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Ruth Clarke Ramdas Chandra Marcilio Machado

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Ruth Clarke and Ramdas Chandra
Wayne H. Huizenga College of Business and Entrepreneurship, Nova Southeastern University, Davie, Florida, USA, and
Marcilio Machado
FUCAPE Business School, Vitoria, Brazil

Abstract

Purpose – This study aims to explore the extent to which social capital plays a role in firm development, internationalization and growth, in the context of an emerging market, Brazil. The study aims to provide a new context and perspective on the role social capital plays in fostering growth and internationalization among small and medium enterprises (SMEs) in an emerging market.

Design/methodology/approach – This is an exploratory study. First, empirical data are drawn from a commodity industry, the Brazilian Stone industry, which is a competitive, well-established sector in the country. Using a previously validated questionnaire from the World Bank, the extent of social capital possessed and used by the firms in this industry is correlated to their growth and performance. Based on the exploratory results, a set of research propositions are developed that point the way to questions that are important and interesting to further understand the role of social capital in this context.

Findings – The results point to fairly low levels of social capital among Brazilian SMEs in this sector and relatively low levels of awareness of the potential opportunities to exploit social capital to further development and internationalization.

Research limitations/implications – Social capital matters for firm growth and performance, but the extent of development of social capital in this context is fairly low. The limitations include the sample size and the homogeneity of the sample, which restricts generalizability.

Practical implications – Building and exploiting social capital is a void that currently exists in the commodity sector in Brazil. Developing this can lead to more positive firm performance and growth, especially as the institutional context in Brazil continues to develop.

Originality/value – The paper offers a unique context, as well as a new perspective on the role of firm social capital, by using an emerging market and a commodity industry that has been rarely studied in the literature.

Keywords SMEs, Brazil, Internationalization, Social capital

Paper type Research paper

Introduction

In this exploratory, empirical paper, we examine the linkages between the level of social capital exhibited by small and medium enterprises (SMEs) and relate this to internationalization and performance, in the context of the emerging economy of Brazil. We do not investigate change over time but assess a broad-based concept of social capital at a single point in time to develop a baseline for future work. The study extends the discussion of the role of social capital for internationalizing SMEs to the understudied Latin American region. Scholarly work on the role of social capital for

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business development is fairly well established; however, the work on the impact of social capital among internationalizing firms in emerging markets is still a nascent area of study. Indeed, studies of emerging market SMEs in terms of country context are sparse, with the majority of work focusing on firms from Asia (Gedajlovic and Carney, 2010; Hitt *et al.*, 2002; Lin and Chaney, 2007). In response to this paucity of research, we ask the research question:

RQ1. In the developing Brazilian market, do single industry SMEs exhibit usage of strong social capital in order to arbitrage international opportunities, in the absence of strong formal institutions?

Economic development in emerging markets takes place within each country context and specifically is shaped by the framework of institutional multiplicity and corresponding substitutability between formal and informal institutions (Batjargal *et al.*, 2013). Over time with the development of a market economy, weak formal institutions should become stronger and correspondingly the use of informal institutions is likely to change (Galaskiewicz, 2007; Sabatini, 2008). However, social capital is built on historical, geographical and cultural experience and may not change at the same rate as a country's market economy grows. As societal institutions develop with the growth of social cohesion, political empowerment and collective action, so do social ties or networks which facilitate the building of trust between actors and the flow of information and communication (Burt, 1997, 2004; Woolcock and Narayan, 2000). Generally, the growth of social institutions in the long term leads to the development of more formal institutions. However, it is beyond the scope of this study to examine formal institutions in Brazil.

To capture the full range of usage of societal institutions by firms, we test for the status of the social capital profile of Brazilian SMEs using all six dimensions of social capital, which we consider is pertinent to the study of emerging economies (Coleman, 1988). The survey instrument is based on the comprehensive study developed by the World Bank (Grootaert *et al.*, 2004) which has used the full instrument to study societal-level social capital in various country contexts in great depth for many years. This study concentrates on perceived social capital at the business level only. In the next section, we give an overview of the country context for the study.

Country context of Brazil

Emerging economies are generally faced with normative isomorphic pressures associated with weak formal institutions, and for firms to facilitate business activities, we would expect to see the use of informal institutions contributing to social capital. While data from individual developing countries show different results for short- and long-term analyses of growth drivers, in general, it seems that a combination of governmental export promotion- and growth-oriented policies work together in driving countries to expand their economies and enjoy economic prosperity (Bahmani-Oskooee, 2009; Luo *et al.*, 2010). Typically, an emerging economy will proceed from depending on commodity-based exports and then begin developing value-added products. In the early stage of economic development, individual firms have to find suitable means of doing business through the ties of social capital and then adapt to the challenges of international trade. This brings into question the appropriateness of ties, strong or weak, (Galaskiewicz, 2007; Sabatini, 2008) in the context of the economic development timeline. As an economy strengthens with the building of formal institutions across the country, competing firms are encouraged to expand nationally and internationally. Firms should increasingly benefit from arbitraging across structural holes, although in the past may have benefitted from strong ties to facilitate business.

