalisation network and is followed by a summary process-tracing chart of the network building process.
Figure 20 - Beta Internationalisation Network and Institutions- Network Building Stage (2011)

UK Network

- Beta Board (Beta 4)
- German Company Qi CEO
- UK Trade Organisation

China Network

- South African Company Mu MD
- UK organisation China Office
- EpsilonC2
- CFDA
- Customers
- Suppliers
- Alternative Distributors

Actor with UK institutions
Actor with China Institutions
Actor with UK and China institutions
Formal institutions-based relationship, UK informal institutions operating
Formal institutions-based relationship, Chinese informal institutions operating
Informal institutions-based relationship, UK informal institutions operating
Informal institutions-based relationship, Chinese informal institutions operating

Key
Bridging relationship

Source: The Author


**A. Network Structure, Key Relationships and Institutions**

As can be seen from the network structure diagram (Figure 20), Beta1 made attempts at creating direct connections to external network actors (suppliers and distributors). His efforts were only partly successful: while he managed to build useful links to Chinese suppliers of raw material for his products, he failed to develop connections with alternative network actors for distribution of his and other Europe-based companies’ products. This was due both to his lack of Chinese institutional knowledge and to resource limitations in order to pursue those relationships effectively (both in terms of time and finance).

With regard to the internationalisation of Beta’s products, EpsilonC1 remained the main network actor - or Alter - in China, as key decision-maker. EpsilonC2 was only implementing Alter’s decisions and facilitating communication with Ego, although participant observation highlighted the fact that her influence on Alter was substantial. The bridging dyad was more or less a ‘tryad’, as Ego and Alter’s lack of shared cognitive institutions meant that communication had to be split between EpsilonC1 and C2. Neither Alter nor EpsilonC2 had any knowledge of UK normative institutions and their knowledge of UK cognitive institutions was not adequate to the effective development of relational embedding in the relationship with Ego.

In parallel, EpsilonC1 was reliant on Beta1 for brokering non-Chinese networks: this is noticeable in the lack of connection between himself and the German company, Qi. All information flows between Qi and Alter had to travel through Ego, due to the refusal by Qi’s CEO to connect directly with Alter.

Although Ego’s brokerage, if fruitful, would contribute towards the development of a good relationship with Alter and although Ego and Alter were mutually reliant on each other, the scope of their respective activities was not aligned, i.e., the benefits to be withdrawn from the internationalisation network by each actor were not directly related. In other words, the success of the internationalisation of Beta’s product was not directly related to the success of his brokerage between Qi and Alter. This point will be further discussed in the next section, covering the collapse of the China internationalisation network.

In the meantime, Figure 21 (on the next page) traces the process of China internationalisation network building development (George and Bennett 2005; Welch et al 2011) and highlights key conjunctural and institutional factors. The chart is accompanied by a detailed narrative with illustrative quotations.
Figure 21- Beta Internationalisation Network Building: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Process

Institutional Factors

EpsilonC1 recruit EpsilonC2

Time constraints on Alter’s part as Beta not sole priority

Communication between Ego and Alter is done via EpsilonC2 and limits relational embedding

Resource constraints (Beta)

EpsilonC2 starts the regulatory approval process on behalf of Beta

Concerns to protect developing relationship Mutual but not aligned benefits

Mutual competence-based trust Beta/Epsilon increasingly suffers

Product quality issues Lack of progress

Lack of shared cognitive institutions (Ego and Alter)

Regulatory approval required

Lack of knowledge of Chinese formal institutions by Ego

Lack of shared institutions

Chinese informal institutions (face)

Lack of China institutional knowledge (Ego)

Lack of Western institutional knowledge (Alter and EpsilonC2)

Source: The Author
B. Mutual Lack of Institutional Knowledge: Co-reliance of Ego and Alter

Beta1 had no knowledge of Chinese institutions and was accordingly unclear about Chinese formal institutions. The company’s limited resources also meant that all Chinese regulatory work was undertaken by Epsilon Limited as Beta did not have the resources to undertake regulatory approval in China independently either. Beta1 was given an expected lead time of 12 to 18 months for the completion of regulatory approval and he left all responsibility for that area with EpsilonC:

‘...they're fully handling all of those decisions. So where we're supporting them is, we will bring out some top doctors, uh, for them to showcase and for them to help advertise.’

Separately, Beta1 also continued to help EpsilonC1 with the development of Epsilon Limited’s internationalisation network, due to EpsilonC1’s lack of knowledge of Western institutions. Consequently, their connection strengthened, through perceptions of mutual benefits - by both Ego and Alter - to be gained from the relationship. Furthermore, EpsilonC1’s initial feelings of indebtedness towards Beta1 increased with each new act of brokerage by Beta1, through mechanics linked, again, to renqing norms:

‘因为他帮了我所以我需要帮助他在中国成功。Translation by the author: Because he helped me, I consequently need to help him succeed in China.’

What can be described as ‘instrumental’ relationship building was achieved through a mix of mutual benefit and normative mechanisms, rather than through the development of deep interpersonal trust as is the case with relational embedding. This type of embedding can survive as long as both network actors can see the clear benefits of maintaining the connection.

C. Lack of Shared Cultural-cognitive Institutions: From Misunderstandings to Institutional Tension

Following the departure of Beta0, Beta1 took over the relationship-building exercise with Epsilon and his awareness of the impact of differences in cultural-cognitive institutions between home and host markets became more obvious:

‘It's a relationship and they don't speak English so, you know... I usually try to have a translator with me but, [...] they both speak English the two people we deal with the most; but one of them, his English is quite poor, the main boss; and then the girl we deal with, her English is very good.’

Consequently, his regular exchanges were primarily with EpsilonC2 (rather than Alter/EpsilonC1): he mostly interacted with Alter during visits to the Chinese market, two or three times a year, when the two actors were able to meet face-to-face. Ego (Beta1) and
Alter (EpsilonC1) appeared to become closer over time nonetheless, as perceived by both Beta1 and EpsilonC1:

‘Yes, well, that's the guy and I'm his brother, he calls me his brother, his "zhongguo geermen"... ’[Ego1]

‘实际上，实际上我们跟Beta1交往的过程中，那么，我们首先，我首先，我认为Beta1是，我首先认为Beta1是一个好朋友. [Actually, actually Beta1 and I, in the course of our relationship, well, we are firstly, I first, I consider in the first place that Beta1 is a good friend. ’][Alter]

There are questions as to how much trust was really present in the relationship however. Beta1 required payment by confirmed letter of credit from EpsilonC1 for instance, while EpsilonC1 failed to clearly explain to Beta1 that he had left state-owned EpsilonC1, in order to set-up a separate independent limited company, Epsilon Limited: Epsilon Limited would, from then on, distribute Beta’s products in cooperation with EpsilonC1.

The lack of clarity in EpsilonC1’s communication was compounded by Beta1’s inability to make sense of the Chinese environment, again linked to deficiencies in cultural-cognitive institutional knowledge. By 2011, nearly three years after first meeting EpsilonC1, Beta1 was still unsure about Epsilon’s organisational structure:

‘I've probably met about 20 people from that company. Uh, it is confusing at first, even understanding what their company did and how it was a fit. Just these big volumes and all that. I think uh, but I think, yeah, I have a much better understanding now that I spend a lot of time there; understanding their division and how they report into their headquarters in Beijing and how the owner and where the general manager sits and who we deal with. Hum, I've seen this, uh, the finance guy comes a number of times to the meetings and he is a, yeah, he seems to be the one who's maybe more connected financially, I think. Hum, I'm not sure yet who the government HR person is; usually there's one of those. I think it's him, I think he is the one....’

What made relational embedding and understanding between Ego and Alter challenging was their lack of knowledge of - and related inability to learn about - each other’s institutions. Furthermore, there was growing evidence that the lack of understanding by Ego and Alter of each other’s perspectives and institutions could sometimes lead to tension. For instance, although Beta1 was partly aware of his limited knowledge of China, he also held some stereotypical – and often inaccurate - Western views of the country:

‘As they say in China, you're...you present to 10 of them and you need 10 yeses, but only one no is a no; so, that's very communist as well, is in it?’

Besides, Beta1’s and EpsilonC1’s lack of shared cognitive institutions prevented Ego from learning about China through Alter: learning through a Chinese network actor would have had the added potential benefit of Beta1’s biased perceptions being challenged.
Instead, Beta1’s strategy to learn about China was to ask other UK-based network actors about their experience of doing business in the market, which reinforced Western perceptions of China as his frame of reference:

‘I mean I knew nothing, I studied nothing of China. Everything I know there is all experience. I do not know if that's good or bad […] No I mean, I tried to validate our approach and contracts any time… I did it opportunistically: if I met someone who had done business in China, I would share our experience and I would ask their experience. So that was the… because there isn’t a lot of literature on China, at least that I found any… I already knew as I got ahead, oh that’s pretty obvious stuff…’

As a result, Beta1 often compared his experience of interacting with Epsilon to his expectations based on Western institutional practices and found Epsilon deficient:

‘In fact, if I was dealing with Johnson and Johnson, like I did, you know with J&J, you know with Reckitt, I met with the Vice president of Business Development who is in charge of bringing in new products, they have loads of different people to do all this analysis and once it goes in, it goes into the machine and then that’s it. So I don’t understand that, why we’re not in the machine.’

Ego1 also held negative pre-conceptions of China that led to some tension:

‘If you want to compare the honesty of a Western culture versus an Asian culture, hands down Western culture are 10 times more upfront and honest. […] 10 times more. […] There’s still a percentage of dishonesty in their culture.’

Ego1 did try to learn Mandarin but he quickly had to give up, due both to the difficulty of the language and lack of time:

‘And I did try to, you know, I went to Edinburgh to the Confucius thing and took some Chinese classes, at least started speaking, started those things and soon, after a month or two it was quite a lot of work to constantly, and travel again so…’

In addition, EpsilonC1 also lacked understanding of Western institutions, mistakenly thinking he understood Beta1’s perspective, while being totally unaware, during the network building stage, of Ego1’s negative perceptions of the country:

‘但是我理解他…是我了解他.’ [Translation by the author: But I understand him… It is I who understand him.]

On the surface, Ego and Alter were describing each other as ‘brothers’. In actual facts, the lack of shared institutions prevented them from communicating effectively and learning about each other’s institutional practices. As problems during the registration process started to occur - problems that were due to a mix of poor communication, lack of competence-based trust, negative perceptions and unrealistic expectations - differences in institutions led to increasing tension between the two actors.

‘他不理解中国的法律, 他老是，就是说从他的邮件我们看出来他不相信，不太相信中国人。’ [Translation by the author: He does not understand Chinese
law, he always ...I mean, from his email we can see he does not trust, he does not trust Chinese people much.] 

Open communication between Beta1 and EpsilonC1 and C2 was also hindered by Chinese informal institutions, such as concerns about ‘face’. When problems with Beta’s product started to emerge, EpsilonC1 and C2 failed to raise the issue with Beta1:

‘我们在检测的过程当中发现有问题; 有很多的问题。产品的品质有很多的问题; 然后他说他搞错了; 他说印刷错误. 我们不接受这个结果; 但是呢我们也没有告诉他我们知道因为我们要留住他的面子。[Translation by the author: ‘When we went through the process of testing [the samples], we discovered some problem; there were many issues. The quality of the products had many problems. Then he said he had made a mistake; he said it was a printing error. We don’t believe this explanation but we did not tell him what we know because we do not want to make him lose ‘face’.’]

In turn, Beta1 was also careful not to damage the relationship he had with Alter and decided to hold back some of his concerns, in relation to what he perceived as Epsilon’s lack of competence:

‘Why? What could I tell him? I was disappointed, okay? I couldn’t tell him I’m disappointed. I don’t want to hurt his feelings or offend him. I’m sure he was doing the best he could. What I realised was: I’m not dealing with a multi-billion pound company; and every time they do presentations, they’d be like these billions and billions of dollars. That was Epsilon, so I didn’t see them tap into Epsilon as the main go to in, it was just an opportunistic division who wanted to leverage up a distribution of products ...’

Ego1’s use of the term ‘division’ to describe Epsilon Limited is further proof of Beta1’s lack of clarity about the exact relationship between EpsilonC and Epsilon Limited.

By the end of the relationship-building stage, and while mutual goodwill trust was not questioned by either Ego or Alter, assumed competence-based trust was eroding due to the absence of shared institutions and the lack of mutual knowledge and understanding of each other’s institutions:

‘我们从来不提，不讲，我们想保往他的面子。也帮助他成功，也给他时间去改变他的品质。[Translation by the author: We never raised [the issue] again. We do not talk [about it], we want to preserve his ‘face’; and help him succeed, and give him time to improve the quality of his product.]

Increasing dissatisfaction between Ego and Alter, triggered by the lack of progress and brought on by institutional tensions, was to eventually lead to the failure of the China internationalisation network, which will be the subject of the next and final subsection.
6.4.5 Beta Internationalisation Network Failure: Instrumental Relationship-building and Institutional Tension

By the middle of 2011, as assumed competence-based trust between Ego and Alter was eroding fast, additional institutions-related tensions were pushing the relationship to breaking point. A number of events were to act as triggers to the collapse of Beta’s China internationalisation bridging connection, as competence-based trust sharply decreased and as a lack of understanding of Ego and Alter’s institutions and their differences led to growing tension.

The arrival of a new network actor (EpsilonC3) within the China network cluster compounded the increasing frustration on both sides: although EpsilonC3 spoke good English, she was also very junior and had no experience of working with non-Chinese firms. She became the main point of contact for Ego and, as a result, communication between Beta and Epsilon Limited became even more confused and difficult. By June 2012, communication stopped altogether: Beta’s China internationalisation network bridging mechanism had collapsed. The failed network is depicted through the network structure diagram (Figure 22) below.
Figure 22 - Beta Internationalisation Network and Institutions – Network Failure (2012)

UK Network

- Beta Board/Beta4
- Beta1/Ego
- European Company Qi
- Beta5/Regulatory officer
- South African Company Mu

China Network

- China Broker
- Suppliers
- Regulatory Body SFDA
- Customers
- EpsilonC1/Alter
- EpsilonC2
- EpsilonC3

Key:

- Actor with China institutions
- Actor with UK institutions
- Actor with both UK and Chinese institutions

Informal institutions-based relationship, Chinese cognitive institutions operating

Formal institutions-based relationship, UK cognitive institutions operating

Formal institutions-based relationship, Chinese cognitive institutions operating

Informal institutions-based relationship, Chinese cognitive institutions operating

Source: The Author
A. Network Structure, Key Relationships and Institutions

As can be seen from the network structure diagram (Figure 22), the bridging connection between Ego and Alter has collapsed, leaving a structural hole between both clusters of Beta’s internationalisation network into China. Ego cannot access the China-based network actors necessary to the internationalisation of his products and he has no alternative network route. He has also failed to structurally embed his Chinese network around Alter as there are no connections linking both Ego and Alter to China-based network actors. As a result of the collapse of the network bridging mechanism via Alter, Beta’s internationalisation to China is stopped.

The next chart (Figure 23) summarises the China internationalisation network failure through a conjunctural causal explanation (George and Bennett 2005; Welch et al 2011); the process is then discussed in more detail, with the addition of illustrative quotations.
Figure 23 - Beta Internationalisation Network Collapse: Process-tracing Diagram and Conjunctural Causal Explanation Factors (George and Bennett 2005; Welch et al 2011)

Conjunctural causal factors

Process

Institutional Factors

Alter asks Ego’s help with Pi, a US company. Ego fails to hand over documents for registration.

Competence trust between Ego and Alter decays further.

When Ego discovers that a competitive product has registered, complains to Alter.

Alter reacts with frustration but fails to discuss issues openly with Ego.

Ego sends Alter an ultimatum and Alter fails to respond.

The Ego-Alter network connection is severed and the China internationalisation collapses.

Objectives Ego/Alter not aligned

Low competence-based trust

Differences in formal institutions

Lack of shared institutional understanding

Lack of knowledge of Chinese formal institutions

Impact of Chinese normative institutions

Low competence-based trust

Limited resources

Lack of understanding of Chinese institutions

Low competence-based trust

No structural embedding

Lack of shared institutional understanding

Source: The Author
B. Competence-based Trust Decay: The Impact of Differences in Normative Institutions

In late summer 2011, Epsilon C1 asked Beta1 to contact a US company, Pi, on his behalf, in relation to a critical distribution issue. In the process of trying to help Epsilon C1, Beta1 was forced to behave in a way that conflicted with his view of acceptable behaviour, views that were based on Western business (normative) practices:

‘I think, within this, Pi is very interesting, you know. ‘Beta1, Beta1, help, we have a supplier we buy from and hum, the guy hasn’t paid his bills with Pi and he’s going to lose supply; and we’re selling so much and we’re going to lose supply’. So, one, do you take that you trust them and what they’re telling you is true? And then, making calls, and getting - developing - a relationship with the guys from Pi, and managing that in your head, and [...] Epsilon contacted me and asked for me to help to try and contact Pi, because they are US and those guys would not deal with them, they would not talk to any Chinese company anyways [...] So, the whole thing, their frantic and immature approach, to that whole thing, really made me think: phew...

Separately, and in order to protect Beta1’s ‘face’ as dictated by Chinese norms, Epsilon C1, C2 and C3 had failed to raise the issues encountered with Beta’s product during the regulatory process at network building stage. Beta1 could not accordingly make sense of Epsilon C1’s offer of a large financial offer to this US company, when investment behind his own product had been limited. As a consequence of Beta1’s involvement in the negotiation, his perception of Epsilon’s competence was further dented:

And so it had got to the point where they [EpsilonC] would say: ‘look, we will offer them £600,000 for an order, you know, to place an order.” And you are sitting there going: ‘okay, one, do you really think they’ll do it?” Because you are going to make that offer to Pi. Two, if they are, how come they are ready to dump that kind of money but they’re not dumping shit on your stuff, you know? So I had to e-mail EpsilonC2 and say: ‘look, here’s this guy’s contact details, I copied him on the e-mail, you know, guys you don’t need me anymore with this, I hope you get on.’

Beta1 accordingly refused to get further involved for two main reasons: he was annoyed with what he saw as a snub to his own products and he was concerned about the potential risk to his reputation with the US firm, should Epsilon fail to act on their verbal financial offer.