As one of the rapidly developing BRIC (Brazil, Russia, India and China) countries, Brazil's economy has been growing at a fast pace in recent years. Since the 1990s, Brazil has moved from a relatively restrictive political regime, experiencing a wave of trade liberalization, deregulation and the proliferation of free trade agreements (Meller, 2009). As a consequence, Brazilian SMEs have prospered, and the composition of the export sector is increasingly composed of higher value-added products. Economic growth is supported by developing the level of accumulated social capital (Putnam, 1993). Therefore, as the emphasis on value-added products continues to grow, so potentially will the social capital of firms grow in complexity and extensiveness. Conversely, if Brazilian SMEs do not take advantage of opportunities for new products and expansion, the level of their social capital development may remain low. Adapting Szulanski's (1996) argument regarding the stickiness attached to transfer of practices for firms, SMEs may prefer to stay with the extant state of affairs, rather than developing new practices for building social relationships for firm expansion domestically and internationally. Next, we provide the theoretical background for our study and then link social capital to internationalization and performance.

Theoretical background

Social capital

In the academic discussion of social capital, there tends to be a common assumption that there are positive benefits to be generated from the development of greater levels of social capital. The antecedents for social capital lead to cognitive effects such as the building of trust (Burt, 1997; Granovetter, 1983) through market relationships (Adler and Kwon, 2002) and a set of valuable resources (Bourdieu and Wacquant, 1992; Mayer *et al.*, 1995; Nahapiet and Ghoshal, 1998; Putnam, 1993) and structural effects such as wide ranging networks (Besser and Miller, 2010; Casson and Della Giusta, 2007; Stam and Elfring, 2007). Relational social capital builds from the acquisition of information and resources which are leveraged from direct personal relationships that have developed through a history of dyadic interactions (Granovetter, 1983, 2005).

However, when country context is taken into account, this assumption of benefits to be gained must be examined more closely. The development timeline of the country context and the role of societal norms and values that may rather support the status quo for social actors of a particular society clearly need to be considered (Galaskiewicz, 2007). If the cost of building social capital is perceived as higher than the reward generated, firms may refrain from the effort.

In the developing country context, if there are pre-existing dense social networks, these may actually bind social actors to limited social actions, rather than act to create new positive benefits. Negative effects may result from networks which are context specific and provide supporting bonds, structured to avoid threatening existing ties. Arguably, as social capital is accumulated, the restrictions on participating individuals can be as effective in preventing the use of social capital for new opportunities as it can be for developing them.

To capture the extant state of societal institutions in our sample country, we include six dimensions of social capital; social cohesion, political empowerment, collective action, social ties or networks, trust and information and communication (Woolcock and Narayan, 2000). Most studies of social capital have used one or two dimensions, rather than the broader framework of our study (Figure 1). For example, Huggins *et al.* (2012) focus on the role of inter-organizational networks in creating social capital, in their study of regional firm-level innovation differences. Using case studies, Lindstrand *et al.* (2011) use trust and personal networks as the dimensions of social capital in their study of the internationalization of 14 small Swedish biotechnology firms.

A review of social capital theory shows that the most widely used dimensions in this stream of research, as cited earlier, typically are:

- *Networks*: This assesses the absolute volume and quality of interactions within and across networks. A concept often used to envelope the information dimension which we separate out in our study; we argue that networks do not always represent the full range of sources of information that businesses use for their operations. Further, networks are often a proxy for resource access (Lindstrand *et al.*, 2011; Coviello and Martin, 1999; Ellis, 2000; Kontinen and Ojala, 2010).
- *Trust*: It emerges from all levels of social capital; at the micro level, it stems from trusting in at the individual level, such as with employees, business partners and peers (Nahapiet and Ghoshal, 1998; Wagner *et al.*, 2014); and at the macro level, it stems from trust in government and other institutions (Putnam, 1993; Berggren and Jordahl, 2006; Ljunge, 2014). This is a concept which has been conceptualized and measured in multiple ways but is only one dimension of our study.