Beta’s pre-existing distrust of Chinese institutions also affected his ability to trust Epsilon C1; although he had already been interacting with his Chinese Alter for three years, he chose to believe the words of an unknown US executive over those of his Chinese partner. When later asked about this bias, by which stage Beta1 was aware that the US executive had actually been lying at the time, his reply pointed to what could be described as ‘institutional distrust’. Although Beta1 did not question Epsilon C1’s goodwill, i.e., he
did not think when it happened that his Alter was knowingly lying, he did not trust the environment in which EpsilonC1 was embedded:

Yeah, they [Pi, US company] lied. [...] I thought, they came across quite...the guy I dealt with, I thought they came across as quite credible. If you want to compare the honesty of a Western culture versus an Asian culture, hands down Western culture are 10 times more upfront and honest [...] 

When pressed further during the interview:

[Author’s question: But we’re talking not about a company, we’re talking about two people that you had known for three years in China, you know. So that’s kind of different in terms of the relationship.] [Beta1’s reply] Not at all if the situation was [that] they were two levels removed from this...

Beta1’s perception of competent behaviour was based on his experience of Western institutional practices and the differences he observed in EpsilonC1 and C2’s behaviour made him question the company’s reliability and competence:

‘You know a Western company, if it was that important of a deal to lose 40 million, stick a guy on a plane and get your ass over there; it’s that simple. That’s nuts to not do that. So why they would not do it and send a representative, literally to their front door, and saying ‘I demand a meeting, I want to see the Vice President and I want to know what you’re doing’. But they didn’t do it, that’s why I was like: ‘oh, well’.

As competence-based trust decayed further, the relationship between Ego and Alter increasingly suffered, before breaking down completely.

C. The Combined Effect on the Ego-Alter Network Relationship of Poor Competence-based Trust and a Lack of Shared Institutional Knowledge

In April 2012, Ego discovered that a key competitor had just received regulatory approval; compounding his frustration, he (erroneously) believed that the competitive product regulatory application had been started after Beta’s. With competence-based trust towards Epsilon already at a low level, he sent an email to Alter, stating his unhappiness about the situation and asking for an explanation. He also considered withdrawing from the relationship:

‘And then I think that all collapsed when I saw [competitor] product in the market, and you are like going: "this is, this is like the girl you’re going out with, who says you are the best guy, yet at the end of the day, she’s out on the town with someone else, you know. How more obvious could it be, you know? You keep waiting for her to turn up at the altar and she is, she has told you five o'clock... Five o’clock on Sunday and it is now three, three years later! Do you still wait? So, you know, you don’t, you're an idiot, so you move on.’

As EpsilonC1 and EpsilonC2 were also questioning the quality of Beta’s products and were getting increasingly annoyed at not receiving the technical documents they required
for regulatory approval, Alter reacted badly to Ego’s complaint and demand for an explanation.

还有不明,还要中国的那个药监局 [...] 要提供，供应商的合同吗？他提供不了吗？他以为是我们要 copy 他。后来我也很生气。[Translation by the author: Besides, he doesn’t understand why the SFDA [Sino Food and Drug Administration], why we must handover the suppliers’ agreements? He will not forward these to us? He thinks we want to copy [his product]. Afterwards, I am also very angry.]

Due to EpsilonC1 and C2’s lack of knowledge of the European regulatory process, they also failed to appreciate that the documents they were asking Beta1 to forward could be difficult to obtain; many documents were simply not available in a European context. As a result they could only try and guess the reasons for the absence of some requested documents, as illustrated through EpsilonC2’s quote below:

‘Uh, he [Beta1] may, sometimes, sometimes, uh, he will not reply to me regarding one point, but... uh, will reply with another point, but to some points, no reply. No mention any more. Even we mentioned that again and again, no reply. And until the deadline, so I have to say that you should provide me in three days and Beta1 became angry, he thinks that I am forcing him to do that, but I think maybe, maybe I did not point out that problem, point out the importance of the point.’ [EpsilonC2]

What came through the interviews of Epsilon Limited’s network actors was that the lack of shared institutional understanding had led them to attribute the absence of response from Ego to either distrust of Chinese institutions – which was partly correct – or evidence of further problems with the quality of Beta’s products. As a consequence, they questioned Beta1’s competence further and, over time, the goodwill trust still present within the Ego-Alter relationship was increasingly damaged. Furthermore, EpsilonC1 felt that Beta1 did not appreciate how much time and money had been spent on a product that he did not actually rate highly:

所以呢，是我们注册当中浪费了很多时间，也浪费了很多金钱；但是我还是愿意等他。[...] 因为他给了我帮助，我应该感谢他。[...] 实际上，但是我有跟 Kevin 说过，我说你的产品，不是一个很新的产品，它是一个新的概念，不是一相新技术。[...] 我们过去认为那个产品是‘high quality’的。[Translation by the author: As a consequence, we wasted a lot of time and money during the registration process; but I am still willing to wait for him [to improve his product]. Because he gave me a lot of help, I have to thank him. But I have told Beta1 that in actual facts, his product is not innovative, this is not a new type of product, it is just a new application, not new technology. [...] In the past we thought his product was ‘high quality’.]

As competence-based trust decreased further on both sides of the network, it impacted the assumption of goodwill trust on both side of the network cluster and the effect on communication became noticeable. E-mails became more aggressive in tone on both sides and the relationship suffered:
‘But he is angry and also we are angry because, in the end, I still don't have the answer: so I have to collect the papers myself, I have to create something.’

EpsilonC2

A sample of an email exchange in May 2012 between Beta1 and EpsilonC2, EpsilonC2 lets show of her increasing frustration at being blamed for what she sees as unfair:

‘I was really frustrated when I see your disappointment about our cooperation. EpsilonC1 is so appreciating the cooperation with you and we were seriously criticized by him for improper communication method. Really apologize for our keep asking for things without thinking about your feelings. We have no intend to offend you, we just want to do the job well.’

Her words also showed that network actors on both sides of the network failed to understand each other. EpsilonC2’s reference to Ego’s ‘feelings’ when asking for the documents required for registration came from her own concern of safeguarding’s Beta1’s face; in actual facts, Beta1 was not concerned about his face or feelings, he only wanted effective results and a successful outcome for his product’s registration. Conversely, as Beta1 was still not aware of the lack of trust EpsilonC1 and C2 had in the quality of his product, he, in turn, questioned Epsilon’s competence with Chinese regulatory and commercial matters. While he would have liked to take over control of the Chinese registration of his product, both the lack of resources within Beta and concerns about damage to his network relationship with EpsilonC1 prevented him from actively doing so. Instead, in June 2012, Beta1 issued an ultimatum to EpsilonC1, demanding guarantees as to the finalisation of the product’s registration, in addition to a confirmed order forecast from EpsilonC. EpsilonC1, being in no position or mood to oblige, did not reply. The Ego-Alter network relationship, and as a consequence Beta1’s China internationalisation network, had collapsed.

6.4.6 Summary of Case Beta’s Findings

Beta’s internationalisation network development into China can be split across three stages: Network Creation, Network Building and Network Failure (instead of Expansion).

Network Creation meant bridging the institutional structural hole between Beta and China through the identification and selection of a Chinese Alter, in the host market, through a trade-related event, i.e. a trade fair. At network building stage, the internationalisation network started developing slowly around the Ego-Alter bridging connection based on relationship-building through mutual benefit. With the additional involvement of EpsilonC2, the bridging mechanism was in fact a tryad (Ego/Alter/EpsilonC2), due to the lack of shared institutions and the absence of mutual institutional knowledge. As a result, of the lack of shared institutions, relational embedding never took place with instrumental
relationship-building, based on mutual benefits from the maintenance of the Ego/Alter relationship, developing instead. Issues linked to differences in formal and informal institutions and resulting institutional tension led to poor communication and a decrease in competence-based trust over time.

By network failure stage, issues that originated much earlier in the process eventually led the internationalisation network to collapse: the lack of relational embedding of the Ego-Alter bridging dyad and the absence of structural embedding made network stability fragile. With low competence-based trust between Beta1 and AlphaC1 and C2, perceptions of mutual benefit through the maintenance of the network relationship Ego-Alter were significantly dented and led to the collapse of the connection.

Differences in institutions impacted the process of internationalisation network development throughout:

- The loss of Beta0, combined with the lack of shared institutions hindered relational embedding between Ego1 and Alter; relational embedding was replaced instead by instrumental relationship-building through perceptions of mutual benefit, along with assumptions of goodwill trust through positive normative effects in the case of Alter.
- In addition, differences between home and host institutions led to significant institutional tensions. Consequently, and without relational embedding to soften any resulting conflict and support institutional learning, further decay in already low competence-based trust led to a collapse of perceptions of mutual benefit and the breakdown of the Ego-Alter bridging mechanism.

As Beta limited resources and Beta1’s lack of host institutional knowledge had also prevented him from structurally embedding his internationalisation network, Beta’s internationalisation to China was stopped after four years.

6.5 Conclusion of Within-case Findings

Within-case findings highlighted the key role of institutions, and more particularly institutional differences between home and host networks, in the process of SME internationalisation network development. Interestingly, the explanatory factors that influenced the process differed for each stage of network development, while each developmental stage also exhibited dissimilar patterns. Network Creation was focused on Alter identification and selection in order to bridge the institutional structural hole. Network Building emphasised the importance of the Ego-Alter bridging connection through the relational embedding of the relationship. Finally, Network Expansion saw the
beginning of the structural embedding of the internationalisation network with new connections linking both Ego and Alter to other actors within the internationalisation network. Within-case findings will now be integrated and compared across cases in Chapter Seven.
7.1 Introduction
This chapter discusses the cross-case research findings and proposes a causal explanation process model of SME internationalisation network development across institutional distance; the model highlights the causal mechanisms that explain the contextualised phenomenon over time.

Section 7.2 first describes the cross-case research findings. In the context of the process of SME internationalisation network development, three stages were identified: Network Creation, Network Building and Network Expansion (or Failure). Cross-case analytical summary tables, split between the three stages of Network Creation, Network Building and Network Expansion/Failure are presented below and discussed in sub-sections 7.2.1, 7.2.2 and 7.2.3. The tables cover each stage of the SME internationalisation network development and look more specifically at the impact of institutions on the process.

In line with the stated aim and methodological approach (Welch et al 2011) of the research, section 7.3 subsequently presents a causal explanation process model of SME internationalisation network development across institutional distance. This model is accompanied by what are described as ‘synthesis and explanation statements’, articulating particular effects of causal mechanisms and contextual factors on the process of network development. Synthesis and explanation statements differ from propositions which are derived from inductive theory-building (Eisenhardt 1989; Yin 2014) and whose role is to create a link between the theory elaboration and theory testing (Welch et al 2011). The purpose of the statements is to support and explicate elements of the causal explanation process model (Figure 25).

7.2 Cross-case Findings: SME Internationalisation Network Development Process and the Impact of Institutions

7.2.1 Internationalisation Network Creation and the Impact of Institutions
The first stage of network development, Network Creation, was found to be further divided between two separate phases: Alter identification and Alter selection. In the first phase, Ego is confronted with a structural hole between the home (Scotland) and host (China) network clusters, due to a lack of appropriate network actor in order to develop a China internationalisation network. In a situation of structural hole, a suitable Alter must be identified somehow. In the second stage, Ego has to select Alter out of the identified
population of suitable actors. Table 14 below summarises the internationalisation network creation process for Alpha, Delta and Gamma, highlighting similarities and differences across the three cases. Each separate phase of *Alter Identification* and *Alter Selection* is subsequently elaborated on.
Table 14 - Summary Cross-case Analysis Table: China Internationalisation Network Creation and Institutions

<table>
<thead>
<tr>
<th>HOW</th>
<th>ALPHA</th>
<th>DELTA</th>
<th>BETA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home-based broker followed by Chinese-based broker</td>
<td>Home-based broker</td>
<td>Home-based broker followed by Trade Fair</td>
</tr>
<tr>
<td></td>
<td>Strategic China-based search and selection</td>
<td>Strategic home-based search and selection</td>
<td>Serendipitous China-based search and selection</td>
</tr>
<tr>
<td></td>
<td>Focus on institutions-related criteria</td>
<td>Focus on institutions-related criteria</td>
<td>Focus on non-institutions-related criteria</td>
</tr>
<tr>
<td>WHAT</td>
<td>Individual Alter as GM of Sales Office</td>
<td>Individual Alter as GM of Manufacturing site</td>
<td>Organisational Alter as distributor in China</td>
</tr>
<tr>
<td></td>
<td>Alter has knowledge of both Western and Chinese institutions and industry sector but lacks functional expertise</td>
<td>Alter has knowledge of both Scottish and Chinese institutions but lacks technical and functional expertise, with industry sector experience</td>
<td>Alter is has no knowledge of Western institutions but has functional expertise</td>
</tr>
<tr>
<td></td>
<td>One Ego</td>
<td>One Ego</td>
<td>Two Egos, one being an institutional hybrid</td>
</tr>
<tr>
<td>WHY</td>
<td>Ego has previous experience of emerging markets</td>
<td>Ego has previous experience of emerging markets</td>
<td>Western Ego has no previous experience of emerging markets and second Ego is Chinese</td>
</tr>
<tr>
<td></td>
<td>No access to appropriate Chinese networks for Alter’s identification and selection</td>
<td>No access to appropriate Chinese networks for Alter’s identification and selection</td>
<td>No access to appropriate Chinese networks for Alter’s search and identification</td>
</tr>
<tr>
<td></td>
<td>Alter must have access to relevant Chinese networks</td>
<td>Alter must spend significant time at the Scottish Head Office</td>
<td>Large choice of Alters</td>
</tr>
<tr>
<td></td>
<td>Limited choice of Alters</td>
<td>Limited choice of Alters</td>
<td></td>
</tr>
<tr>
<td>INSTITUTIONS IMPACT</td>
<td>Lack of knowledge of Chinese informal institutions</td>
<td>Lack of knowledge of Chinese informal institutions</td>
<td>Lack of awareness of impact of Chinese informal institutions</td>
</tr>
<tr>
<td></td>
<td>Few Alters with effective knowledge of both UK and Chinese institutions</td>
<td>Few Alters with effective knowledge of both UK and Chinese institutions</td>
<td>Few Alters with effective knowledge of UK/Western institutions</td>
</tr>
<tr>
<td></td>
<td>Priority given to institutional skills over functional competence</td>
<td>Priority given to institutional skills over functional competence</td>
<td>Priority given to functional competence over institutional skills</td>
</tr>
</tbody>
</table>

Source: The Author
A. Alter’s Identification Process

In all cases, the distance between the home and host markets - both physical (geographical) and institutional - meant that Alpha, Beta and Delta’s Egos had no relevant actor within their network to play the role of Alter. Distance and significant institutional differences appear to have created an ‘institutional structural hole’ between the two countries.

Interestingly, even Beta’s initial Ego, who was himself Chinese, was unable to identify a suitable Alter from within his extensive network. In the context of smaller firms and distant markets, nationality as such is not the guarantee of a pool of suitable Alters, which the ideal Alter will magically spring out of. Bridging institutional structural holes in order to internationalise requires a complex and active search process for Alter, based on multiple criteria, rather than a passive phenomenon where actors can follow their network into a foreign market.

In addition, the institutional distance between the home and host network clusters meant that Ego had to initially look for a broker to help identify a pool of potential Alters. Due to the impact of the lack of knowledge by Scotland-based Egos of cognitive and normative host market institutions, it was in the home market that the broker was sought; usually the broker took the shape of a home-based trade and/or government organisation which facilitated the identification of a small group of potential Alters, either in the home market (MBA student for Delta) or in the host market (trade fair for Beta or recruitment process for Alpha).

This leads to the following synthesis and explanation statements:

- **SME internationalisation network development across institutional distance will increase the likelihood of the presence of a structural hole that will then require an active bridging process.**

- **Institutional distance increases the likelihood of resorting to a home-based broker in order to bridge SME internationalisation networks structural holes.**

The fact that all Egos used a home-based broker had an impact on both the nature and the size of the population of potential Alters, whether or not Alter was subsequently identified in the home or host market. The size of the population reduced even further when Alter was identified within the home market (Delta), although, in that case, Alter benefited from a superior knowledge of home-based institutions. In all three cases, Ego was left with limited choice and only a few potential candidates to select from, post identification process.
B. Criteria for Alter in the Identification Process

Alter’s selection criteria can be divided into two separate groups: institutional and non-institutional. The comparison of cases Alpha, Delta and Beta highlights two potential internationalisation network creation patterns that can be described as ‘Institutional internationalisation network creation’ and ‘Non-institutional internationalisation network creation’.

- Institutional network creation process

In the case of ‘Institutional creation’, through previous experience of internationalisation activities with emerging markets, Ego was aware of the challenges presented by differences in institutions in the host market. For that reason, from the earliest stages of the search for Alter, Ego was focused on finding an individual who would have knowledge of host informal institutions. Furthermore, in the case of Delta, Ego was determined to identify an Alter with knowledge of both home and host institutions which will be described as an ‘institutional hybrid’. More precisely, an institutional hybrid will be defined as:

*A network actor that has significant knowledge of both home and host markets’ institutions, allowing him/her to operate effectively within and across both environments*.

In his search for Alter, Delta’s Ego focused on criteria such as Chinese nationality and Chinese language, mixed with significant experience of studying or working in a Scottish context, to the detriment of more functional skills such as experience of the sector of activity of the firm and work experience in a similar position. While functional skills were perceived as important by both Alpha’s and Delta’s Egos, inability to find an Alter with both institutional and functional skills led them to prioritise institutional skills. Through chance rather than intent, Alpha also ended up recruiting an institutional hybrid with both experience of working for a multinational company in China and an MBA from a US University; but the initial focus was on host institutional competence rather than institutional hybridity. This divergence would later lead to differences in relation to the extent of the internationalisation network structural embedding and the reliance on Ego by Alter, which will be further discussed in section 7.2.3.

- Non-institutional network creation process

In comparison, Beta’s Ego, who followed a non-institutional internationalisation network development process and who had no prior experience of emerging markets, did not put emphasis on the impact that informal (normative and cultural-cognitive) institutions may
have on the development of the internationalisation network. The initial assumption of Beta’s Ego was that, from an internationalisation perspective, the Chinese market was the same as any other Western or foreign market. His focus was on finding a ‘distributor’ with the right functional competence to sell his product in the market, not an Alter with host institutional knowledge. Beta Ego’s did not give a second thought either to Alter’s potential knowledge of Western institutions or the English language, whereas this was a core emphasis for Alpha and Delta’s Egos. This was partly explained by the fact that the Western Ego initially had a Chinese co-founder who could handle communications with the Chinese Alter.

C. Ego’s role in Alter’s Selection Process
Ego’s role in the selection of Alter was crucial. Both Alpha and Delta’s Egos felt that their own lack of knowledge of Chinese institutions meant that they would have to trust and rely on a Chinese Alter for setting up and managing the future internationalisation network in China. It proved beneficial, accordingly, that Ego should be personally responsible for the actual selection of Alter. In the case of an institutional internationalisation network bridging process in particular, it was important for Ego to interview and select a particular Alter, as reliance on relational embedding for network building, further down the line, meant that Ego and Alter needed to get on well from the start. There were numerous references by Alpha and Delta’s Egos highlighting the fact that they had ‘liked’ the selected Alter for a number of reasons, or just felt positive about him and his motivations when applying for the position.

In comparison, and although he did feel positive about EpsilonC’s personality, Beta1 focused on whether the organisation EpsilonC as a whole had the right resources and networks to successfully distribute his products in China. Alter’s selection was serendipitous, focused on organisational criteria, with a lesser emphasis on personal characteristics.

The differences in Alter’s selection process between Alpha/Delta and Beta were to have a significant impact on the internationalisation network building process, discussed in the next section.

7.2.2 Internationalisation Network Building and the Impact of Institutions
In all cases, and due to ineffective Chinese legal institutions, Network Building was found to be focused on relationship-building between Ego and Alter in order to ensure network stability. During that period, the China-based network cluster also slowly started to grow.
new ties around Alter. The pattern that had been followed during Network Creation led to dissimilar findings between Alpha/Delta and Beta during the network building stage: while Alpha and Delta were able to relationally embed their institutional hybrid Alters, Beta’s Ego could only develop an instrumental relationship with Alter, based on mutual benefit. The type of governance underpinning the Ego-Alter bridging dyad – relational embedding viz. perception of competence-based trust and mutual benefit - was seen to be critical to the longer term stability of the cross-institutional internationalisation network.

The next table (Table 15) summarises the China internationalisation network building process across the three cases; findings are then discussed and integrated further.
<table>
<thead>
<tr>
<th>HOW</th>
<th>ALPHA</th>
<th>DELTA</th>
<th>BETA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Internationalisation network built around <strong>relational embedding</strong> of bridging relationship Ego-Alt</td>
<td>• Internationalisation network built around <strong>relational embedding</strong> of bridging relationship Ego-Alt</td>
<td>• Internationalisation network built around <strong>perceived mutual benefits</strong> of the Ego-Alt relationship</td>
</tr>
<tr>
<td></td>
<td>• Regular interaction</td>
<td>• Regular interaction</td>
<td>• Low interaction</td>
</tr>
<tr>
<td>WHAT</td>
<td>• <strong>Intra-organisational network</strong> built around bridging relationship Ego-Alt</td>
<td>• <strong>Intra-organisational network</strong> built around bridging relationship Ego-Alt</td>
<td>• <strong>Trans-organisational network</strong> built around Ego, Alter and EpsilonC2</td>
</tr>
<tr>
<td></td>
<td>• <strong>No structural embedding</strong></td>
<td>• <strong>Limited structural embedding</strong> around Ego</td>
<td>• <strong>No structural embedding</strong></td>
</tr>
<tr>
<td></td>
<td>• Network relationship underpinned by trust built on positive interaction between Ego and Alter</td>
<td>• Network relationship underpinned by trust built on positive interaction between Ego and Alter</td>
<td>• Network relationship Ego-Alt underpinned by perception of <strong>mutual benefit</strong></td>
</tr>
<tr>
<td>WHY</td>
<td>• <strong>Awareness</strong> that reliance on trust for network relationship governance and network stability</td>
<td>• <strong>Awareness</strong> of reliance on trust for network relationship governance and network stability</td>
<td>• <strong>No awareness by Ego</strong> that reliance on trust for network relationship governance and network stability</td>
</tr>
<tr>
<td></td>
<td>• <strong>Co-dependence</strong> Ego-Alt with <strong>aligned</strong> economic and relational objectives</td>
<td>• <strong>Co-dependence</strong> Ego-Alt with <strong>aligned</strong> economic and relational objectives</td>
<td>• <strong>Non-aligned economic objectives</strong> for Ego and Alter</td>
</tr>
<tr>
<td></td>
<td>• <strong>Personal Trust</strong> Ego-Alt</td>
<td>• <strong>Personal Trust</strong> Ego-Alt</td>
<td>• <strong>Perceptions of mutual benefit</strong> Ego-Alt</td>
</tr>
<tr>
<td></td>
<td>• <strong>Reliance of network stability on Ego and Alter dyad</strong></td>
<td>• <strong>Reliance of network stability on Ego and Alter dyad</strong></td>
<td>• <strong>Reliance of network stability on Alter</strong></td>
</tr>
<tr>
<td>INSTITUTIONS IMPACT</td>
<td>• Ineffective Chinese legal institutions</td>
<td>• Ineffective Chinese legal institutions</td>
<td>• Ineffective Chinese legal institutions</td>
</tr>
<tr>
<td></td>
<td>• <strong>Institutional consonance</strong></td>
<td>• <strong>Institutional consonance</strong></td>
<td>• <strong>Institutional dissonance</strong></td>
</tr>
<tr>
<td></td>
<td>• <strong>Institutional hybrid</strong> Alter can act as institutional teacher and translator to Ego</td>
<td>• <strong>Institutional hybrid</strong> Alter can act as institutional teacher and translator to Ego</td>
<td>• <strong>Absence of institutional hybrid</strong> affects relationship-building (competence-based trust) between Ego and Alter</td>
</tr>
<tr>
<td></td>
<td>• <strong>Shared cultural-cognitive institutions</strong> allows effective communication and mutual learning</td>
<td>• <strong>Shared cultural-cognitive institutions</strong> allows effective communication and mutual learning</td>
<td>• <strong>Lack of shared cultural-cognitive institutions prevents</strong> effective communication and learning</td>
</tr>
</tbody>
</table>

Source: The Author
A. Mutual Benefit-governed vs Relationally-embedded Network Relationships

The nature of Chinese formal institutions and their lack of legal effectiveness in ensuring SME internationalisation network stability drove Alpha’s and Delta’s Egos towards relational strategies to strengthen the key bridging connection with Alter. Alpha1 and Delta1’s awareness of the lack of enforceability of formal contracts by their firms in China meant that building personal trust and loyalty with Alter (i.e., relational embedding) was going to be key in protecting their internationalisation network from the risk of a sudden withdrawal by Alter.

Delta’s Ego even went to an incredible length to ensure loyalty by recruiting a Chinese MBA student from a nearby Scottish University and ‘institutionalising’ him further during a trial period at the company’s office in Scotland. Alter’s parents were also invited to the UK for a ‘relationship-building’ trip with all costs covered by Delta. The significant amount of time spent by Delta’s Alter at the head office in Scotland also enabled him to build a (limited) number of connections with Scotland-based network actors, in effect structurally embedding Ego within the Scottish network. Although this structural embedding remained limited, it would bring noticeable - and surprising - dissimilar effects on network stability between Alpha and Delta during Network Expansion.

Conversely, Beta1 envisaged a relationship primarily underpinned by formal business objectives and a formal contract. His focus was on supporting his distributor, Epsilon C, with technical and practical advice. His support was aimed at the organisation, and was accompanied with a written contract as the key governance mechanism of the relationship between the two companies. Relationship-building was based around mutual benefit with assumption of some related benevolence and competence-based trust (Roy 2012; Tsui-Auch and Möllering 2010), as opposed to relational embedding with trust built over time, through evidence from close interaction.

As relational embedding results in evidence-based personal trust and loyalty, it was shown to increasingly strengthen the Ego-Alter connection over time; relationship-building around mutual benefit however will repose on maintaining the perception by both Ego and Alter that there is indeed some benefit to sustain the relationship; as a result, the Beta bridging connection ended up more fragile.

The above discussion leads to the following synthesis and explanation statement:

Awareness of ineffective host legal institutions by Ego will promote the use of relational strategies in order to strengthen the SME internationalisation bridging connection with Alter.
Separately, *host informal institutions* were found to play a surprisingly significant and positive role for the relational embedding of the bridging dyad, particularly in the presence of an institutional hybrid.

**B. Institutional Consonance versus Institutional Dissonance: The Role of the Institutional Hybrid**

Surprisingly, during the network building stage, *host normative institutions* were found to have a sometime *positive effect on relational embedding* between Ego and Alter. Normative institutions are part of informal institutions (North 2009) and are described by Scott (2008) as the Normative Pillar (Scott 2008) discussed in Chapter Four. As reviewed in section 4.5 of the same Chapter, host normative institutions include Confucianism-related norms of behaviour and values, such as respect for elders and teachers, concern for harmony in personal relationships, reciprocity from social obligation (*renqing*) and safeguarding face (*mianzi* and *lian*). Because of Alter’s lack of functional and technical experience for instance, Ego’s role as teacher and mentor proved unexpectedly beneficial as it allowed host normative institutions (the respect for the role of teachers) to play a positive part in the relational embedding between Ego and Alter, reinforcing Alter’s feelings of respect and loyalty towards Ego. In addition, and in line with social obligation (*renqing*) norms, Alpha and Delta’s Alters felt that their respective Ego had done them an enormous favour by offering them their position within the China internationalisation network, despite their lack of experience. As a result, they entertained deep feelings of indebtedness (reciprocity norm) towards their respective Egos.

Furthermore, the fact Ego was a foreigner (*laowai*), combined with efforts to learn about Chinese normative institutions from Alter, by partaking in social events and adapting his behaviour according to Chinese practices, gave Alter ‘face’:

‘Alpha1’s the face...sometimes, you know, I have never a chance to meet their big boss so when Alpha1 comes I just ask my...: ...can you please ask your boss to have a chat with Alpha1? So enhance the relationship, that's a plus.’

This positive effect created by the harmonious interaction between network actors with initially differing normative institutions will be described as ‘institutional consonance’. In other words, *institutional consonance* is defined by this author as:

‘*the positive effect created by the harmonious interaction of network actors with differing normative institutions*.’

The opposite concept, *institutional dissonance*, will be defined as:

‘*the negative effect created by the conflicting interaction of network actors with differing normative institutions*.’
Institutional consonance was facilitated by the presence of an institutional hybrid [as per author’s definition] within the bridging connection, due to the impact of differences in institutions between home and host networks. Thanks to their hybrid Alters, who acted as institutional teachers and cultural translators, both Alpha’s and Delta’s Egos were able to learn effectively about host normative institutions such as ‘business practices’, cultural norms and values etc. Through their own knowledge of the differences between home and host informal institutions, both Alters were able to effectively and sensitively communicate their culture and normative practices to Alpha’s and Delta’s Egos. The derived shared understanding of Chinese culture further strengthened the relational embedding between Ego and Alter through the effect of institutional consonance. Alters were seen to be very sensitive to the fact their Egos understood Chinese culture and Chinese ways; they felt their Ego was very special and unlike other ‘foreigners’.

In the case of Beta however, Ego’s offer to help Alter on day one of the Trade Fair also promoted institutional consonance: unwittingly Beta1 had tapped into the positive effect of Chinese renqing norms and Alter felt indebted to him for his helpful behaviour. In the absence of institutional hybridity within the bridging connection however, this instance of unintentional institutional consonance did not lead to relational embedding and had accordingly limited beneficial effect on strengthening the bridging connection between the two actors; it could even be argued that Alter’s indebtedness to Ego proved detrimental over time as, combined with Ego’s lack of knowledge of host market informal institutions, it detracted attention from the real issues linked to competence-based trust. Alter’s feeling of indebtedness confused Ego as to the real motivation of Alter’s cooperative behaviour in relation to Beta’s internationalisation into China. Without this additional factor to explain Alter’s eagerness to help Ego with his product in China, Alter’s lack of confidence about Beta’s products could have emerged much earlier.

Moreover, over time, the absence of an institutional hybrid within the Beta’s bridging connection led to increasing institutional dissonance between Ego and Alter, due to tension resulting from sometimes conflicting home-host institutions. The lack of institutional hybridity created by the departure of Beta0 from the internationalisation network had removed access to a network actor able to translate and communicate the differences between UK and Chinese institutions to each of the internationalisation network clusters. Institutional dissonance was further facilitated by Beta1’s Western institutions-based frame of reference and incorrect expectations; using a Western perspective to infer from what he experienced in the Chinese market led him to wrongly interpret Alter’s behaviour and language on numerous occasions. Equally, Alter’s lack of understanding of Western
practices disabled him from playing the role of cultural translator and teacher and communicating effectively with Ego. As a consequence, Ego and Alter both failed to learn about each other’s normative institutions and their relationship repeatedly suffered from institutional dissonance. Finally, it is important to stress as well that institutional consonance was sought rather than achieved, as reconciling often conflicting normative behaviours (i.e., what is acceptable as a minimum salary for instance varies tremendously between the UK and China) can be extremely challenging. This difficulty was illustrated by the conflictual and aggressive behaviour demonstrated by DeltaC3, a Scottish member of staff based in China for more than seven years, towards his Chinese colleagues. Long term experience of living with institutional dissonance appeared to create high levels of stress in DeltaC3 as he found himself unable to adapt his behaviour sufficiently and ‘cope’ with the alien Chinese institutional environment he had to live within. In the case of Alpha and Delta’s Egos, who did not reside in China full time, striving towards adaptation to the host institutions appeared to be sufficient to ensure a harmonious relationship between themselves and their respective Alters, at the stage of network building. The following synthesis and explanation statements summarise the above discussion:

In the context of internationalisation network development across institutional distance, institutional consonance between Ego and Alter can be facilitated by the presence of an institutional hybrid within the bridging connection.

In the context of internationalisation network development across institutional distance, institutional consonance and relational embedding between Ego and Alter will be mutually reinforcing.

C. Internationalisation Network Stability and Knowledge Asymmetry
As discussed in the review of the academic literature in Chapter Three, SME internationalisation network stability over time can be improved through both relational embedding of the Ego-Alter bridging dyad and/or structural embedding of the network. What this study also highlighted however was the importance of knowledge in a cross-institutional bridging context. The asymmetry of institutional knowledge between Ego and Alter endowed Alter with what can be described as ‘knowledge benefits’ and superior control benefits. During the network building stage however, this institutional knowledge asymmetry was balanced, within the bridging dyad, by asymmetry in functional knowledge, with Ego having superior knowledge of the sector of activity and company’s products or techniques. Alter was reliant on Ego for functional knowledge and he used the network
building stage to improve his functional knowledge of the company, industry sector and products. Asymmetry in host institutional knowledge remained a constant over the time of the internationalisation network development as learning about host formal institutions proved a challenge for Ego; the difficulty in learning about the relatively tacit institutional environment at play in China was compounded by Ego’s lack of host cognitive institutional knowledge. Besides, learning about host cognitive institutions – e.g., the Chinese language - in a way, that allowed Ego sufficient command of the language to facilitate network building in the host environment - proved impossible. Although learning about normative and formal institutions appeared more feasible, challenges linked to the nature of the environment, as a dynamic and fast-changing emerging market with a poorly codified legal and regulatory framework also constrained knowledge acquisition. In contrast, Alter’s functional knowledge improved significantly over time under Ego’s mentoring. As a result, the imbalance in knowledge asymmetry quickly increased to the benefit of Alter. It will be shown that the resulting knowledge imbalance would have a negative impact on structural embedding during Network Expansion.

D. Conclusion: Internationalisation Network Building across Cases

During the network building stage, the developmental focus was on relationship building between Ego and Alter, in order to strengthen the key bridge relationship linking the home and host network clusters, while the China internationalisation network was growing slowly. Key differences between institutional versus non-institutional network building were related to the governance of the Ego-Alter bridging dyad: relational embedding versus mutual benefit-based relationship-building. Relational embedding was conditioned by the presence of an institutional hybrid within the Ego-Alter dyad which facilitated institutional consonance, itself promoting further relational embedding. Conversely, the lack of institutional hybrid led to institutional dissonance and conflict between Ego and Alter. Dissonance increased tension and eventually would lead to conflict at network expansion stage, threatening network stability. This final stage of Network Expansion, discussed in section 7.2.3, marked the start of a faster and broader development of relationships between existing and new network actors.
7.2.3 Internationalisation Network Expansion/Failure and the Impact of Institutions: Relational Embedding, Structural Embedding and Institutional Consonance

The process of network building was characterised by a slow development of the China internationalisation network, with a focus on relationship-building between Ego and Alter. As time went on, the pace of development of the China internationalisation network increased with the number of new network connections. By the time the network started to expand faster, the effects of the initial network development pattern (as either institutional or non-institutional) followed by respective Egos at network creation stage could be seen in terms of the strength of the bridging dyad, i.e., the depth of the relational embedding between Ego and Alter. That strength, in turn, had an impact on the stability of the growing internationalisation network over time, particularly when conflict created by institutional dissonance, or diverging objectives on each side of the internationalisation network, arose. In addition, the initial exposure to - and interaction with - multiple UK network actors by Delta’s Alter - and in lesser ways Alpha’s Alter - allowed some structural embedding in the UK network cluster to take place, allowing some information flows to circulate between the Chinese and UK internationalisation network clusters, without necessarily travelling through Ego or Alter. Surprisingly, not all structural embedding was seen to be beneficial for the stability of the SME internationalisation network. Balanced structural embedding across the Ego-Alter bridging dyad (Alpha), even if limited, had a beneficial effect on network stability. Partial structural embedding (Delta), where Alter was solely able to structurally embed the internationalisation network, was shown to negatively impact relational embedding between Ego and Alter, threatening network stability over time.

In both cases, however, structural embedding was also found to be limited by the depth of the relational embedding between Ego and Alter.