The aspects of social capital captured by the World Bank studies that do not appear in typical studies are those that are harder to measure and are also explored relatively more

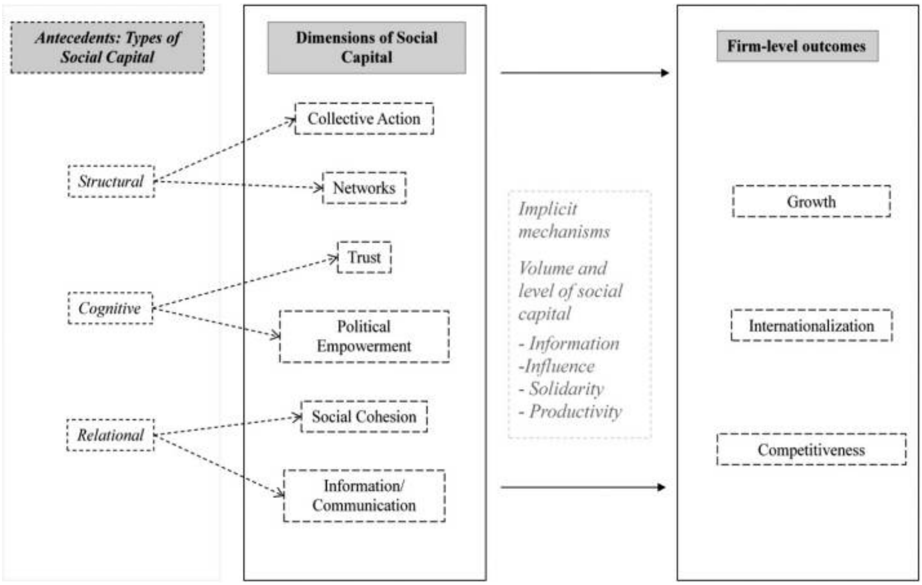

Figure 1.
Social capital and firm-level outcomes

recently. A fairly large volume of the social capital literature was developed prior to the emergence of institutional theory which provides a powerful explanation of economic development and firm strategies and growth. Recent advances in institutional theory therefore provide a very compelling justification to include additional dimensions such as collective action (the impact of voluntary, collective action on community and individual welfare); social cohesion (the extent to which conflict and diversity are managed by groups and where such differences result in groups being excluded from public services); and political empowerment (the extent to which individuals are "empowered" and have the capacity to influence political outcomes) (Rothstein and Stolle, 2008; Woolcock and Narayan, 2000).

It should be noted that these dimensions are not orthogonal – in other words, they are not completely independent of each other. Social cohesion is difficult in the absence of networks and political empowerment is strongly affected by trust. The World Bank approach has been validated in numerous studies, including large sample studies at the individual, community and macro levels. These studies clearly show that the six dimensions identified are distinct and important, each perhaps in their own context. From our perspective, the context of a developing country in which we have collected our data is particularly relevant as institutional factors play a vital role in affecting business operations. Hence, we feel it would be inappropriate to "select" specific dimensions, rather we have included all the dimensions from what we consider to be the most comprehensive study of social capital conducted.

In the interests of linking our study to previous literature, Figure 1 also draws the links between the dimensions used in this study and the different types of social capital that have been described in the previous literature. As our focus was not on the types of social capital, but rather on the accumulation of such capital, we have not devoted much discussion to this aspect. However, it should be evident from the model that the different types of social capital described in the extant literature justify the measures we have used for the study. In particular, the antecedents to our six dimensions – structural, cognitive and relational social capital – provide a strong theoretical justification as diagrammed in Figure 1. These three antecedents to social capital are widely accepted in the current literature. We now discuss the relationship between social capital and internationalization in relation to SMEs.

Social capital and internationalization

Research on networks and the internationalization process for SMEs in developed markets (Coviello and Munro, 1995) has expanded to include the role that networks play for emerging market SMEs during internationalization (Luo, 2003), and identifies the role of government in encouraging outward Foreign Direct Investment in general (Luo *et al.*, 2010) and for encouraging SMEs to expand in particular (European Commission, 2007). Growing firms use conscious agency actions to develop access to resources and opportunities by maximizing elements of social capital. Internationalization process theory (Johanson and Vahlne, 1977) highlights the criticality of knowledge and learning in the international development of the firm (Eriksson *et al.*, 1997), particularly in relation to foreign contexts in the form of informal and formal institutions and market knowledge. Entrepreneurial SMEs that promote innovative capabilities and can develop value-added products to meet new market demand enhance rates of long-run survival (Zahra *et al.*, 2009). However, the achievement of the goal of international expansion will be limited if the founder is not proactive in developing networks (Davidsson and Honig, 2003; Ruzzier *et al.*, 2006) for foreign market selection; market servicing; dynamics of entry; international market development and marketing-related activities; time of internationalization; propensity to export; strategic choices and performance; and degree of internationalization.

Expanding SMEs are well recognized as a force for the dynamic renewal of capitalist economies (Shane and Venkatraman, 2000) and developments in theory building are driving a plethora of studies relating entrepreneurship and SMEs to social capital (Pisano *et al.*, 2007). This recent literature argues convincingly that social capital is linked to the propensity for greater entrepreneurial behavior and suggests that in the presence of higher social capital, entrepreneurial activity is likely to be higher (Liao and Welsch, 2003). Engaging in new international ventures reflects not only the willingness and ability of the individual to undertake international expansion but also the willingness of a network of other actors including institutions, such as financial and legal institutions, venture capitalists and other network members, to support the internationalizing initiative (Dalberg, 2011).