Separately (Beta), the absence of relational embedding between Ego and Alter led to increasing tension between them, due to continued institutional dissonance. The effect produced by institutional dissonance between the two actors was seen to damage mutual assumptions of competence-based trust, lowering expectations of mutual benefit. Over time, increasing institutional dissonance, compounded by the lack of shared cultural-cognitive institutions between Beta and EpsilonC network actors, led to the collapse of both mutual competence-based trust and the internationalisation network bridging connection: the Beta SME internationalisation network had failed and the absence of
structural embedding of the network meant that Beta’s internationalisation to China had abruptly stopped.

The following table (Table 16) summarises the network expansion process across the three case-studies and is further discussed in sections A, B and C.
Table 16 - Summary Cross-case Analysis Table: China Internationalisation Network Expansion/Failure and Institutions

<table>
<thead>
<tr>
<th>HOW</th>
<th>ALPHA</th>
<th>DELTA</th>
<th>BETA</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Balanced – and limited - structural embedding of the internationalisation network around Ego and Alter</td>
<td>• Partial structural embedding of the internationalisation network (around Ego but not Alter)</td>
<td>• No structural embedding of internationalisation network</td>
<td></td>
</tr>
<tr>
<td>• Attempts by Alpha at structurally embedding external China network cluster are unsuccessful</td>
<td>• Attempts by Alpha at structurally embedding external China network cluster are unsuccessful</td>
<td>• Communication with Ego moved to new network actor and reduces in clarity</td>
<td></td>
</tr>
<tr>
<td>• Faster development of new network links between Alter and China-based network actors</td>
<td>• Faster development of new network links between Alter and global network actors</td>
<td>• As problems appear, assumption of competence-based trust between Ego and Alter decreases fast and network relationship increasingly suffers.</td>
<td></td>
</tr>
<tr>
<td>• Face to face interaction between Ego and Alter reduces dramatically</td>
<td>• Tension between DeltaC3 (Scot) and Alter within the Chinese network increases</td>
<td>• Slow pace of China-based network development</td>
<td></td>
</tr>
<tr>
<td>WHAT</td>
<td>• Reliance on Ego and Alter internationalisation network bridge remains and reliance on Alter further increased</td>
<td>• Reduced reliance on Ego by Alter and over reliance on Alter by Delta</td>
<td>• Beta’s China Internationalisation network bridge has collapsed</td>
</tr>
<tr>
<td>• Ego retains information and control benefits over the UK network cluster but on a lesser level</td>
<td>• Ego retains information and control benefits on some parts of the Global network (Europe)</td>
<td>• Ego is not brokering on behalf of Epsilon any more but retains contact with European and South African firms</td>
<td></td>
</tr>
<tr>
<td>• Relational embedding of the Ego and Alter connection, and Alter’s loyalty to Alpha, maintained in spite of a lesser frequency of contact Ego-Alter</td>
<td>• Damage to relational embedding of the Ego-Alter connection due to constrained internationalisation network and information flows.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Over-embeddedness of the network around the Ego-Alter bridging connection is somewhat balanced by the limited structural embedding</td>
<td>• Over-embeddedness of network around the Ego-Alter bridging connection, compounded by partial structural embedding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Alter’s improved functional competence helps with structural embedding</td>
<td>• Alter’s improved functional competence creates knowledge asymmetry</td>
<td>• Loss of competence-based trust has undermined assumption of mutual benefit from the Ego-Alter relationship</td>
<td></td>
</tr>
<tr>
<td>• Presence of structural holes between Alpha and China-based external network actors</td>
<td>• Negative information received from DeltaC3 informally</td>
<td>• Poor communication and lack of understanding or shared objectives between Ego and Alter</td>
<td></td>
</tr>
<tr>
<td>• Ego’s senior position within the internationalisation network over Alter</td>
<td>• Presence of structural holes between UK-based network actors and China-based external actors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Institutional consonance between Ego and Alter</td>
<td>• Alter’s senior position within the Global network (equal to Ego)</td>
<td></td>
<td></td>
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<tr>
<td>WHY</td>
<td></td>
<td></td>
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<tr>
<td>• Information flows within the network constrained by cognitive ability and relational embedding</td>
<td>• Information flows within the network constrained by cognitive ability and relational embedding</td>
<td></td>
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<tr>
<td>• Network development in China constrained by host institutional knowledge</td>
<td>• Network development in China constrained by host institutional knowledge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Institutional consonance between Ego and Alter</td>
<td>• Institutional consonance between Ego and Alter but dissonance between DeltaC3 and Alter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INSTITUTIONS IMPACT</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• Communication with Ego moved to new network actor and reduces in clarity</td>
<td></td>
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<tr>
<td></td>
<td>• As problems appear, assumption of competence-based trust between Ego and Alter decreases fast and network relationship increasingly suffers.</td>
<td></td>
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<tr>
<td></td>
<td>• Slow pace of China-based network development</td>
<td></td>
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<tr>
<td></td>
<td>• Beta’s China Internationalisation network bridge has collapsed</td>
<td>• Ego is not brokering on behalf of Epsilon any more but retains contact with European and South African firms</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source: The Author</td>
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</tr>
</tbody>
</table>
A. Partial versus Balanced Structural Embedding and the Relationship with Relational Embedding

As time went on, only limited structural embedding of Alpha and Delta’s internationalisation networks started to take place, primarily because of the lack of shared cultural-cognitive institutions between Scotland and China based actors (which will be elaborated on in the next subsection). Clear structural holes remained between Ego/UK network actors and China-based external network actors (for instance customers) and attempts at bridging those remaining holes failed. Structural embedding was also constrained by the deep relational embedding between Ego and Alter and concerns within the network about damaging that key bridging relationship. What was clearly similar to both cases (Alpha and Delta) is the fact that Ego was anxious that being seen to attempt and create separate and direct connections with China-based external actors would upset Alter. All new connections in that respect had to be first agreed with Alter.

The main difference between Alpha and Delta however lay in the way structural embedding was developed around the Ego-Alter dyad. While limited but balanced structural embedding in Alpha’s case was developed equally across the internationalisation network, partial structural embedding in Delta’s case created an imbalance in the Ego-Alter bridging dyad. Balanced (Alpha) means that there was symmetry across both UK and Chinese network clusters in the way the internationalisation network was structurally embedded (Figure 10): while Alpha0 and Alpha2 are connected both to Ego and Alter in the UK network cluster, AlphaC2 is connected to both Ego and Alter in the China cluster. Conversely, in the case of partial structural embedding (Delta), structural embedding was only in evidence within the non-China network cluster (Figure 16): while Alter is connected to multiple actors within the non-China network cluster (both within and outside the UK), within the China cluster Ego is solely linked to Alter. Delta’s China internationalisation network is heavily constrained (Burt 2011) around a single actor, i.e., Alter. As a result, information reaching Ego from China could only travel via Alter. Subsequently, when Ego received negative China-related rumours, he started to wonder about the quality of the information he was getting from China, by extension, questioning his level of trust. In effect, the lack of structural embedding around Delta’s Alter was having a negative impact on the relational embedding of the Ego-Alter connection. Partial structural embedding was the result of multiple factors related to Delta’s internationalisation network development process: reduced reliance on Ego by Alter, the high integration of Delta’s internationalisation network, the lack of English-speaking
China-network actors in China and the perception by Alter that he was now Ego’s equal in terms of network position. Conversely, balanced structural embedding across Alpha’s internationalisation network, meant that there was no evidence of any damage to the relational embedding of the Ego-Alter bridging dyad: relational embedding remained strong, underpinned by growing evidence of competence- and benevolence-based trust (Roy 2012; Tsui-Auch and Möllering 2010) on both sides. Alpha’s Ego was able to receive information from two separate network actors: AlphaC1 (Alter) and AlphaC2, whose English had improved and who could now communicate regularly with Ego. Besides, Ego remained Alter’s reporting link (as opposed to Alter seeing himself as an equal of Ego as in Delta’s case) and Chinese norms guiding hierarchical work relationships of respect towards elders and superiors were also at play. There was continued respect and warmth from Alter towards his boss (Ego). The above findings lead to the following synthesis and explanation statement:

In contexts of high institutional distance, balanced viz. partial structural embedding of the SME internationalisation network will have positive viz. negative effects on the relational embedding of the Ego-Alter bridging connection.

B. Constraining Effect of Cultural-cognitive Institutions on Information Flows and Structural Embedding

As the SME internationalisation network into China started to expand, so did information flows across the different parts of the network. It was clear from Figures 10 and 16 that information flows within the networks were significantly inhibited by the absence of shared cultural-cognitive institutions, i.e., exchanges of information across network connections were clearly limited to actors sharing the same language and cognitive frames of reference. Cultural-cognitive institutions – Scott’s (2008) Cultural-cognitive Pillar defined in section 4.5) cover the use of language and frame of references that allow actors to make sense of the information they receive. A clear and simple example from the data of the effects of differences in cultural-cognitive institutions was the inability of Delta2 to make sense of the Chinese accountancy figures sent by DeltaC4, the Chinese Finance Manager:

‘I mean, quite literally, the screen opens up and it's full of Chinese characters and, you know, there's no way I can understand what's going on.’

In addition, SMEs resource limitations and the relative rarity of institutional hybrids in China, meant that new China-based network actors often only spoke Chinese - or at best limited English - and were unable to communicate effectively with network actors in the UK. Again Delta2 eloquently describes the limitations:
‘Communicate not as in a conversation but get her answer across to me, a combination of words, a combination of looking up the Chinese, showing the words she's trying to say on the computer. So we communicate but we don't converse.’

Differences in cultural-cognitive institutions, i.e., between actors who do not share the same language and frames of reference, create confusion in communication. Nonetheless, while Delta’s Ego was aware of the challenges of building relationships with actors in China who did not speak English, he felt that functional skills were more important for the organisation’s Chinese staff than any language or cultural skills; he also underplayed the impact of the lack of shared institutions between the two sides of the internationalisation network. When interviewed, Delta’s Ego felt that there was no absolute benefit in China-based internal network actors to speak English, as he himself mostly interacted with Alter and had no need to communicate with other actors within the China-based organisation. Paradoxically, what was perceived as critical for Alter initially, institutional competence, was deemed not a priority for new China-based network actors. As a result, the lack of shared cultural-cognitive institutions between home and host network actors also limited the possibility of structural embedding within the China-based network. Ego failed to see the benefits that structural embedding could have offered in reducing his – and Delta’s - over-reliance on Alter.

This view was not necessarily shared by his UK network colleagues, who struggled to exchange information with their counterparts in China when necessary and felt that time and cost had sometimes been wasted through a lack of shared language and practices. While cost was usually given as the reason why so little effort was invested in improving institutional consonance between the different parts of the Delta internationalisation network, perceived value by the actors who made the decisions, i.e., Ego or Alter, was the real issue. The benefits of structural embedding needed to be evaluated across the whole of the China internationalisation network, whereas Egos’ or Alter’s egocentric views of the network were too narrow. In a smaller organisation, without the resources available for a more strategic view of network development, the risk of network egocentrism by key decision-makers is likely to be high.

Conversely, Alpha actively supported their local Chinese network actors (staff) by offering English language lessons and encouraging them to improve their English. AlphaC2’s improved knowledge of English (or home network cultural-cognitive institutions) enabled the balanced structural embedding of Alpha’s internationalisation network and removed the risk of network constraint (Burt 2011) that was characteristic of the Delta case.

The above findings lead to the following synthesis and explanation statement:
Lack of shared cultural-cognitive institutions between home and host network actors will constrain the SME internationalisation network, inhibiting information flows and limiting structural embedding.

C. The Negative Impact of Institutional Dissonance on Competence-based Trust: The Absence of Institutional Hybridity

Alpha and Delta’s China internationalisation networks may have had their weaknesses in relation to structural embedding, but they survived over time and allowed internationalisation network development into China to continue. In the context of Beta, however, following the network building phase, the internationalisation bridging mechanism collapsed and the China internationalisation network development failed. The absence of an institutional hybrid within the bridging connection during the network building phase meant that Ego and Alter’s connection had not become relationally embedded. As discussed in section 7.2.2, the connection was instead underpinned by expectations of mutual benefit to be gained from the relationship, themselves dependent on assumptions of mutual competence-based trust. Competence-based trust had been increasingly damaged during Network Building however, through the inability of Ego and Alter to communicate effectively with each other: the absence of institutional hybrid had led to significant institutional dissonance between them. More specifically, Ego’s lack of awareness of institutional differences had led to an assumption that home and host formal institutions would be – more or less – similar and that his own competence in Western formal institutions, through his experience with the regulatory process in the West, would apply in China. As a consequence, when Chinese formal institutions (i.e., regulatory practices) did not meet his expectations, he quickly questioned the competence and goodwill of both Epsilon and Chinese regulatory officers, rather than the validity of his own expectations. This was a key difference with Alpha and Delta’s Egos, who both started with the assumption that, in China, all institutions differed from Scotland and that you needed a local person to understand and operate in the host environment. Beta1’s mistaken expectations were compounded by the fact that he solely searched his home (Western) network for opportunities to learn about China, reinforcing his Western bias with the usually similar opinions of Western businessmen like himself. Although Beta1 did try to learn about Chinese formal institutions for instance, unlike Alpha and Delta, he used Western network sources which were sometimes inaccurate. Compounding the lack of learning, there was also evidence of a deep-rooted distrust of China and its institutions by Beta’s Ego, fed by numerous tales of theft of intellectual property from actors from his
home network. This was in marked contrast to the perceptions of the other two Egos (Alpha/Delta), who although aware of China’s institutional challenges, trusted their Alters to have the knowledge and ability to overcome them.

As a result of this ineffective learning process, partly related to the absence of institutional hybridity within the network, Beta’s Ego slowly lost confidence in Alter’s competence. As competence-based trust further decayed over time, Ego’s behaviour and distrust of Chinese institutions put a strong strain on his relationship with Alter, while Alter’s own lack of knowledge of Western institutions made him unable to understand Ego’s perspective and communicate with him effectively. In other words, the long term effects of continued institutional dissonance between Ego and Alter destroyed mutual competence-based trust over time, until assumptions of mutual benefit to be derived from the maintenance of the bridging connection was reduced to nil. As bridge connections are costly to maintain (Burt 2011), they can easily decay when the perceived cost of maintaining the connection significantly outweighs the expected benefits to be derived from the relationship. What subsequently acted as a trigger for the collapse of the bridging connection was Ego’s sudden discovery of a competitor’s China registration. Following Ego’s ultimatum\(^{27}\), and in spite of his strong norm-based feelings of indebtedness towards him, Alter was eventually left with no choice but to pull out of the relationship altogether. Alter’s own doubts about Ego’s competence and products had led the bridging relationship to breaking point.

As Ego’s lack of knowledge of host informal institutions had also left him unable to structurally embed Beta’s internationalisation network - his attempt at building network relationships with additional China-based distribution actors never came to anything - Beta’s internationalisation into China stopped after four years of substantial investment in the market.

7.2.4 Cross-case Summary: China Internationalisation Development Process by Scottish SMEs

The cross-case analysis of the China internationalisation network development by Scottish SMEs has highlighted three common stages with regard to the internationalisation network development process between Scottish SMEs and China: Network Creation, Network Building and Network Expansion. From the earliest stage of development – i.e., Network Creation - regulative, normative and cognitive institutions, and in particular the differences

\(^{27}\) Beta1 demanded both a guaranteed deadline for the registration of the firm’s products and a confirmed order for products not yet registered.
in formal and informal institutions between Scotland (a developed economy) and China (an emerging one) were found to play a key role in the process of SME internationalisation network development.

Initially, due to the physical distance to the Chinese market and the lack of host market institutional knowledge, Scottish SMEs were unable to develop their China internationalisation network by following existing network ties into the Chinese market. In effect, they were confronted with what could be described as an ‘institutional’ structural hole. As a result, a key network actor (or two in the case of Beta) in each case-study firm, namely ‘Ego’, had to bridge this structural hole: Ego had to proactively identify and select (tie identification and selection) a Chinese ‘Alter’ through a home-based network broker.

During the network building stage, Ego’s lack of knowledge of informal host institutions meant he had to rely on Alter for the further development of the SME internationalisation network. Furthermore, the ineffectiveness of host formal (legal) institutions to ensure the stability of the network over time forced Ego to rely on relational embedding. From a situation of ‘no embedding’ (Burt 2011) between Ego and Alter at Network Creation, the Ego-Alter bridging relationship was embedded relationally through a trust-based governance mechanism. Only limited attempts at structurally embedding the internationalisation network during its expansion phase succeeded as a result of two combined factors: lack of host institutional knowledge, particularly related to the cultural-cognitive pillar, and relational over-embeddedness of the Ego-Alter bridging relationship.

Where cases Alpha/Delta and Beta differed was in the characteristics of the selected Chinese ‘Alter’. In Alpha’s and Delta’s cases, awareness by Ego of significant institutional differences between Scotland and China, prior to Alter’s selection, led to prioritising institutional competence in the search for Alter and selecting an ‘institutional hybrid’, i.e. an Alter who could operate effectively across developed and emerging markets’ institutions (Author’s definition). On the contrary, in Beta’s case, low emphasis on institutional competence for Alter, due to either a lack of awareness of the impact of institutional differences or the presence of a Scotland-based Chinese Alter, led to prioritising functional competence in the search for Alter.

The presence of an institutional hybrid within the bridging dyad promoted institutional consonance between Ego and Alter, which reinforced relational embedding, itself facilitating institutional consonance in a feedback circular effect. Conversely, in the case of Beta, the loss of institutional hybrid led to significant institutional dissonance between Ego and Alter; long term experience of institutional dissonance increasingly damaged

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28 See Author’s definitions of institutional consonance and dissonance in section 7.2.2.
mutual competence-based trust, until expectations of mutual benefit to be achieved from the costly maintenance of the bridging connection were destroyed.

As a result of the cross-case findings, a diagram (Figure 24) depicting the three case-studies’ patterns of SME internationalisation network development process across institutional is presented below. The diagram is split across three internationalisation network development stages: network creation, network building and network expansion.

In addition, the internationalisation networks’ patterns of development are divided between ‘institutional’ and ‘non-institutional’. Further differences between Alpha and Delta (institutional pattern) are also highlighted.
Figure 24 - SME Internationalisation Network Development across Institutional Distance Findings (Institutional vs Non-institutional Network Development Patterns)

Network Creation
Bridging Tie identification and selection

Institutional (ALPHA & DELTA)
- Ego searches for Alter
- Contacts home-based broker
- Selects an Institutional hybrid Alter

Non-institutional (BETA)
- Institutional Structural hole
- Lack of host informal institutional knowledge
- Selects a non-hybrid Alter

Network Building
Bridging Tie retention
Slow network development

Institutional criteria
- Institutional consonance
- Ego and Alter form a bridging connection
- Ego and Alter’s network connection becomes relationally-embedded

Non-institutional (BETA)
- Institutional dissonance
- Ineffective host formal institutions
- Asymmetry of host institutional knowledge
- Resource limitations
- Selects a non-hybrid Alter

Network Expansion
Bridging Tie retention
Fast network development

Institutional consonance
- Ego and Alter build a network connection based on mutual benefit
- Structural embedding of the internationalisation network constrained
- Balanced structural embedding
- Network stability over time through relational embedding (ALPHA)

Institutional dissonance
- Institutional differences
- Inability to learn about cognitive institutions
- Partial structural embedding
- Relational embedding weakened, threatening network stability over time (DELTA)

Institutional dissonance
- Lack of institutional embedding
- Risk of internationalisation network collapse increases over time (BETA)

Source: The Author
7.3 Causal Explanation Model of the Process of SME Internationalisation Network Development across Institutional Distance

The cross-case analysis in section 7.2 highlighted the critical role played by both formal and informal institutions in SME internationalisation network development across developed (Scotland) and emerging (China) economies. Formal and informal institutions – both cognitive and normative - mattered at two separate levels: lack of institutional knowledge and differences in institutions.

Initially, institutional distance and lack of host informal institutional knowledge, combined with the SMEs limited resources, were the key explanatory factors in relation to the process of network creation. Both a lack of host informal institutional knowledge and institutional distance more generally prevented Ego’s direct access to networks within the host market, creating, in effect, an institutions-related - or institutional -structural hole between himself and host networks. As a result, Ego was forced to rely on home-based brokers in order to bridge the institutional structural hole and access China-based networks. Ego had to establish a bridging mechanism across the institutional structural hole.

During Network Building, differences in formal institutions between home and host internationalisation network clusters, and in particular the weakness of legal host institutions to safeguard network stability, made relational embedding - as opposed to formal institutions such as legal contracts - the most effective strategy to maintain the internationalisation network over time. The reliance on relational embedding to ensure network stability during the second stage of SME internationalisation network development combined with Ego’s lack of host informal institutional knowledge meant that the presence of an through an institutional hybrid (Alter) within the bridging connection was necessary: institutional hybrids were able to promote institutional consonance between Ego and Alter, which itself facilitated relational embedding, in a circular reinforcing mechanism. As a result of this reinforcing circular mechanism, relational embedding of the internationalisation network bridging dyad was developed effectively, with support from evidence-based benevolence- and competence-based trust (Roy 2012; Tsui-Auch and Möllering 2010) through positive interaction.

Conversely, Beta’s experience and the loss of Beta’s institutional hybrid, Beta0, in the early stages of network internationalisation, demonstrated that the absence of an institutional hybrid within the institutional bridging dyad had two critical consequences: - Differences in informal institutions had the potential to increase the risk of institutional dissonance between network actors whose behaviour was guided by diverging – and often conflicting - home and host institutions.
- Lack of shared cultural-cognitive and normative institutions between Ego and Alter also prevented the relational embedding of the bridging connection. As a result the relationship was underpinned by expectations of mutual benefit to be derived from the relationship, based around assumptions of benevolence- and competence-based trust (Roy 2012).

As a consequence of the effects of institutional dissonance however, the mutual assumption of competence-based trust by both actors was increasingly damaged: Beta’s efforts at internationalisation network building quickly struggled due to ineffective relationship-building between Ego and Alter. As Network Building became Network Expansion, growing damage to mutual competence-based trust, combined with continued and persistent institutional dissonance between Ego and Alter, was to lead to the waning of the initially expected mutual benefit.

What was true in all cases throughout the developmental process, and particularly during the later stages of network expansion, is that the lack of host informal institutional knowledge by Ego (and more generally Scotland-based network cluster ties) made the structural embedding of the internationalisation network more than challenging. Institutional knowledge asymmetry also increased Alter’s power within the internationalisation network, with Ego’s information and control benefits solely linked to the strength of the relational embedding with Alter. As a consequence, while effective relational embedding between Ego and Alter in Alpha and Delta’s cases improved the SME internationalisation network’s stability, it also endowed Alter with significant information and control benefits over the whole of the internationalisation network: the internationalisation network remained stable as long as the relational embedding of the Ego-Alter remained strong.

Conversely, in the case of Beta, the fragility of the Ego-Alter bridging dyad eventually led to the collapse of the internationalisation network bridge. In addition, the lack of structural embedding of Beta’s internationalisation network with China and the absence of alternative network ties for internationalisation into this emerging market led to the failure of Beta’s internationalisation network.

Figure 21 below offers a causal explanation process model of SME internationalisation network development across institutional distance. Contextualised causal explanation (Welch et al 2011) as a methodological approach is relatively novel: for that reason, there is limited guidance as to what its theoretical outcome should look like, and the results of the causal explanation analysis remain more tentative and experimental than with other research techniques (Welch et al 2011). Rare earlier instances of studies that applied some form of causal explanation in their study were identified by Welch et al (2011), including
Farjoun (2002)’s study of institutional development, whose outcome is described as a ‘dialectic process model’ (although the model is presented as a narrative rather than a figure) and Perlow et al (2002) who present complex loop models. The current thesis broadly draws from both Farjoun (2002) and Perlow et al (2002) to propose a causal explanation (Welch et al 2011) process model of SME internationalisation network development across institutional distance. Causal explanation process models (i.e., the model presented in this thesis) differ from explanatory process models derived from inductive theory-building (see Orr and Scott 2008 for instance). Causal explanation process models tend to answer how and why questions, while emphasising contextual factors within the explanation. They may describe non-linear processes such as circular feedback effects. Conversely, inductive process models lean towards how questions, while usually depicting linear processes, where contextual factors are underplayed in order to allow for broader generalisation through future quantitative testing. In addition, inductive theory-building models are normally accompanied by propositions whose main aim is to link inductive theory-building to theory-testing (Welch et al 2011). By contrast, the proposed causal explanation process model presented herein is focused on answering how and why a specific process of SME internationalisation network development was followed in this particular context of high institutional distance, with contextual factors at the centre of the explanation (Welch et al 2011). The synthesis and explanation statements that complement the causal explanation process model are designed to articulate and support the causal explanation depicted in the model, they are not meant to equate theoretical propositions. The model also exhibits a higher level of complexity and incorporates non-linear causal loops, such as the circular effects of institutional consonance on the relational embedding of the bridging connection. This form of theorising allows some reflection of real life’s complexity, rather than a more testable but also more simplified conceptualisation of reality. In line with the thesis’ critical realist ontology, as discussed throughout the methodology chapter, it is argued that this choice of methodology was not a matter of electing right from wrong, but a matter of selecting the best methodology in order to adequately tackle the research question and the stated objectives of the thesis.
Figure 25 – Causal Explanation Process Model of SME Internationalisation Network Development across High Institutional Distance

Source: The Author
A summary table of the explanation statements that appeared within the cross-case analysis in section 7.2 is offered, in order to support and clarify the causal explanation process model.

Table 17 – Synthesis and Explanation Statements Supporting the Causal Explanation Process Model of SME Internationalisation Network Development across Institutional Distance

<table>
<thead>
<tr>
<th>Stage of Network Development</th>
<th>Explanation statements supporting the model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation</td>
<td><em>SME internationalisation network development across institutional distance will increase the likelihood of the presence of a structural hole that will then require an active bridging process.</em></td>
</tr>
<tr>
<td>Creation</td>
<td><em>Institutional distance increases the likelihood of resorting to a home-based broker in order to bridge SME internationalisation networks structural holes.</em></td>
</tr>
<tr>
<td>Building</td>
<td><em>Awareness of ineffective host legal institutions by Ego will promote the use of relational strategies in order to strengthen the SME internationalisation bridging connection with Alter.</em></td>
</tr>
<tr>
<td>Building</td>
<td><em>In the context of internationalisation network development across institutional distance, institutional consonance between Ego and Alter can be facilitated by the presence of an institutional hybrid within the bridging dyad.</em></td>
</tr>
<tr>
<td>Building</td>
<td><em>In the context of internationalisation network development across institutional distance, institutional consonance and relational embedding between Ego and Alter will be mutually reinforcing.</em></td>
</tr>
<tr>
<td>Expansion</td>
<td><em>In contexts of high institutional distance, balanced viz. partial structural embedding of the SME internationalisation network will have positive viz. negative effects on the relational embedding of the Ego-Alter bridging connection.</em></td>
</tr>
<tr>
<td>Expansion</td>
<td><em>Lack of shared cultural-cognitive institutions between home and host network actors will constrain the SME internationalisation network, inhibiting information flows and limiting structural embedding.</em></td>
</tr>
</tbody>
</table>

Source: The Author
7.4 Conclusion to the Cross-case Analysis and Causal Explanation Chapter

As a result of the cross-case analysis, and in line with the methodological approach (Welch et al. 2011) followed in this thesis, a causal explanation process model of SME internationalisation network development across institutional distance was derived from the contextualised study of three cases. In order to articulate the effects of causal mechanisms and contextual factors within the proposed model, a number of explanation statements accompany and support the model. They are first highlighted throughout the description of the cross-case findings in section 7.2, as well as being summarised in Table 17 above. For each stage of the process, causal mechanisms related to differences in home and host institutions were shown to impact the SME internationalisation network development: the thesis and its outcome explains the different patterns followed in the process of SME internationalisation network development in a situation of high institutional distance (how) and describes the effects of causal mechanisms and contextual factors (why). Chapter Eight will now bring this thesis to a conclusion through the discussion of the research contribution and limitations inherent to a causal explanation approach.
Chapter Eight
Conclusion: Thesis Contribution and Limitations

8.1 Introduction
This thesis aims to understand and explain the process of SME internationalisation network development across institutional distance through a conjunctural causal analysis (Welch et al 2011) of key explanatory factors, based around network development process tracing (George and Bennett 2005).

Despite the critical role played by networks in the internationalisation of the smaller firm, in order to overcome liabilities of smallness and foreignness (Al-Laham and Souitaris 2008; Al-Laham and Amburgey 2010; Andersson and Wictor 2003; Brown et al 2010; Coviello and Cox 2006; Coviello and Munro 1997; Ellis 2000; Ellis and Wong 2002; Fernhaber et al 2009; Fernhaber and Li 2012; Fernhaber and McDougall-Covin 2009; Ferro et al 2009; Freeman et al 2006; Harris and Wheeler 2005; Lindstrand et al 2011; Loane et al 2007; Manolova et al 2010; Presutti et al 2007; Terjesen et al 2008), very few papers have highlighted the more dynamic or strategic nature of network development (Coviello 2006; Kiss and Danis 2008; 2010; Loane and Bell 2006; Ojala 2009). The internationalisation literature also had little to say about networks’ developmental process across developed and emerging economies, i.e., across significant institutional distance. There was no understanding of how networks came to be in the first place, especially when home and host markets were separated by significant institutional distance; the literature was also silent on how networks enabled internationalisation to be maintained over time. The embeddedness of the smaller firm within networks that would facilitate and guide its internationalisation was assumed and the challenges of internationalisation network development in a context where formal and informal institutions differed were mostly ignored.

The current thesis integrates internationalisation network development with institutional theory and shows, through contextualised causal explanation (Welch et al 2011), how institutions, and more specifically differences between home and host networks’ institutions, guide and mediate the SME internationalisation network development process in situations of high institutional distance. The research question revolves around:

*How do SME internationalisation networks develop across institutional distance and why?*
Given the methodological nature of the study, research objectives were broad and initially organised around the exploration of three separate aspects in order to explain the process of SME internationalisation network development across institutional distance:

- The holistic understanding of the SME internationalisation network development process through the exploration of all four dimensions of internationalisation networks: structure, governance, relational aspects and content.
- The time-sensitive understanding of how and why internationalisation networks and their ‘four dimensions’ develop by studying the process of network development over time
- The context-based understanding of how and why internationalisation networks develop over time and across institutional distance by taking factors related to the institutional context into account.

Building on studies of strategic and dynamic internationalisation network development by smaller firms (Coviello 2006; Kiss and Danis 2008; Loane and Bell 2006; Ojala 2009), research findings identified three separate stages in the development of SME internationalisation networks across institutional distance, while highlighting the critical role played by institutions, both formal and informal, in mediating and shaping the developmental process. As a result a causal explanation process model of SME internationalisation network development across institutional distance was proposed.

While the nature of host country formal institutions, and in particular the weakness of the legal framework as a governance mechanism of network relationships, influenced the initial stage of network creation, it was in fact differences in informal institutions, and the lack of shared cultural-cognitive and normative institutions between home and host network actors that had the greatest impact during the later phases of network building and expansion. Interestingly, and rather surprisingly, differences in institutions (through the effect of institutional consonance\textsuperscript{29}) could sometimes have a positive effect on internationalisation network development across institutional distance. Indeed, it is important to reiterate that while qualitative research should be illuminated by extant academic knowledge and can be guided by pre-set conceptual frameworks, emerging causal explanation associated with the abductive and inductive approach pursued, may lead the researcher in often unexpected - and sometimes surprising – directions.

\textsuperscript{29} The terms ‘institutional consonance’ and ‘institutional dissonance’ were developed and describe by the author in section 7.2.2, subsection B.
As a result of unanticipated findings in relation to the role and effects of institutions in internationalisation network development across institutional distance, new literature had sometimes to be consulted and brought into the current chapter in order to discuss the thesis contributions and implications. The final chapter will indeed conclude this thesis by bringing together both the gaps identified from the SME internationalisation literature and the research findings, in order to highlight the thesis contributions. Implications for the literature, for practice and for policy will also be discussed, along with the limitations of the current study and what these may mean for future research.

First, as a reminder, Table 18 below brings the key knowledge gaps identified from the review of the literature from Table 5 in Chapter Four and connects them to the research findings. SME internationalisation networks were studied as multidimensional entities as per Table 2’s integrative analytical framework of network dimensions, covering network structure, network content, network relational characteristics and network governance.
### Table 18 – SME Internationalisation Network Knowledge Gaps and Research Findings

<table>
<thead>
<tr>
<th>Key knowledge gaps</th>
<th>Research findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How do SMEs develop internationalisation networks in order to overcome their liability of smallness and foreignness (when no relevant network is available)?</strong></td>
<td>When confronted with an institutional structural hole, smaller firms key internationalisation network actor (Ego) will strategically build the new network connections that are necessary to the firm’s internationalisation, sometimes having to access home-based network brokers in order to bridge the hole created by distance between home and host networks.</td>
</tr>
<tr>
<td><strong>How do SME internationalisation multidimensional networks develop over time?</strong></td>
<td>The Network Creation, Network Building and Network Expansion stages display different characteristics in terms of network structure, network content, network relational characteristics and network governance. At Network Creation, the network focus is on bridging any structural hole through a process of Alter identification, Alter selection and Alter retention. At the Network Building stage, the number of new ties are increasing slowly around Alter within the host network cluster, while relational embedding of the Ego-Alter connection is strengthening. At the Network Expansion stage, both the size of the network and network density are increasing, with new network ties being built around Alter much faster. Besides, some structural embedding (limited or partial) across home and host network clusters is also taking place.</td>
</tr>
<tr>
<td><strong>How do SME internationalisation multidimensional networks develop over time and across institutional distance?</strong></td>
<td>The thesis highlighted the key role of <em>institutional hybrids</em> in reconciling differences in institutions between home and host network clusters. <em>Weak legal institutions</em> within the host network cluster also made relational embedding of the Ego-Alter bridging connection over time a better strategy to improve SME internationalisation network stability than formal institutions (contracts). Limited structural embedding was seen to take place during Network Expansion but it was constrained by the <em>lack of shared cultural-cognitive institutions between home and host network actors</em>. Besides, <em>limited structural embedding, if partial</em>, was found to negatively impact the <em>relational embedding of the bridging connection</em>.</td>
</tr>
</tbody>
</table>

Source: The Author

Each knowledge gap and relevant research finding will now be discussed in more detail, highlighting the thesis’ key contributions in section 8.2.

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30 See Table 5 in Chapter Four for more detail on support from the literature.
8.2 Thesis’ Contributions to Theory on SME Internationalisation Network Development across Institutional Distance

This thesis presents three main contributions. First, building on Coviello’s (2006, p.714) study of INVs network dynamics and focusing on the network as ‘the dependent variable’, an important contribution of the thesis is to show how and why the process of SME network development has to be strategic and proactive in situations of institution-related structural holes. Identifying strategies to overcome institutional structural holes created by a lack of host institutional knowledge in the home network cluster (Fletcher and Harris 2012) requires a proactive identification of a suitable bridging mechanism. In some cases, SME network actors had to go to incredible lengths to identify, select and retain the necessary bridging tie. This was a far cry from the depiction in the business network literature (Johanson and Vahlne 2009) of passive SMEs gradually following their networks into international markets, based on increasing psychic distance or client followership.

Second and foremost, the thesis integrates theories of SME internationalisation, social networks and institutions to offer a causal explanation process model of SME network development across institutional distance. Answering calls from Sartor and Beamish (2014) and Jones et al (2011), this model clearly highlights the key impact of institutions on the process of SME network development when internationalisation must occur across developed and emerging economies’ networks. The internationalisation literature has also so far focused on the effects of formal institutions in contexts of significant institutional distance (Sartor and Beamish 2014). Herein research findings clearly showed that while formal institutions did matter in the process of SME internationalisation network development, informal ones, and more particularly, the lack of shared informal institutions between network actors across home and host clusters, appeared to matter even more for internationalising SMEs.