SMEs potentially face challenges in the market by comparison to their competitors due to their smallness, newness and foreignness. Firms that base operations on a limited product line lack the requisite adaptability and flexibility to innovate, particularly if routines are entrenched, and there is a lack of slack in operations and human resources (Lin and Chaney, 2007; Zahra *et al.*, 2009). Constraints in the areas of finance, time, management and market knowledge serve to limit the firm's growth and development. Additionally, family firms which have provided an acceptable level of financial rewards to their management are particularly likely to be less innovative and interested in internationalization. However, as firms internationalize, their options for internalizing additional elements of value chain activity grow. Brazilian SMEs generally tend to be in the early stages of internationalization in terms of the internalization of value chain activities, and until recent economic challenges forced new initiatives, relied primarily on the exporting of commodities. By developing knowledge of foreign markets, value-added products will increasingly become options for reaching new markets. In the next section, we discuss the theory of social capital in relation to firm performance.

Social capital and firm performance

Potentially, social capital can impact a firm in two ways: first, through the volume of social capital accumulated, second through the quality of the relationship produced by the totality of the relationships between the actors in the network (Sabatini, 2008). The impact of social capital on the performance of individuals, groups and societies has been studied extensively, showing significant economic growth (Putnam, 1993) and payoffs in terms of income levels of nations (Knack and Keefer, 1997). Exploration of this link between social capital and improvement in performance by leading scholars in the fields of entrepreneurship and strategic management (Ireland *et al.*, 2003) has featured prominently in recent years.

A common theme points toward gains in the productivity or performance of the firm, similarly to gains in traditional capital. The presence of social capital generates some positive externalities that eventually lead to benefits to the firm, such as facilitating the transfer of information and knowledge and creating a stock of knowledge that can be used in the operational processes of the firm. This diffusion of knowledge and the attached gains would not accrue to the firm in the absence of the stock of social capital (Coleman, 1988).

The absence of social capital can be argued to be a primary source of transaction costs (Fukuyama, 1995), and so social capital would be a powerful means to lower transaction costs thus enhancing performance (Sabatini, 2008). When trust is absent, simpler and less expensive systems have to be replaced by costlier formal rules and regulations which are harder to negotiate, maintain and enforce. In this exploratory study, we report on the accumulation of social capital by Brazilian SMEs in the Stone industry sector at a single point in time and the potentially significant impact on financial performance. If business owners do not recognize the link between social capital and financial performance, then the creation of social capital is unlikely to be emphasized sufficiently, either in practice or in the form of public initiatives to assist SMEs, particularly for new international initiatives.

Methodology

The methodology engaged in this exploratory study is the collection of primary data from single industry respondents in Brazil to test the research questions. Next, we present a discussion of the survey instrument, the data and sample and the results.

Survey instrument dimensions

The design of the study is based on the questions derived from a select set of dimensions of social capital identified by the World Bank (Grootaert *et al.*, 2004). The dimensions are networks, trust, information and communication, collective action, social cohesion and political empowerment. The complete integrated World Bank instrument consists of 95 questions, divided over 6 sections and spans 18 pages, covering a wide societal context. To test at the business level, a subset of this instrument, with 31 questions covering 6 dimensions, is identified as relevant to this study and questions are modified to reflect the focus on SMEs. The modified questionnaire was pretested on a sample of immigrant entrepreneurs in the USA to ensure validity (Clarke and Chandra, 2011). The validated instrument was translated into Portuguese by a native speaker from Brazil and then back-translated by a second native speaker to ensure effectiveness and accuracy of the translation.

Measures

Dependent variables. Based on the model in Figure 1, the dependent variables represent firm-level outcomes related to overall performance. Given the nature of the sample of small business owners however, typical profitability and fine-grained measures of performance are much harder to obtain. Within these constraints, the following measures related to firm performance are obtained from the survey data:

- *Growth*: Two items are used separately to represent firm growth rate, overall revenue growth rates and growth rate in the number of employees. While revenue is a typical measure of firm performance, growth in number of employees also represents long-term growth prospects, especially in the Brazilian context, where firing employees is particularly expensive and difficult.
- *Internationalization*: Two items are used separately to measure the success of internationalization, percentage of revenue coming from outside Brazil and the rate of growth of this revenue.

- *Competitiveness*: In our earlier discussion on the impact of social capital, one of the mechanisms discussed was growth in productivity as a result of the accumulation of social capital. If this is indeed the case, then social capital must also increase relative competitiveness. Hence, this is measured through a self-reported item that asks respondents to rate their own competitive performance against those of their peers in the industry.