As a result of the impact of the lack of shared institutions between home and host networks, the thesis highlights the crucial role of the institutional hybrid in the process of SME internationalisation network development in order to overcome institutional tensions created by sometimes conflicting home and host institutions and facilitate institutional consonance. The concept of ‘institutional hybrid’ (The Author) differs and goes beyond the notions of cross-national ‘boundary spanners’ (Newman 1992) and network ‘brokers’ (Burt 2011): the institutional hybrid is characterised by his/her ability to be fully operational across two or more separate institutional environments, through the integration of multiple sets of formal and informal institutions. The emphasis is on institutional competence and knowledge; simply equating this concept to either ‘boundary spanners’ or
‘brokers’ would be unhelpful and risk creating confusion around all three terminologies. Semantic rigour favoured the use of a separate, institutions-focused and clearly defined concept. As the SME internationalisation network was also shown to be heavily constrained (Burt 1995; 2011) around the Ego-Alter bridging dyad, the risk to network stability posed by the potential withdrawal of either Ego or Alter from the network was high. The Institutional consonance (The Author) and relational embedding (The Author), enabled by the presence of the institutional hybrid (The Author) within the dyad, were also found to be mutually reinforcing and critical to SME internationalisation network stability in that context.

Furthermore, the thesis highlights the interconnectedness between formal and informal institutions and their effects on SME internationalisation network development. For instance, Ego’s ability to learn about host formal institutions was limited by his lack of informal host institutional knowledge. This is an important contribution of the contextualised causal explanation perspective (Welch et al 2011) as examining a phenomenon within its context allows the mutual interaction of separate factors to be underlined and described, where other techniques would have treated them as ‘independent variables’ (Welch et al 2011).

Building on the above observation, the thesis also offers a couple of methodological contributions. First, the research applies Welch et al’s 2011 conjunctural causal explanation approach to multiple case-study research. Secondly, answering Chidlow et al’s (2014) call for a better treatment of language in internationalisation research, it highlights methodological learnings linked to the conduct of bi-lingual China-based research, and proposes the use of bi-lingual data collection and analysis by institutional hybrid researchers in order avoid distortions related to translation of data. The next subsections 8.2.1, 8.2.2 and 8.2.3 will discuss each contribution in turn and link the thesis’ findings with the literature.

8.2.1 SME Internationalisation Network Development across Institutional Distance: The Strategic and Dynamic Development of Networks

This thesis took a social network approach (Burt 1995; 2011) to build on a limited number of studies (Coviello 2006; Loane and Bell 2006; Ojala 2009) that focus upon the strategic and dynamic development of internationalisation networks; research findings showed how and why SME network actors must at times be highly proactive in their internationalisation network development networks. A key factor is high institutional distance.
The literature describes networks as internationalisation enablers that allow smaller firms to overcome their liabilities of smallness and foreignness (Coviello and Munro 1997). Too often however, the assumption is that SMEs will follow their existing network ties into internationalisation (Johanson and Vahlne 2009; Jones et al 2011), with internationalisation patterns often a reflection of such ties (Bell 1995; Sharma and Blomstermo 2003). Concurring with Fletcher and Harris (2012), the current study showed that in some contexts, i.e. high institutional distance, smaller firms’ networks may not contain the appropriate network ties for internationalisation in a specific market. Besides, knowledge from developed economy network ties may not always be adequate in an emerging market context (Levin and Barnard 2013). Instead, SMEs key network actors may find themselves confronted with an institution-related structural hole that must be bridged in order to internationalise into a distant host market.

Building on Coviello (2006) and Ojala (2009), this study showed how and why a dynamic network development process, where SMEs Egos first searched for network brokers within their home market, had to be undertaken in order to bridge an institutions-related structural hole. SME network actors had to behave strategically (Hite and Hesterly 2001; Ojala 2009) and proactively in order to identify a suitable Alter, that would give them access to the required internationalisation network ties within the host network cluster. As was found by Fletcher and Harris (2012) some of the bridging mechanisms included recruitment and support from government or trade organisations. In a high distance context, Ego’s existing network ties were highly unlikely to be in a position to give access to the right host market information or network ties. Instead, Ego had to engage in a pro-active search for Alter, based on a set of pre-defined criteria related to the actor’s ability to operate within the host market’s institutions and access local networks. Due to the impact of institutional distance, those characteristics of Alter’s were more crucial to the successful development of the internationalisation network than sector or product-related knowledge and experience.

Furthermore, access to host network ties through Alter was not the only requirement for the SME’s internationalisation: Ego’s lack of host institutional knowledge meant that his reliance on Alter was to prove longer term. This issue will be more extensively discussed in section 8.4, in terms of its implications for social network theory in the context of SME internationalisation network development across institutional distance.

An additional insight of the study was the importance of the awareness by Ego of the limits of his existing knowledge: Beta’s lack of awareness of how different institutions in China were - and how inappropriate his pre-existing knowledge was - led him to make numerous mistakes in the course of internationalisation network development with China. Beta1’s
behaviour was akin to the concept of ‘institutional ignorance’ displayed by firms and developed by Orr and Scott (2008) in the context of global projects. Khanna (2014, p. 60) refers to the ability of an individual to understand the limits of his/her knowledge in different contexts as ‘contextual intelligence’ and it was seen herein to be an important factor. More broadly, the thesis concurred with the increasing recognition in international business research that context matters (Khanna 2014; Meyer 2014; Obadia 2013): integrating an institutional lens, that takes both formal and informal institutions into account, and offers an improved understanding of the impact of the institutional context on internationalisation network development by SMEs, is another major contribution of the thesis. This is discussed next.

8.2.2 SME Internationalisation Network Development over Time across Institutional Distance: The Impact of Institutions and The Role of the Institutional Hybrid

This thesis developed a holistic research framework of SME internationalisation network development across institutional distance by integrating aspects from SME internationalisation (Child and Hsieh 2014; Jones 1999; Jones and Coviello 2005), social network (Burt 1995; 2011; Jack 2010; Slotte-Kock and Coviello 2010) and institutional (Kostova 1999; North 2009; Scott 2008) theories to research a complex and highly-contextualised phenomenon: the process of SME internationalisation network development across institutional distance. As discussed in 8.2.1, throughout the research, and in line with Coviello (2006) and Jack (2010), the thesis argues for the dynamic and holistic study of the evolutionary aspects of internationalisation networks across multiple dimensions. Furthermore, an additional contribution of the study is to propose a comprehensive conceptual framework of internationalisation network development, that includes dimensions related to networks (network structure, content, relational characteristics and governance), with elements linked to network development (tie identification, selection, retention), as well as components associated with institutions (cultural-cognitive, normative and regulative pillars) (Scott 2008). The literature recognises the role of institutions and social networks in the internationalisation process of smaller firms (Jones et al 2011). A few prior studies have integrated internationalisation networks and some aspects of institutions (Danis et al 2010; Kiss and Danis 2008; 2010) but none has researched the impact of institutions on the development of internationalisation networks across institutional distance. In response to Eden’s (2010, p. 175) call about ‘lifting the veil on how institutions matter’ in international business, this thesis takes a processual and
A causal explanation approach to explain how and why differences in institutions between a developed economy (home) and an emerging one (host) influence and shape the process of SME internationalisation development. As a result, the main theoretical contribution of the research is to propose a causal explanation process model of SME internationalisation network development across institutional distance that clarifies the role of institutional factors for each step of the developmental process.

At the Network Creation stage, institutional distance led to the presence of an institutional structural hole between the home and host network clusters, while a lack of host institutional knowledge by Ego meant the need for the identification of an institutional hybrid in order to develop the SME internationalisation network. During Network Building, differences in formal institutions (weak legal framework) meant that relational embedding - as opposed to contractual means - had to be used as a method to safeguard internationalisation network stability. In his theory of structural holes, Burt (1995; 2011) argues that sustaining network bridges over time is a challenge as bridge relationships are costly to maintain. As a result, most bridges will decay within a year (Burt 2002; Prashantham and Dhanaraj 2010). In a high institutional distance SME internationalisation context however, and due to asymmetry of institutional knowledge between home and host network actors, the bridge connection between Ego and Alter must be maintained if internationalisation is to continue. In a domestic context, where institutional knowledge between network actors is symmetrical, network closure through structural embedding can strengthen network stability. In a high institutional distance SME internationalisation context, asymmetry in host institutional knowledge and reliance on relational embedding between Ego and Alter, will make structural embedding more and more challenging for home network cluster actors, and more specifically Ego. Over time, as the internationalisation host network cluster expands, Alter’s control and information benefits will increase and the stability of the Ego-Alter bridging dyad will have to be preserved through relational embedding.

A further contribution of the thesis however - as was evidenced through case-study Delta - was to show that partial structural embedding (structural embedding of a single cluster on one side of the bridging connection) of the internationalisation network had a negative impact on the relational embedding of the Ego-Alter connection, increasingly threatening the overall network stability. Instead, as in the case of Alpha, balanced and more limited structural embedding across the breadth of the internationalisation network had a positive effect on the Ego-Alter relational embedding and overall network stability over time. This study highlights the fact that, in a SME internationalisation and high institutional distance
context, different patterns of structural embedding (partial vs balanced) may have opposite (positive or negative) effects on bridging ties’ relational embedding.

The study also introduced the notion of institutional hybrid and highlighted their critical role in the process of SME internationalisation network development in order to reconcile institutional differences between Ego and Alter. The institutional hybrid’s thorough knowledge of both sets of institutions across formal and informal dimensions, allowed this individual to effectively communicate and operate across both sides of the internationalisation network. This was a critical role in order to achieve institutional consonance between Ego and Alter, itself an important factor in the successful relational embedding of the bridging dyad. While the internationalisation literature has discussed hybrids in terms of individuals with ‘multicultural legacies’ (Leung and Morris 2014, p.6), it has focused on how cultural values affect individual behaviour. In the context of cross-institutional internationalisation, the institutional hybrid, as defined in this thesis, allows the study of actors with cross-national (or cross-institutional) characteristics through a more rounded perspective of internationalisation. The concept encompasses knowledge related to both formal and informal institutional contexts, such as legal environment and cultural-cognitive aspects, rather than simply culture and values.

In addition, drawing from the idea of cognitive (Rodrigues and Child 2008) or acculturative (Lillevik 2015) dissonance (Brunning et al 2012), the thesis offers and defines the concepts of institutional consonance and institutional dissonance as key factors in the development of relational embedding between network actors from a dissimilar institutional background. This further contribution of the thesis presented a surprising insight from the study, which showed that efforts at learning about host institutions by home network actors (Egos) could result in positive effects on relational embedding through institutional consonance. In the context of Western expatriates and their Chinese colleagues, Brunning et al (2012) had identified some personality traits (sociability) and the formation of friendship as remedies for ‘dissonance’, a term mostly related to culture and cognition (Lillevik 2015; Rodrigues and Child 2008). There are indeed numerous examples in the research data that concur with - and build on - that observation, i.e., that some types of behaviour between network actors with dissimilar normative institutions will help overcome some form of ‘dissonance’ and instead promote consonance. The thesis goes further however by explaining how and why relational embedding (The Author) and institutional consonance (The Author), facilitated by the presence of an institutional hybrid (The Author), can overcome the challenges created by ‘institutional tension’ (The Author)
- and related *institutional dissonance* (The Author) - when developing SME internationalisation networks across institutional distance.

A related insight from the thesis was to show that ‘*institutional tension*’ was the result of conflicting normative institutions between home and host network actors, compounded by the lack of shared cultural-cognitive institutions between them. As a related effect, the negative effect of the tension - *institutional dissonance* – was seen to inhibit relational embedding between network actors in the process of SME internationalisation network development.

Having described the thesis contribution to SME internationalisation in the context of the process of network development across institutional distance, the next subsection discusses the methodological contributions of the thesis.

Finally, the research findings also raised a few issues with regard to the focus on *guanxi* in the internationalisation literature in order to discuss Chinese management and networking practices (Buckley et al 2006; Chua et al 2009; Wong and Tjosvold 2010). The concept of *guanxi* was shown to describe a multitude of meanings from the perspective of research participants, both Western and Chinese; the term was sometimes related to ‘connection’, sometimes to ‘network’ and at other times to ‘a corrupt type of practice’. This finding was supported by comments made from experts as well (see Appendix Two) and concurs with some of the literature (Gu et al 2008 for instance). Besides, and confirming Luo et al.’s (2012) findings, the meaning and practice of *guanxi* differed based on the nature of the network tie, i.e., government versus business tie for instance. This absence of clarity and boundaries for what may be an over-used and over-complex concept highlights the need to dig beyond the surface and go deeper by dismantling *guanxi* as a concept, into its components and mechanisms, an approach followed by a number of Chinese authors (Chua et al 2009; Gu et al 2008; Luo et al 2012). This thesis goes further by arguing that the emphasis within the internationalisation literature, especially in the context of comparative and cross-national research, should be on Chinese informal institutions more broadly (as per Faure and Fang 2008), including the Chinese norms and values that govern *guanxi* practice. The concern is that the multiplicity of meanings and nuances attached to the term *guanxi* is likely to create confusion. This contention was supported by the expert interview and research findings: in the context of cross-national internationalisation network development by SMEs, Chinese informal institutions was shown to have a significant impact on the process, whereas *guanxi* as a practice remained the domain of Chinese network actors. In conclusion, this was the view of one of the Chinese experts:
And I don't believe some foreigners who claim they have good guanxi with this government official. That guanxi is still very superficial. And you cannot judge guanxi by 'this government official treat me to a very good dinner', and 'good friends'; these are very superficial things and many Chinese would still have quite a different attitude in the guanxi with foreigners and with Chinese. I don't think that in-depth guanxi can really be established between the foreigners and the Chinese, I mean business people and government officials. Generally speaking I don't think that Westerners can have good guanxi with Chinese, because of different business culture, different perceptions and also the cautiousness for example of the Chinese. So for example the corrupted Chinese officials, not easy to trust Westerners and tell all the truth for example.

The next section proceeds to elaborate on the thesis methodological contributions.

8.2.3 The Process of SME Internationalisation Network Development across Institutional Distance: Highly Contextualised Methodology for the Study of Complex Phenomenon

Finally, the last contributions of this thesis are methodological ones. First, the investigator was concerned to treat both network actors’ sets of informal institutions carefully and respectfully by retaining both original languages, not only in data collection, but also in data analysis. This bilingual approach was followed to retain congruence with the rich Chinese context and the cross-institutional nature of the research. In addition, the thesis followed a complex research methodology that integrated contextualised causal explanation (Welch et al 2011), based around process tracing (George and Bennett 2005), with Yin’s (2014) replication logic and case-study research.

Given the increasing importance of emerging economies in internationalisation research and their significant environmental dissimilarity with Western developed nations, this study answers calls (Eden 2010; Meyer 2014; Welch et al 2011 for instance) for a greater contextualisation of research into internationalisation phenomena. Drawing from multiple methodological approaches (process tracing, causal explanation and variance across cases) allowed for deep insights from highly-contextualised and rich data, without sacrificing analytical and methodological rigour by ensuring research validity and reliability through multiple chains of evidence.

The thesis also contributes to Chidlow et al’s (2014) plea for greater methodological considerations when linguistic boundaries are being crossed in the context of IB research. Due to the nature of the topic, concerned with differences in cultural-cognitive institutions, the researcher felt strongly that it was imperative to retain the participants’ original languages in data analysis, as translating the data would have removed nuances or ambiguity present in the original language and created an issue of ‘cultural
interference’ (see section 5.6.1). As a result of this truly ‘bilingual’ methodological approach, and building on Stening and Zhang (2007), with a single non-Chinese researcher both collecting and analysing the raw data in the home and host countries’ original languages without resorting to translation, a number of methodological insights were gathered and fully described in section 5.6.3.

The detailed methodological learning issues are related to the conduct of interviews in China as a non-Chinese investigator, as well as to issues surrounding the involvement of the Chinese collaborators during transcription and data analysis. Some of the cultural-cognitive related insights highlighted the dangers of relying on translation when analysing rich contextualised data and the need for bilingual researchers to conduct multiple, back and forth checks of transcriptions, or back-transcriptions, in a similar manner as back-translation (Chidlow et al 2014; Child et al 2005) in IB studies. In conclusion, the involvement of institutional research hybrids for future cross-national internationalisation studies was advocated.

Table 19 below will now summarise the thesis’ contributions:
### Table 19 – Thesis’ Contributions.

#### Thesis’ Contributions

<table>
<thead>
<tr>
<th>Theoretical contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Proposes an causal explanation process model of SME internationalisation network development across institutional distance, highlighting the key impact of institutions, and particularly informal ones, in that context (Coviello 2006; Fletcher and Harris 2012; Kiss and Danis 2008; 2010; Jones et all 2011; Ojala 2009; Sartor and Beamish 2014)</td>
</tr>
<tr>
<td>• Conceptually defines and highlights the importance of the institutional hybrid (The Author) and institutional consonance/dissonance (The Author) in the process of SME internationalisation network development across institutional distance (Brunning et al 2012; Coviello 2006; Khanna 2014; Kiss and Danis 2008; 2010; Lillevik 2015; Ojala 2009; Rodrigues and Child 2008; Sartor and Beamish 2014).</td>
</tr>
<tr>
<td>• Integrates the social networks and entrepreneurship perspectives of networks to propose an analytical framework of social network dimensions for the study of internationalisation networks (Burt 1995; 2011; Coviello 2006; Jack 2010; Slotte-Kock and Coviello 2010).</td>
</tr>
<tr>
<td>• Integrates SME internationalisation (Child and Hsieh 2014; Coviello 2006; Jones 2005; Loane and Bell 2006), social network theory (Burt 1995; 2011; Jack 2010; Slotte-Kock and Coviello 2010) and institutions ( North 2009; Scott 2008; Sartor and Beamish 2014) to propose a conceptual research framework for the study of SME internationalisation network development across institutional distance.</td>
</tr>
<tr>
<td>• Builds on Coviello (2006), Fletcher and Harris (2012), Jack (2010) and Slotte-Kock and Coviello (2010) to show how and why the dynamic, strategic and multi-dimensional development of SME internationalisation networks is sometimes required in context of high institutional distance, i.e. in the presence of institutions-related institutional holes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Methodological contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Applies Welch et al (2011) conjunctural causal explanation approach in an empirical context, including both process tracing (George and Bennett 2005) and replication logic for multiple-case study (Yin 2014), in order to study the highly-contextualised process of SME internationalisation network development across institutional distance.</td>
</tr>
<tr>
<td>• Collects and analyses bilingual data to retain congruence with the topic and avoid the distortions created by the translation of data (Chidlow et al 2014; Gamble 2006; Moore 2003)</td>
</tr>
<tr>
<td>• Building on Stening and Zhang (2007), highlights methodological learning concerning China-based research by bilingual non-Chinese investigators.</td>
</tr>
</tbody>
</table>
8.3 Implications for Theory, Practice and Public Policy

8.3.1 Implications for Theory

The thesis contributions highlighted in section 8.2 have important implications for theory and theory development when researching SME internationalisation networks across institutional distance. A general implication for theory development is that the importance of contextual factors, such as institutions, when comparing home and host markets in the context of developing and emerging economies, does call for more emphasis on contextualised research of internationalisation phenomena as suggested by Meyer, and practiced by Child (Xu and Meyer 2013; Meyer 2014).

More specifically, it concurs with Jones et al (2011) that institutional factors must be investigated if better understanding of smaller firms’ internationalisation networks is to be achieved. As a matter of fact, the thesis also emphasises, alongside Singh (2007) and Sartor and Beamish (2014), the superiority of institutional theory over cultural or psychic distance perspectives for the measurement of cross-national differences - and consequently the understanding and explanation of internationalisation patterns and behaviour. As the effect of institutional differences between home and host nations was sometimes related to a combination of formal and informal institutions, focusing simply on cultural values in order to explain internationalisation network development across institutional distance may have been flawed. One clear example is the need to rely on relational embedding in that context, due to a combination of formal institutional differences (i.e., weak legal institutions in the host country), a lack of host informal institutional knowledge (i.e., inability to communicate in Chinese and ignorance of Chinese business-related norms and values) by home network actors, and the challenges presented by ‘institutional dissonance’ (The Author), i.e., the negative effect of conflicting norms and values between home and host network actors. Exploring and explaining the relationship between formal and informal institutions-related factors such as legal framework, language and Confucianism-derived behavioural norms through a cultural approach would have represented a clear challenge: cultural distance is focused on cultural values and does not include the impact of the regulatory, legal or cognitive frameworks in cross-national analysis. Although formal institutions- and cognition-related factors are sometimes added alongside cultural measures in some analyses that follow a psychic distance approach (see Child et al 2009 or Dow and Larimo 2009 for instance), psychic distance measures do not possess the same explanatory power in relation to individual behaviour as institutions-related factors: an institutional approach is able to factor the effects of regulative, normative and cognitive-cultural institutions within the same analysis, using the same conceptual approach. Furthermore,
institutional theory offers greater flexibility than cultural or psychic distance measures for contextually qualified research, as the same study is able to explore both subjective perceptions of institutional differences by actors and the effects of objective institutional factors on actors’ behaviour. In the current study for instance, actors’ perceptions of differences in regulatory environment were included in the analysis, alongside objective formal institutions-related factors such as the ineffectiveness of legal contracts in the host market.

Measures of distance based on Hofstede’s or GLOBE (House et al 2002) (Global Leadership and Organizational Behavior Effectiveness) cultural perspectives in cross-national studies have also been criticized in the literature for being static, unidimensional and assuming symmetry between countries, where other research has shown perceptions of differences in culture to be asymmetrical (Berry et al 2010). Besides, those measures are based on national averages and do not necessarily apply to individual behaviour (Berry et al 2010). Accordingly, the thesis implies and agrees with Dunning and Lundan (2007) that greater emphasis must be placed on the study of informal institutions when researching internationalisation across institutional contexts. Knowledge of informal institutions is limited and this is partly due to the focus in cultural and psychic distance perspectives in cross-national research, and partly because of the complexity and the lack of tools available to the researcher to measure and research informal institutions (Hotho and Pedersen 2011). Future research however could build on the work of Berry et al (2010), who developed measures of cross-national distance by taking a more institutional approach, although cognitive institutions do not feature among their current cross-national distance measures.

As a matter of fact, the thesis also highlights the need to be sensitive to the treatment of language, and more generally differences in cultural-cognitive institutions, when conducting research in more than one institutional context. The involvement of institutional hybrids (The Author) for research in that context must be developed if findings are to accurately reflect rich interview data: the thesis argues that analysing translated data is not an option in studies focused on informal institutions.

Separately, the final contention throughout this thesis is that networks must be studied over time, as a developmental process, as they are highly dynamic (Slotte-Kock and Coviello 2010) and evolve (Coviello 2006). Studies of internationalisation networks are often cross-sectional and examine the role of networks in internationalisation at specific points in time (Jones et al 2011). This thesis confirms earlier findings - by Coviello (2006) and Prashantham and Dhanaraj (2010) for instance – of the dynamic nature of networks; it
further posits that both the effects of time and context must be taken into account if in-depth knowledge of internationalisation networks is to be improved. The next subsection discusses implications for practice.

8.3.2 Implications for Practice

The implication of the thesis for the internationalisation efforts of SMEs in institutionally distant markets is clear: SME decision-makers may not necessarily have readily available suitable network contacts within their home country. What the research shows however is that home-based trade organisations can act as brokers for firms to access network partners in distant markets.

Another implication of the thesis in that context, however, is that access to host market networks is not a sufficient condition of internationalisation. Due to the challenges posed by differences in institutions, SME decision-makers must work with institutional hybrids (The Author), i.e., network actors who have operational knowledge of both home and host markets. SME decision-makers must also act strategically with regard to the retention of their internationalisation network hybrids - i.e., Alter - as strengthening their internationalisation networks and ensuring stability through contractual means alone will not be effective. Instead they must use relational strategies and proactively build trust and loyalty with their local network bridging actors. Factors that will help develop relational embedding include a high degree of regular interaction, the supportive and mentoring behaviour of Ego towards Alter, and a respectful and open attitude by Ego in relation to host informal institutions.

Because of the emphasis on relational strategies, it was also crucial for Ego to be involved in the initial identification and selection of Alter, and for a personal Ego to Alter relationship to be developed initially. Furthermore, as his superior knowledge of host institutions will mean over-reliance on Alter for the development of the host internationalisation network, it was important to develop additional network links with network actors based within the host network; this could only be achieved through the presence of actors with shared cultural-cognitive institutions, i.e. actors who could communicate effectively using both home and host languages. In spite of their limited resources, SMEs must invest in developing connections with multiple institutional hybrids in the host network, rather than rely on a single hybrid Alter. Decision-makers must also recognize the importance of a shared language between actors across the internationalisation network, rather than solely focus on functional and professional skills. Every effort should be made to build multiple links between different actors within the
home and host networks, in order to improve the stability and efficiency of the internationalisation network, by allowing information to travel through multiple routes; and this obviously requires a shared language between actors.

Furthermore, connections with additional ‘Alters’ should be initiated as early as possible in the life of the developing internationalisation network, as the relationship with the initial bridging hybrid Alter was seen to limit Ego’s ability to develop new connections in the host market. A final key implication is that SME decision-makers must not underestimate the impact and importance that differences in institutions between home and host networks will have on their internationalisation: awareness of these differences - and openness to learning about them alone - will greatly increase their chances of successfully developing internationalisation networks when institutional distance between home and host market is high. As was seen in the case of Beta, the assumption that all international markets are more or less similar, and that ‘business is business’ everywhere one internationalises, is likely to lead to internationalisation network failure in the context of high institutional distance.

8.3.3 Implications for Public Policy

In the age of globalisation, SMEs are increasingly advised to export to high distance markets such as China, India or Russia. What the thesis highlights is that home-based trade organisations have an important role to play in the process of SME internationalisation network development in a high institutional distance context. They are best placed to help SMEs access the necessary international networks that will facilitate overseas activities, as well as supply initial financial and human resources for market entry.

What was clear from the research however is that trade organisations must not underestimate the challenges that emerging markets like China will represent for smaller firms: developing internationalisation networks between Scotland and China entails a higher level of complexity than between Scotland and the USA for instance, due to significant differences in both formal and informal institutions. Home-based trade organisations’ knowledge of these environments may also be relatively shallow and they themselves may need to involve institutional hybrids (The Author) in order to advise SMEs, rather than rely on actors who are only conversant in one type of institutions, be they British or Chinese. Chinese trade advisors who have insufficient understanding of British institutions will be no more useful than British staff with limited knowledge of Chinese ones, when it comes to supporting British/Scottish SMEs with their internationalisation network development in China.
Another insight from the thesis is that the focus on ‘exporting’ may be unhelpful in relation to SME internationalisation into emerging markets: the critical relationship with the cross-institutional network bridging hybrid Alter may be easier to establish and develop when Alter is internal to the SME organisational network, as opposed to being positioned externally. In other words, employing a local Representative may be more effective than trying to work at arm’s length through an agent or distributor, whose loyalty commonly is to multiple clients rather than a single company and Ego.

Finally, and in conclusion, organisations like Scottish Networks International (now renamed Talent Scotland) offer a valuable opportunity for Scottish SMEs to identify institutional hybrids with excellent operational knowledge of both British and emerging markets’ institutions, through their links with Scottish Universities who offer MBA courses. They can play a very important role in linking Scottish SMEs with the required institutional hybrids (The Author), as was shown in the case of Delta.

The thesis will now conclude by highlighting the research limitations and, based on those, by suggesting future avenues of research.

8.4 Limitations and Future research

While the researcher took all precaution to ensure the validity and reliability of the research design, this thesis clearly stated its aim as building mid-range theory from causal explanation (Welch et al 2011). Mid-range theory is interested in narrower phenomena than grand theory, and the causal explanation process model proposed is bounded by assumptions and constraints (Bacharach 1989; Welch et al 2011). As a result, boundary conditions must be clearly stated. First, the research is clearly focused on smaller organisations and is not appropriate in the context of larger firms, such as MNEs. Secondly, the causal explanation does not pretend to have relevance for all patterns of SME internationalisation network development, only those where an institutional structural hole is present. Even in situations of high institutional distance, SMEs may be able to follow existing network ties into internationalisation, as is the case with returnee entrepreneurs (Filatotchev et al 2009; Prashantham and Dhanaraj 2010) or co-ethnic ties (Prashantham 2011). Another example may be the case of cooperation between multinational subsidiaries and SMEs (Prashantham and McNaughton 2006) that may eventually facilitate the internationalisation of the SME, although it could be seen with case Delta that this does not necessarily equal to helping the SME develop longer term sustainable internationalisation networks. Delta was encouraged to internationalise to China by its large MNE customer.
but Ego still had to rely on its own endeavours to create and develop the internationalisation network with the Chinese market.

A second limitation of the study is related to the specificities of Scotland and China as contexts for the research. Some of the findings may be related to institutional traits that are particular to that context, such as *guanxi*. This point is especially pertinent given the focus on institutions, and more particularly informal institutions. Further research could compare causal explanations of SME internationalisation network development across countries with similar institutional distance, such as India and Spain for instance.

In addition, although the researcher took great care of avoiding an egocentric view of the network, by interviewing actors in both Scotland and China, i.e., across the internationalisation network, another limitation of the study is the fact that the process of internationalisation network development was researched as *originating in Scotland* and *finishing in China*. There is no guarantee that an investigation taking China as its starting point and looking at how Chinese SMEs build networks with Scotland, would obtain similar findings. In the context of SME internationalisation network development, it would be interesting to look at the presence – or not – of symmetry between SMEs from similar home and host markets, swapping host for home, or Scotland for China and vice versa, and exploring the process from the opposite direction.

Finally, and in line with the thesis’ critical realist ontology, the researcher acknowledges that the theory is based on people’s own recollection and rationalisation of events and is built from their subjective perceptions of reality, rather than an objective reality of the phenomenon of SME internationalisation network development. The researcher also recognises that the reality of the phenomenon under scrutiny can only be apprehended through individual network actors’ interpretation of it, as well as through the researcher’s own inference from the collected data. Nonetheless, the researcher will argue that the proposed theory is a meaningful contribution to knowledge of the phenomenon and that, within the realm of the possible, all measures to strengthen the validity and reliability of the research were followed.

Separately, like all qualitative, in-depth research, it can only claim to offer analytical generalisation as opposed to generalisation to a population (Yin 2014); as a result, future research will need to compare the proposed process model of internationalisation network development with models derived from different contexts and under multiple conditions.

In conclusion, the thesis enthusiastically supports the calls of Eden (2010), Welch et al (2011) and Meyer’s (2014) for a better inclusion of institutional and contextual factors in...
internationalisation research and suggests that future endeavours could be targeted at better understanding informal institutions and their role in cross-institutional internationalisation.
REFERENCES


### Appendix One: Interviews and Participant Observation Schedule

<table>
<thead>
<tr>
<th></th>
<th>Case-study pseudonym</th>
<th>Date and time of interview</th>
<th>Description</th>
<th>Notes</th>
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<tbody>
<tr>
<td>1</td>
<td>Alpha1</td>
<td>2 May 2012, 11.00</td>
<td>1st interview, Glasgow office, 1 hour</td>
<td>Notes only, introductory interview</td>
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<td>2 hours digitally recorded, 2 hours notes only</td>
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<td>Lunch interview, 90 minutes</td>
<td>Notes only, introduction of AlphaC2</td>
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<tr>
<td>8</td>
<td>AlphaC1 and C2</td>
<td>8 November 2013, 12.00</td>
<td>Lunch interview, 60 minutes</td>
<td>Notes only</td>
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<td>Alpha1</td>
<td>1 June 2014</td>
<td>by email</td>
<td>Clarification of some information</td>
</tr>
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<td>Delta1</td>
<td>15 May 2012, 9.30</td>
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<td>Notes only, introductory interview</td>
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<td>Delta1</td>
<td>15 August 2012, 9.30</td>
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<td>Delta1</td>
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<td>3rd interview, Scotland, factory/HO, 90mn</td>
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<td>Delta2</td>
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<td>General introductory meeting/interview Notes only</td>
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<td>23</td>
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<td>24</td>
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<td>2nd interview agreed, notes only</td>
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<tr>
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<td>Beta1</td>
<td>3 June 2011, 14.30</td>
<td>2nd interview, 90 minutes Scotland</td>
<td>Recorded digitally</td>
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<td>27</td>
<td>Beta1, EpsilonC1, C2 and C3</td>
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<td>Germany, Participant observation 3 days</td>
<td>In Context of visiting a trade fair and observing 2 meetings Notes only</td>
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<td>SFDA-related, Notes only</td>
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<td>Catch-up meeting Notes only</td>
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<td>Beta1, EpsilonC1 and C2</td>
<td>22-25 September 2012</td>
<td>Diverse locations, Edinburgh</td>
<td>Participant observation of visit by EpsilonC1 and C2. Notes only</td>
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<td>EpsilonC1, C2 and C3</td>
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<td>Location/Details</td>
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<td>40</td>
<td>Theta</td>
<td>10 October 2012, 10.30</td>
<td>China, company offices, 90mn + lunch</td>
<td>Scottish industry expert on trade with China Digitally recorded</td>
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<td>41</td>
<td>Chi</td>
<td>7 March 2012</td>
<td>Meeting as part of participant observation of Scottish delegation China visit</td>
<td>Fieldtrip notes</td>
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<td>42</td>
<td>Chi and Chi2</td>
<td>25 October 2012, 11.00</td>
<td>China government offices, 50mn interview + lunch</td>
<td>Government official expert on trade between Scotland and China Digitally recorded</td>
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<td>43</td>
<td>Sigma</td>
<td>5 March 2012, 11.00</td>
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<td>Trade Promotion expert between Scotland and China General meeting, notes only</td>
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<td>Sigma</td>
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<td>7 January 2014</td>
<td>Phone interview, 30mn</td>
<td>Initial selection evaluation and introduction</td>
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<td>Phi (Legal expert)</td>
<td>31 January 2014, 10.30</td>
<td>London offices, 60 minutes</td>
<td>Legal expert, digitally recorded</td>
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Source: The Author
**Appendix Two: Expert Interviews’ Findings**

Expert interviews were conducted to support and illuminate the findings from the case-study, primarily at the early stages of data collection around 2012. Four experts were selected for their thorough knowledge of a specific area of expertise. At the time of the interview, Chi was a high level Chinese government official involved in foreign exchanges and twinning activities with a Scottish town since 1999. The researcher had originally met Chi during a period of participant observation following a Scottish delegation, including a number of SMEs, in their visit to China in March 2012. Participant observation had highlighted the close relationship between Chi and the Scottish delegation key representative. In October 2012, the researcher was able to return and interview Chi. During the interview, a second government official Chi2, also involved with Scotland, was present.

A second expert Phi was selected for his expertise of Chinese formal institutions. Phi is a Caucasian legal expert, with diplomatic experience, who has been closely involved with China since the early 1990s. Phi, based in the UK, also speaks fluent Mandarin and acts as a consultant to British and European firms with activities in the Chinese market. More recently, Phi has also been working with Chinese firms intent on entering the European market.

The third expert, Sigma, is the long term Chinese representative in China of a UK trade organisation specialised in the Chinese market. The researcher has known Sigma for more than 20 years through past work as a China sales and marketing practitioner.

Finally, Theta, a long term resident of China, is the Scottish representative of a now large Scottish and global company. At the time Theta first arrived in China in the early 1990s however, the same company was an SME of only 100 employees. Theta has extensive experience of setting up joint ventures (JV) in China, with the first JV set up in 1996.

The next subsections 6.2.1, 6.2.2 and 6.2.3 will present the aggregation of findings from the interviews, organised around key topical areas of interest and illustrated with actual quotations.

**I. SME Internationalisation Network Development between Scotland and China**

All experts had experience of either supporting or conducting SME internationalisation network development activities in China and all agreed that the key to successful internationalisation into China was to build relationships and networks. The type of mechanisms suggested for SME network creation between Scotland and China covered city twinning, finding local distributors/agents via a trade organisation, setting up a joint
venture and accessing Chinese nationals studying in Scotland, in order to recruit them as China representatives, i.e., Alters, as was successfully done by Delta. Theta was puzzled as to why so few Scottish companies made use of such a valuable and convenient resource:

But I always felt from day one that it was important to have my own Chinese employees; [...] and if you look at the Scottish education system at the moment, it is over-flowing with Chinese talent. How do they not just hire ones of these graduates in a relevant subject, take them into their company for one month, six months, twelve months, whatever difficult the product is and say 'okay, you are my first employee in China'.