Independent variables. The dimensions of social capital we measure in this study are as follows:

- *Networks*: Networks are measured by the number of memberships in social, political, religious, cooperative, financial, educational, industry and networking organizations and the frequency with which respondents interact with these organizations. The scale for this measure consists of three items.
- *Trust*: Trust is measured in three ways: trust in other business associates (three items), trust in domestic institutions (five items) and trust in foreign institutions (five items). Trust was then the sum of these three measures.
- *Information and communication*: It includes access to information and communication infrastructure from micro through macro levels. This dimension is measured by a five-item scale, assessing the extent to which the respondents rely on different sources of information from business and social sources and the relative importance of each of those sources.
- *Collective action*: It is measured by three items that determine whether respondents belong to a collective that addresses social and business problems and the frequency with which such collective actions happen.
- *Social cohesion*: It is measured by a two-item scale to assess the diversity of the social and business networks of the respondent.
- *Political empowerment*: It is measured by a two-item scale to assess whether the respondent, both individually and collectively, feels empowered politically to effect change when necessary.

Controls

Size: In the interests of retaining sufficient degrees of freedom given our small sample size, we use only one control variable, firm size. In the strategy and management literature, firm size or assets is the most widely used proxy to control for a range of unmeasured factors, including access to resources, volatility, real option value, operating options, market power and uncertainty.

Data and sample

The researchers chose to test the instrument on a commodity-based single industry sample using a convenience survey sample of Brazilian SME owners (defined as firms with a turnover less than US$67 million or €50 million and headcount less than 250) (EC, 2003). The researchers accessed the sample during the annual Vitoria Stone Fair trade show, the largest to be held in the USA [23,000 attendees from 65 countries in 2012] and rated the third most important worldwide. International exhibitors were excluded from the sample. Although the respondents come from multiple Brazilian states, the fair brings them together in a single location, showcasing the evolution of Brazil's dimensional Stone industries productive chain, featuring marble, granite and associated stone products (Vitoria Stone Fair, 2012).

The questionnaire was administered in person by the Portuguese-speaking researcher and assistants. Given the manner in which the data were collected, most of the surveys were complete. Only two of the 64 surveys had missing data, leaving 62 completed surveys that are used for the final analysis. Non-identifiable data on firm demographics were collected, using ranges rather than specific numbers to reduce the possibility of incomplete surveys. The respondents were SME owners from a single industry making the sample fairly homogenous and also allowing us to ignore industry effects or other confounding effects. Further, as Sorenson (2003) argues, social capital is tied to the geographic structure of an industry, so the study captures the most important elements of social capital in this industry by targeting respondents from across Brazil. However, this means that aggregate data do not capture regional differences. Overall, a cost of avoiding industry complexity is the limited generalizability of our findings.

Results

In keeping with the exploratory nature of our study, we report simple descriptive statistics that address the research question regarding the existence of strong social networks. We do not test the scales for validity for the social capital measurement, as these items are all drawn from the well-established World Bank study that has used these measures in a large number of research projects worldwide and continues to do so. The Cronbach's alpha measures for the six dimensions range between 0.60 for political cohesiveness to 0.67 for networks. While these values are low, we justify the continued use of these dimensions on the basis of their widespread use in the literature, the relatively small sample size and the exploratory nature of our study.

Figure 2 illustrates the mean values identified for the dimensions of social capital.

While some of the dimensions of social capital are reasonably high, in general, the overall level of social capital enjoyed by the respondents is quite low. For instance, trust levels are low in our sample of respondents and evidence of networks is at fairly low levels, the implications of which we discuss further on.

In Table I, we show descriptive statistics for Pairwise Pearson correlations for the dimensions of social capital and firm-specific characteristics.

Reporting at the 99 per cent confidence level, we find these results. Competitiveness correlates to revenue growth at 0.58 and with information and communication at 0.45. Revenue growth correlates with information and communication at 0.36. Global growth correlates with global revenue at 0.52 and with political empowerment at 0.43. Global revenue correlates with trust at 0.49 and with political empowerment at 0.43. Firm size correlates with information and communication at 0.34 and with social cohesion at 0.37 and with political empowerment at 0.36. Trust correlates with political empowerment at 0.33. Information and communication correlates with political empowerment at 0.38 and social cohesion correlates with political empowerment at 0.34. At lower levels of confidence, we find additional significant correlations.