This perspective supports the thesis focus on institutional hybrids as ideal bridging actors between Scotland and China.

There were differences of opinion however as to how much of a challenge China would represent as a country for Western SMEs. The most pessimistic expert was Sigma, the trade organisation actor, who felt that SMEs would be unable to come to terms with the market on their own and would need to either have their own representative on the ground or work with a local partner:

When a company try to come into the Chinese market, the first thing is to build relationships or networks. So often we are telling the Scottish company that to try to sell to China for example, is very difficult for a Scottish company, especially SMEs or companies without a presence in China, which means a Rep office or a sales office, or a joint venture or own a subsidiary. And they need to go through some local contacts, in this case like a distributor or agents.

The reasons behind the need for local network contacts was in accordance with the thesis’ findings and revolved around Chinese institutions:

But you know on top of that, the language issues, business culture issues, the guanxi networks, you know relation issue, are so important that we always advise Scottish SMEs to find a local partner, sales partner...

Guanxi was mentioned by all experts but the meaning attached to the term often differed, not just between experts, but also depending on the context alluded to by a specific expert:

Guanxi is a very interesting thing to get a definition: the extreme part of the guanxi is corruption, but guanxi in the business sense is everywhere in the world I believe, but in China especially so because the Chinese tradition to do business is with people that know each other.

Again, this aspect concurred with the findings from the thesis as to the risk of oversimplification of research on complex concepts such as guanxi. Phi, the legal expert, felt that semantics were often the issue with guanxi but that it remained an important concept for Westerners wanting to build internationalisation networks with China, although paying attention to Chinese formal institutions was as critical in the current environment:
I think it's a kind of false conundrum, 'is guanxi as important'. That's why I said semantics. You could say I guess it's less important because it does not occupy the whole field, but it's still there; however I am always warning clients if you construct a guanxi deal, a deal that is centred around guanxi, then you might lose, and it's very dangerous. You're going to lose a lot potentially. ...that the deal itself with the other party is inadequately diligenced.

What the above quote also highlights is the intertwining of Chinese formal and informal institutions and the impossibility of separating their effects, which is also argued by the thesis. It was illustrated by the challenges of using interpreters:

There are plenty of very good interpreters in China but there are many of them who fall into a kind of cultural problem which is: what they feel is uncomfortably direct language, they may modify to make it indirect. [Phi]

And the need for both formal and informal strategies for reaching agreement:

The contract is still the basis for final conclusion on business but when the people sign the contract, the guanxi will give them assurance. So the contracts will still prevail after they are signed. [Sigma]

When it came to the possibility of Westerners effectively understanding and operating within a Chinese institutional frameworks, there was a contrast in perception. Both Chinese respondents felt that understanding between Westerners and Chinese was poor and that more should be done to reduce mutual ignorance:

But the reality is in the West, not many people have got a good understanding of China, and I think China needs to do some work, like the promotion or publicity and public relationship; I think this kind of work can help. [...] And also from the foreign side, we also need the people like you to do some work; so I really like what you have done and I think what you have done is very important and very meaningful. It will be very good to promote good understanding between the two people.

Both Western experts however appeared very comfortable working with China and Chinese institutions, although there was an acknowledgement from Phi, the legal expert, that accurate knowledge of Chinese institutions was critical and that some Westerners struggled:

So some people cannot get that, other people will be lured into complacency because, in their mind, they have read somewhere that you need connections and that if the government does not agree with what you want to do, it does not happen. So these are half-truths, and there is a lot of truth in half-truths, but some people as you may know, grasp a half-truth and cling onto it for dear life, and it becomes a full truth, because they've got some concept that they can get their minds around. And therefore they become blind, sadly, to the need to do the triangulation, to do proper legal structuring, to engage lawyers to find the right ones, and other advisors...
What all respondents agreed on was the importance placed on people relationships in China, before more economic rationales:

So when we get along with a friend like this, we feel very very pleased and also we feel really good in our heart. So I think that these kinds of relations really help us a lot on both sides to understand better each other. Then these will promote the relations between the cities and between the governments, and also at last between the two countries and the people. [Chi]

I definitely think my personality has helped me a lot here and although in Western circles I am very outgoing and gregarious etc., when I'm in discussion with senior Chinese people, I'm very respectful and I listen more than I speak. Ok, then when we go for the big dinner at night and we're all drinking the maotai, you can kind of let the hair down a bit and get to know people; and I would say that that's helped me a lot. [Theta]

Unless yourself as a business person find the kind of concepts I am talking about themselves to be terribly vexing and complex and opaque and impossible to deal with and frustrating, and you know, beyond annoying. If you find that kind of thing impossible to grasp, then for you, China will be hopelessly opaque. [Phi]

Due to the emphasis on relational strategies, people and their characteristics, appeared to matter a lot in China, with some types of personalities perceived to struggle more than others, as was the case of DeltaC3. Once the people relationship had been successfully built however, formalised type of agreement could then routinize the relationship beyond individuals:

But because we have signed the contract, the Marriage contract, so it is not limited to one person; for example, I am the third division chief; that means I am the successor, so this sister city relationship is everlasting, is not just one person on the duty, then shift to another person and the relationship is concluded: no. It's everlasting because we have a very formal signing of the sister city agreement and also we have a memorandum for cooperative activities.

However, as was show in the research findings, people’s relationships may also get in the way of non-relational strategies due to perceptions of conflict, as was found in relation to relational embedding viz. structural embedding:

Because you have a situation in which a Western person may feel: 'I will insult her or him if I carry out due diligence.' How do you do that anyway because everyone seems to lie or seems to present an answer that, you know, they think will please you or will produce the business or whatever, so they kind of give that up. [Phi]

Discussions during expert interviews who, apart from one exception had not built SME internationalisation networks to China, often revolved around the differences between Scotland/British and Chinese institutions, which are briefly discussed next.
II. Differences in formal and informal institutions between Britain/Scotland and China

There were significant differences in both formal and informal institutions between Britain/Scotland and China.

Formal institutional differences arose from the fundamentally dissimilar historical framework as explained by legal expert Phi:

On the one hand, there is an institutionalised or historicised culture of vaguely worded pronouncements, a blurring of the line between policy and regulation/law and a discontinuity in terms of effective transmission of Central government law and policy across the country.

As a result, formal institutions in the UK and China presented significant differences:

In the UK you can do this overnight [...] In China it's a civil system, it's also, you know, it's a bureaucratic system; if you talk about complexity, one of the complexities is about...this is China; so of course in a country where maintaining employment is a very big element in social stability, it's not surprising that everything is a little bit complicated. China's size was the reason behind additional levels of complexity in the regulatory framework as well. [Phi]

China’s massive size also appears to be part of the explanation in the complexity of the regulatory environment:

So it's a very big place '山高皇帝远‘, the mountains are high, the emperor is far away'. that's what people in the provinces tell you, you know, ‘…or if you complain about 'your local regulations fly in the face of Beijing regulations, or policies etc. etc., for example you impose a higher registry capital requirement on foreign invested companies than a local-invested company, this is not legal, it flies in the face of government policy, you'll hear '上有章则, 下有规则‘, above there are policies, from below there are counter-policies.

Although the adhesion of China to the WTO had improved transparency, there were still major discrepancies between regions as illustrated by Phi’s experience:

I was acting for a very large European multinational, chemical, paints and coatings company and I was in a town called Yixin and I was talking to the local AIC and he said: for a chemical company, for a chemical manufacturing plant here, you're going to need a minimum registered capital of $2 million US dollars'. And I said: 'but I understood here the capital requirement for a chemical company is one million'. And he said: 'no that's for domestic companies.' Then I said: 'but there should not be a difference because this is 2003 and China has entered the WTO.' And he said, you know: '山高皇帝远’.

Identifying trustworthy advisors or relying on legal advisors was not necessarily as straightforward in China as in the UK:

That's a Chinese problem. One of the problem is the lack of reliability of external ratings, external assessments. So for example law firms in this country get all excited about whether or not they appear in Chambers International or Legal 500; there's a huge campaign in a lot of law firms everywhere to prepare this and make sure all the relevant facts are put in front of these rating agencies in effect, they're
like agencies, they're publishers, but it's peer-reviewed... In China, they hardly have this. There are these, you know, Ministry of Justice Excellent Law Firm award. Nobody believes in...

Financial and credit reports also lacked reliability, which confirms a recent study by Li et al (2014):

_Credit reports need sometimes to be looked at very carefully. In fact, often in China, the accounting balance sheet and accounting statistics often will be a poorer [reflection] of reality. The reason is because in China a few of the Chinese companies still try to avoid the taxation. So they will not have a lot of profit on their balance sheet, which will be subject to taxation. On the balance sheet maybe all their sales have been spent, so a little profit and they are spending, it could be true you know, they are buying cars, property..._[Sigma]

Informal institutions appeared to work hand in hand with formal ones:

_So there is an incidence of deeply-imbedded, deeply-routed, I should say, culture of 'let's just do what's convenient', let's twist and modify national regulation to make it workable for us in terms of how we, at the local level, want to see things done._

As a result of the sheer scale of the institutional differences between the UK and Chinese framework, even Chinese legal advisors had to be institutional hybrids in order to work effectively with Western clients:

_A lot of Chinese lawyers are much better than they used to be and some of them are really good, and some of them are also very well-schooled in Western ways, and therefore they can see in advance what things need to be explained very well, and why to the Western client; otherwise if they're really encased in their own legal and regulatory system, it may not be obvious to them where the points of difficulty are._

_Institutional hybrids_ indeed were found to be critical in SME internationalisation network development and evidence from experts further supported that fact.
Building bridges across institutional distance: network development and the internationalisation of Scottish SMEs into China.

在制度距离间搭桥：苏格兰中小企业进入中国的网络建设与国际化

Participant Information Statement

You are being invited to take part in a research study. Before you decide, it is important for you to understand why the research is being done and what it will involve. Please take the time to read the enclosed information and feel free to discuss it further with the researcher or any other party.

Researcher Details

Carole Couper is an ex-Sales and Marketing Manager with British blue chip companies, specialised on China. She is currently studying towards a PhD in International Business in the context of the internationalisation of Scottish SMEs into the Chinese market and the firms’ network development.

What is the purpose of the study?

The study will explore the development of networks by Scottish SMEs (Small and Medium size Enterprises) in their internationalisation into China, along with the experience of China “experts” from Trade Organisations. The research aims to understand and analyse the shape and content of networks built across developed and emerging markets, as well as the role of institutional networks in developing cross border networks.

Why have I been chosen?

We are inviting Scottish SMEs involved in the Chinese market, along with some of their China-based network contacts, to take part in the research due to their experience of building networks between Scotland and China. All companies must employ up to 250 people and be independently-owned.
为什么选择我?
基于参与者在苏格兰和中国市场之间建立网络的经验，我们邀请参与到中国市场的苏格兰中小企业，以及他们基于中国的网络联系人参与这项调查研究。所有参与的公司必须独立拥有且雇员必须250人以下。

Do I have to take part?
There is no obligation to take part in the study and you may decline participation or withdraw at any time during the process.

By participating in the study, you will be led to reflect on your current network building practice and this reflective work may positively contribute to the future networking activities of your organisation. Participants to the research will also contribute to improving the knowledge we have of the network mechanisms between Scotland and China in the context of ‘guanxi’ practices. All participants will also be sent an Executive summary of the research’s findings and, if they so wish, the researcher will be happy to personally brief participants about the results of the study.

我必须要参加吗?
这项研究不具有任何强制性。您可以在调研过程中的任何时候拒绝参加或退出。通过参与研究，您将被引导去反思您当前的网络建设实践。这个过程可能会对贵组织将来网络拓展活动做出积极的贡献。这项研究的参与者也将有助于提高我们对于苏格兰和中国之间在“关系”实践背景下网络机制的认识。我们将在调研结束后会发送给所有的参与者一份关于研究发现的执行总结。如果您愿意，研究者也非常乐意亲自向您简要介绍这项研究的成果。

What will happen if I take part?
A number of one or two interviews, each around 1 hour long, will take place over the next two years at a time and place most convenient to you. The interview will be digitally-recorded and subsequently transcribed and anonymised, before being analysed by the researcher. The aim of the interviews will be to discuss your network and network building activities in the context of internationalising into China.

At your discretion and if feasible, some participant observation may take place and an interview of key local members of your network in China or Scotland may be arranged.

参加会有什么风险吗?
在接下来的两年中，我们会在您时间和地点方便的情况下对您进行时长约为一个半小时的一到两个访谈。访谈会被录音，并在被研究者分析之前转录和匿名处理。访谈将讨论您的网络，以及您在国际化过程中的网络建设行为。

在您的自由裁量权范围内如果可行的话，研究者希望进行一些参与式观察，井期待与您网络中关键的当地成员安排一个访谈。

Will my taking part in this study be kept confidential?
All information will be collected for the needs of the study and will be treated confidentially. All data collected will be aggregated and anonymised with all names of participants and organisations changed into pseudonyms and identifying information subtly modified.
The recorded data will be retained for 5 years from the date of the first interview and then destroyed. A period of five years is deemed necessary as the anonymised research data may be utilised in future academic and business publications. The start of the retention period begins with the date of the first interview and this period may be extended subject to future written agreement by the interviewee.

What will happen to the results of the research study?

The study will be part of a doctoral thesis produced at the end of a three year research period. Parts of the thesis document may be published in academic journals and disseminated across policy-making or academic bodies, as well as communicated to interested practitioners.

Who has reviewed the study?

The study proposal was reviewed by experienced academics from the Business School at the University of Glasgow.

Contacts for Further Information

Thank you for taking the time to read this information. Should you have any further questions, please email Carole Couper at c.couper.1@research.gla.ac.uk or her supervisor, Dr Shameen Prashantham at Shameen.Prashantham@glasgow.gla.ac.uk.

If you have any concerns regarding the conduct of the research project, please contact the College of Social Sciences Ethics Officer by contacting Dr Valentina Bold at valentina.bold@glasgow.ac.uk.
Appendix Four: Consent Form

Title of Project: Building bridges across institutional distance: network development and the internationalisation of Scottish SMEs into China

Name of Researcher: Carole Couper

1. I confirm that I have read and understand the Participant Information Statement for the above study and have had the opportunity to ask questions.

2. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving any reason.

3. I consent to interviews being audio-taped and acknowledgement that copies of transcripts will be destroyed 5 years after the termination of the research.

4. I understand that my and my organisation's anonymity will be protected by being referred to by pseudonym in the final study submission, as well as in any publication arising from the research.

5. I agree / do not agree (delete as applicable) to take part in the above study.

Name of Participant _______________ Date _______________ Signature _______________

Name of Person giving consent (If different from participant) _______________ Date _______________ Signature _______________

Researcher _______________ Date _______________ Signature _______________

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31 Delete if audio-taping consent not offered. 如果不同意音频录入，就删除
32 A period of five years is deemed necessary as the anonymised research data may be utilised in future academic and business publications. The start of the retention period begins with the date of the first interview and this period may be extended subject to future written agreement by the interviewee. 五年的保存期是必要的，因为这些匿名的研究数据会被用于之后的学术研究和商业出版。保存期限开始于第一个访谈进行之日，也可能会被延长，但这取决于受访者未来签署的书面协议。
Appendix Five: Interview guide

INTERVIEW GUIDE

INTRODUCTION
- Thank you for taking part...
- Remind of the study context, hand out information sheet and consent forms
- Collect missing demographic data (pre-prepared and pre-filled form for check)

Remember to switch on the recording!

PART I: INITIAL CONTEXT/FIRST APPROACH

Thinking back to the initial first interest in China:
- when and why did you first think about China as a market?
- what were your objectives and how much did you know about the market?
- what kind of information or resources were you looking for?
  (market information, resources, market access, help with language...)
- who did you first approach?

PROBE ANSWERS AND START DRAWING DRIAGRAM OF CONTACTS

Try and follow a chronological and logical contextual narrative.

PART II: FROM FIRST CONTACT TO NETWORK DEVELOPMENT

- what happened next?
- who else did you approach? (customers/suppliers/social contact/family member/friend etc.)

CONTINUE DRAWING DIAGRAM USING DIFFERENT COLOURS TO DIFFERENTIATE FIRST AND SUBSEQUENT STAGES

- how easy or difficult was getting information/resources?
- how did you chose who to approach?
- how helpful were the people/organisations you approach?

PROBE!

PART III: CHINA-RELATED NETWORK AT PRESENT
- With participant, look at diagram and complete the missing links to bring network up to date (use different colour)

PART IV: NETWORK TIES CHARACTERISTICS

- Using the drawn diagram, look at each tie in detail and discuss nature and type of relationship, how long the tie had been known and how long the connection lasted, what type of information or resource they were able to provide.

- Identify links between each network tie, independently from the participant.

- Identify key China-based network tie and discuss possibility of arranging an interview.

CONCLUSION OF INTERVIEW

- Let the participant study the network diagram for 5 minutes to reflect on any inaccuracies/missing parts etc.

Bring interview to a close by asking about what the future plans are with regard to China and where they feel current network has weaknesses/strengths.

- Are there aspects of networking that you now wish you had done differently?

- What are your plans in the short to medium term?

NEXT STEPS

Thank you for agreeing to participate...I may need to get back in touch for clarification once I have started with the transcription. Would that be OK?

INTERVIEW CLOSE

REMEMBER TO CLOSE THE RECORDER!
Appendix Six: Observation Pro-forma

LOCATION OF PARTICIPANT OBSERVATION:

DATE AND TIME OF OBSERVATION:

PART I – IDENTIFY ACTORS PRESENT

Description of actors (role/type of relationship/ethnicity/function)

Description of initial behaviour (greeting/formality etc.)

Describe objective(s) of meeting/gathering:

PART II – TOPICS DISCUSSED

Keep note of all topics discussed

Sitting/standing arrangements

Draw simple diagram and links between people present (diagram) in relation to topics/objectives of meeting

PART III – DESCRIPTION OF RELATIONAL BEHAVIOUR

Type of relationship (social/economic/multiplex/institutional):

Type of body language/behaviour between actors:

PART IV – OTHER

Note any other relevant observation