In summary, as we expected and should have found, there is significant but small correlations among the different measures of social capital themselves. In other words, multicollinearity is not a significant issue in our independent variables. We also find significant, if limited, correlation between some of the dimensions of social capital and firm characteristics, including growth and performance, which is encouraging for

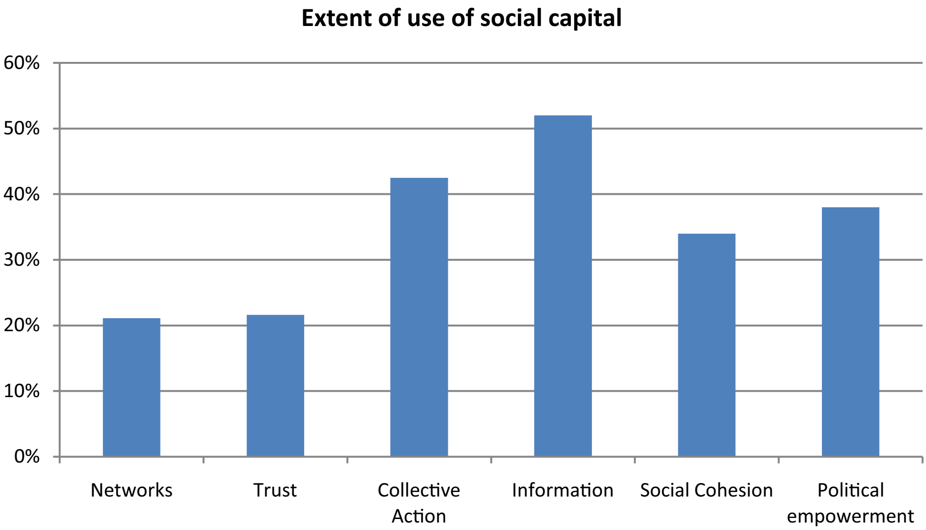

Figure 2.
Amount of social capital used by Brazilian SMEs and entrepreneurs

further analysis. Overall, the correlation results provide some support for the idea that social capital plays a role in explaining firm performance and growth. The importance of the impact of political empowerment is shown by its correlation with the majority of variables. Statistically, these correlations also allow us to progress to the next step of our analysis.

We run simple multiple regressions, using firm performance dimensions in Table I on the six dimensions of social capital, controlling for firm size. The results of these regressions are shown in Table II.

Significant relationships between dependent variables and independent variables are reported. The variable size relates significantly with revenue growth (0.38) at $p = 0.006$. The variable trust relates significantly with global revenue (1.78) at $p = 0.008$. Trust relates significantly with global growth (0.03) at the $p = 0.02$. The variable information and communication relates significantly with employee growth (0.07) at $p = 0.04$.

Political empowerment relates significantly, but negatively, with competitive performance (−0.33) at $p = 0.0004$; with revenue growth (−0.25) at $p = 0.0004$; positively with global growth (0.27) at $p = 0.003$; and with global revenue (8.39) at $p = 0.008$. The adjusted R^2 for the dependent variables accounts for 0.14 for employee growth, 0.36 for competitive performance, 0.37 for revenue growth, 0.24 for global growth and 0.3 for global revenue.

These results show some support for our argument that social capital combining all six dimensions matters for firm performance. The importance of social capital for firm internationalization is higher than for other measures of performance. The strongest results of the regression analysis are of the importance of political empowerment for growth and performance. For two of the measures, the co-efficient is negative, suggesting that higher levels of political empowerment might actually hinder firm performance. Potentially, this is related to a higher level of awareness of the challenges for business in the Brazilian context when firms have more political empowerment. As

Table I. Descriptive statistics: pairwise Pearson correlations

	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) Employee growth	0.024	0.22*	−0.30**	−0.26*	−0.12	−0.01	−0.14	−0.03	0.13	−0.20	−0.01
(2) Competitiveness	–	0.58***	−0.32**	−0.19	−0.37**	−0.06	−0.18	−0.12	0.45***	−0.19	−0.59**
(3) Revenue growth		–	−0.34**	−0.17	−0.54**	0.15	−0.12	0.02	0.36***	−0.25**	−0.52**
(4) Global growth			–	0.52***	0.21*	0.01	0.31**	0.00	0.10	0.11	0.43***
(5) Global revenue				–	0.04	−0.02	0.49***	0.23*	0.06	0.23*	0.43***
(6) Size					–	−0.10	−0.05	−0.01	0.34***	0.37***	0.36***
(7) Networks						–	−0.19	0.01	0.11	−0.22*	−0.13
(8) Trust							–	0.21	0.28**	0.19	0.33***
(9) Collective action								–	0.02	0.26**	0.30**
(10) Information									–	0.12	0.38***
(11) Social cohesion										–	0.34***
(12) Political cohesion											–

Notes: Significance levels shown as follows: *10 per cent; **5 per cent ***1 per cent

Dependent variable	Employee growth %	Competitive performance	Revenue growth %	Global growth %	Global revenue %
Intercept	3.94 (0.001)	5.64 (0.001)	5.42 (0.001)	0.74 (0.26)	3.40 (0.13)
Size	−0.237 (0.24)	−0.15 (0.28)	−0.38*** (0.006)	−0.18 (0.19)	−0.22 (0.96)
Networks	−0.12 (0.26)	−0.07 (0.32)	0.05 (0.48)	0.09 (0.25)	3.37 (0.20)
Trust	−0.03 (0.11)	−0.01 (0.99)	0.01 (0.93)	0.03** (0.02)	1.78*** (0.008)
Collective action	0.02 (0.64)	0.002 (0.93)	0.03 (0.29)	0.04 (0.19)	0.18 (0.86)
Information	0.07** (0.04)	0.04* (0.09)	−0.02 (0.37)	−0.03 (0.11)	1.31* (0.08)
Social cohesion	−0.10 (0.28)	0.01 (0.86)	0.03 (0.95)	−0.03 (0.67)	1.46 (0.51)
Political empowerment	−0.03 (0.82)	−0.33*** (0.004)	−0.25*** (0.004)	0.27*** (0.003)	8.39*** (0.008)
Adjusted R^2	0.14	0.35	0.37	0.24	0.30

Notes: $N = 62$; p values in parentheses; significance levels shown as follows: *10 per cent; **5 per cent ***1 per cent

Table II.
Multiple regression results

firms become engaged in the political arena and actively deal with initiatives, such as legislation, they may also find that more time and money has to be spent on these matters. However, the co-efficient reverses and becomes positive when international performance is introduced, signaling that international growth offers the potential for higher performance in a different national context.

Information and communication play a role across most of the performance measures at some level. Trust plays a role in international performance, while not being a significant variable in the other measures. This is consistent with the international business literature regarding psychic distance and the barriers to foreign market entry. These barriers are naturally higher for the SME sample in our study. Where the firm can bank on its social capital and gain trust in foreign institutions, internationalization should be faster and easier.

We now discuss the role of social capital in the Brazilian context and then present propositions for future research, followed by limitations and contributions of the study.

Discussion

Societal context creates the milieu in which SMEs operate. Embedded social norms and values are crucial to the ability of social actors to develop social capital (in all forms) and correspondingly for the same actors to concur or not with the strictures of the context. Importantly, entrepreneurial SMEs by definition force the boundaries of the possible, and we might expect to find that they will recognize the potential benefits of social capital. However, in a social context which strongly supports norms of limited engagement for business purposes and for pressure to conform, the use of benefits from social capital will be restrained. Essentially, then the underlying question related to the impact of country context on social capital is whether the benefits of social capital can be construed as universally implementable or whether a specific societal context for social capital retards usage.

Our research question asked:

RQ2. In the developing Brazilian market, do single industry SMEs exhibit usage of strong social capital to arbitrage international opportunities in the absence of strong formal institutions?

The results of our study find limited support for strong social capital in this sample, although do show support for the importance of international growth and performance in relation to trust and political empowerment. The importance credited to political empowerment by the respondents probably reflects the effect that weak formal institutions at the country and state level in Brazil have had on SMEs. SMEs are less likely to have much power to affect change when institutions are inadequate.

To build on this exploratory study, we propose the following propositions for guiding further research.

Propositions for future research

The results of the study support the concern that the social context in Brazil has retarded the usage of social capital. The low levels of social capital exhibited by the respondents at the time of the study point to a lack of awareness of the potential benefits related to networks, trust, information exchange and communication, social cohesion and political empowerment. The Stone industry as a whole (but not individual firms) was still primarily a commodity-based industry, with limited value-added production, and we argue that this is a fundamental reason why social capital appears to be underdeveloped. We were not able to gather sufficient data in this study to answer whether moving up the value chain will increase the usage of social capital, but suggest that future study should focus on this important aspect. This leads us to our first proposition:

P1a. In emerging markets, SMEs in the commodity sector are less likely to have high levels of social capital.

P1b. In emerging markets, SMEs in the commodity sector with low levels of social capital are likely to have lower growth rates.

The size of the Brazilian market opens up opportunities for considerable development of value-added products in this industry, and extensive natural resources of Stone also mean that international buyers will continue to acquire product in Brazil. Historically, foreign buyers have predominantly purchased minimally processed slabs of stone and then processed these into value-added products in low labor cost countries (such as China) and re-exported the products to Europe and the USA. The ability of Brazilian Stone firms to capture additional profit margins and gain increased market power depends to a large extent on their recognition and action to take advantage of the opportunity (Ireland *et al.*, 2003).

Individual conversations with several of the respondents in this study produced conflicting observations. In some cases, respondents indicated that they were aware of the opportunities and were striving to take advantage of new value-added products, while in other cases, the opportunity to move into value-added products was openly distained, and hence, there were no plans to develop new products. We attribute this to the fact that many of the firms in this industry are family owned and the owners are either satisfied with their current level of business or are suffering from a sense of negative affect (Morris *et al.*, 2010), limiting the ability to take advantage of opportunities.

Future study should investigate in detail the extent of positive and negative affect and the resulting actions of SMEs in Brazil. The recognition of opportunities and the subsequent development of competitive advantage for firms in Brazil are crucial for overall economic progress. In particular, an important element is the rate at which industries as a whole are capturing additional value-added products for both the domestic and the international market. While Brazilian brands are well known in Brazil, there is still limited awareness globally, with Brazilian companies largely producing commodities. A review of the much more extensive literature on Asian family-owned firms supports the positive benefits associated with family network relationships in which trust acts as a catalyst for rapid decision-making and for maintaining a central role in governmental policies for industrializing countries (Carney and Gedajlovic, 2002).

The study finding of limited evidence of social capital formation points to an inability for SMEs to take advantage of opportunities presented through social capital. Clearly, some entrepreneurs in Brazil are taking opportunities as we can see from the strong economic expansion; however, in this study there does not seem to be significant use of social capital. In this industry, social context may not have supported high levels of engagement but may do over time, as further understanding of the benefits of relationships and product markets develops. This leads us to our second proposition:

P2a. In emerging markets, SMEs in the commodity sector with low levels of social capital are more likely to perform low value-added activities.

P2b. In emerging markets, SMEs in the commodity sectors are more likely to develop social capital in conjunction with higher value-added activities over time.

The findings in this study support the relationship between social capital and internationalization, mostly in regards to political empowerment. Respondents clearly see that international growth, revenues and performance and trust correspond to political empowerment. Size of firm is also related to revenue growth and we argue that as entrepreneurial SMEs become actively engaged politically and become larger in terms of revenues, they are more aware of the advantages of engaging in opportunities internationally. This leads us to our third proposition:

P3a. In emerging markets, the strength of formal institutions is positively associated with the development of SME's social capital.

P3b. In emerging markets, SMEs with higher social capital, supported with stronger formal institutions are more likely to expand globally.

Finally, we found a positive relationship between social capital and performance for Brazilian SMEs, in general and internationally. This suggests that there is payoff for firms that take advantage of international opportunities in particular, and therefore, we should expect to see a continued emphasis on international trade and potentially, at some point, foreign direct investment. This leads us to our fourth proposition:

P4a. In emerging markets, SMEs that perform high value-added activities are more likely to develop social capital.

P4b. In emerging markets, SMSs with high social capital performing high value-added activities are more likely to grow faster internationally.

Limitations and contributions

The first limitation of this exploratory study relates to the small sample size. A second limitation is the homogenous nature of the sample which restricts generalizability from this specific industry. A third limitation relates to the considerable regional diversity of the sample which is obscured by aggregation of data for statistical purposes. A fourth limitation is the cross-sectional nature of the study which precludes the ability to track changes in social capital over time, as Brazil develops. In the case of the Stone industry, industry evidence of developments due to the recent economic crisis posits that individual firms have continued to increase their development of value-added products since this research was conducted. A fifth limitation relates to the nature of the data collection, which relied on face-to-face interaction and potentially affected concerns with respondent anonymity.

The contribution of the study reports that the heavy reliance on commodities by this sample does not demand the use of high levels of social capital, and points to network voids that have yet to be arbitraged for internalization and internationalization. Meller (2009) argues that as Brazilian firms increasingly develop internationally, they can also develop beyond a reliance strictly on the comparative advantage of natural resources. Commodity exports currently comprise the highest percentage of Brazilian exports which limits the amount of value-added internalized to firms. If SMEs develop an increasingly entrepreneurial orientation, then this will benefit the country as a whole and may lead to the capture of value-added through internalization of activities, both domestically and internationally. Brazilian SMEs that move from the production of commodities to the production of more sophisticated products can improve profit margins and increase competitive advantage, although this will require larger investments in assets and resources and a greater level of risk taking. Recent work by Chu and Lee (2006) concluded that an expectation of increased profit margin will motivate collaborative behavior in the supply chain. As Brazilian SMEs develop, this may become more obvious. The eventual payoff in terms of country economic growth will depend on the success of development initiatives.

The contribution of the research for public policy makers in Brazil and other developing countries then is clear. If the country context supports norms and values regarding the use of social capital benefits, policy makers can decide whether they should initiate a move towards supporting change in their country context. Countries that have initiated change have succeeded in opening up industry to facilitate more entrepreneurial growth. Examples include the "Asian Tigers", and more recently China (with many limitations) (Luo *et al.*, 2010), and other Southeast Asian countries, such as Indonesia (Gedajlovic and Carney, 2010). Finally, our findings regarding the development by Brazilian SMEs of low levels of social capital networks and their use to facilitate international expansion adds to the extant body of knowledge in this area and strengthens the representation of Brazilian business in scholarly literature.

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Corresponding author
Ruth Clarke can be contacted at: rclarke@nova.edu

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