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Internationalisation of developing economy small and medium-sized enterprises: social capital and learning in Palestinian pharmaceutical firms

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Abstract

Purpose – The paper examines the role of learning through social capital on the internationalisation process of small and medium-sized enterprises (SMEs) based within extreme contexts. The study focuses on the Palestinian pharmaceutical industry.

Design/methodology/approach – The inductive, exploratory research used in this study adopts a case study approach. Data derived from semi-structured in-depth interviews held with senior management and companies' founders were analysed using content and thematic analysis techniques.

Findings – The findings suggest that accumulated learning by SMEs seeking international expansion is enhanced with stronger social capital ties and networks through structural, relational and cognitive mechanisms. Serendipity and liability effects enabled modes of foreign entry with higher degrees of commitment than efficacy-related factors.

Practical implications – The Palestinian pharmaceutical industry presents a benchmark for other industries in comparable developing economy contexts. This study elucidates the important interrelationship between social capital and learning for SMEs seeking to expand internationally; the findings have implications for regional policymaking in developing economy regions.

Originality/value – The case study investigation focuses on the pharmaceutical industry and SMEs operating within the extreme context of Palestine, thereby contributing insights in an area of management enquiry that is under-represented in the extant literature.

Keywords Social capital, Learning, SMEs internationalisation, Extreme contexts, Developing economies, Pharmaceutical industry, Modes of foreign entry, Palestine

Paper type Research paper

1. Introduction

This study focuses on the internationalisation experiences of small to medium-sized enterprises (SMEs) located in extreme contexts. Hannah *et al.* (2009) describe an extreme context as a context with the occurrence of intolerable events and difficulties that exceed the organisational capabilities to prevent, leading to psychological, physical and material effects on an organisation. These difficulties of conducting business form a threat to SMEs' survival and growth, which necessitate a need to expand internationally (Khoury and

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Prasad, 2016; Muna and Khoury, 2012). The paper draws upon "social capital" as a theoretical construct to explain how social capital and its deployment by SMEs contributes to the creation of managerial knowledge and learning relevant to firms' internationalisation behaviour.

The notion of "social capital" has been around since the late nineteenth century, but it was only in the 1990s that it was brought into the context of the resource-based theory of the firm, more specifically, the knowledge-based view of the firm arguing that organisations create distinctive competitive advantage through the creation and exploitation of knowledge as a resource and through the sharing of that knowledge in social networks (Moran and Ghoshal, 1996). Social capital, in this view, comprises both the network and the sum of actual and potential knowledge resources embedded within that network (Nahapiet and Ghoshal, 1998). Social capital thereby contributes to the creation of the firm's intellectual assets in three dimensions: network structures, cognition and relationships (Bhandari and Yasunobu, 2009). Network structures reflect positioning of network members (Choo, 1998; Hazelton and Kennan, 2000); the cognitive dimension relates to commonality of context and language (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998), while the relational dimension addresses issues of trust, shared values and obligations (Fukuyama, 1995). Collectively, the three dimensions provide the context and the requisite mechanisms for mobilisation and exchange of knowledge assets, and thereby underpin the organisational learning process (Bourdieu and Wacquant, 1992; Krackhardt, 1992; Hitt and Ireland, 2002; Nahapiet and Ghoshal, 1998).

While seemingly intuitive, research on the relationship between social capital and organisational learning still suffers from empirical gaps (Rhodes *et al.*, 2008; Birasnav *et al.*, 2019), despite seminal work in the 1990s on the roles of social exchange and combination processes in organisational learning (Nonaka and Takeuchi, 1995; Boisot, 1995; Boland and Tenkasi, 1995).

The relevance of social capital in the context of internationalisation stems from its mitigating effect on liabilities of newness and foreignness encountered by firms when they seek to expand internationally (Stinchcombe, 1965; Dunning, 1981; Zaheer, 1995). Newness to a foreign market constrains access to critical external sources; foreignness is a disadvantage relative to domestic firms when these firms seek to establish business relationships (Autio *et al.*, 2005). Social capital plays a vital role in ensuring institutional conformity, mitigating conflict and enhancing responsiveness in foreign markets (Doornich, 2018; Anderson *et al.*, 1998; Zou and Ghauri, 2010). Social capital as a non-physical resource is especially important to SMEs located within extreme contexts, due to their limited access to resources. Hence, previous research highlighted the need to expose SMEs to opportunities to access social capital (ex. networks, suppliers and business friends) (Bennett and McCoshan, 1993; Meng *et al.*, 2016).

The majority of studies on internationalisation have been conducted mainly in Euro and US-centric contexts (Neupert *et al.*, 2006) and focus on large, well-established multinational enterprises (Ahmad and Julian, 2006). Therefore, data from non-western markets is not extensively available (Kuivalainen *et al.*, 2012; Rodrigues and Child, 2012). More research is required to understand how small firms develop internationally (Peterson and Welch, 2002); the roles of social capital and managerial learning in these firms during internationalisation (Doornich, 2018); and, in particular, as these relate to small firms within an extreme context (World Bank, 2019).

Hence, this research builds on the findings of these previous studies to deepen the understanding of the connection between social capital, learning and modes of foreign entry. With a focus on the Palestinian pharmaceutical industry, it seeks to address the following research questions:

RQ1. What roles do social capital and learning play in the internationalisation of Palestinian pharmaceutical SMEs?

RQ2. How do Palestinian pharmaceutical SMEs leverage their social capital for learning?

RQ3. How does this affect their mode of foreign entry?

RQ4. What are the implications of social capital, learning and internationalisation of SMEs for these firms and for regional policymaking?

This paper commences with a brief overview of the Palestinian context as a whole and of the pharmaceutical industry in particular. This is followed by a review of the literature covering the concepts of internationalisation and learning through social capital and their implications for modes of foreign entry. Next, a description of the methodology and a discussion of the key findings are presented. The paper concludes with recommendations and a reflection on policy implications.

2. Palestinian context and internationalisation

The Palestinian industrial sector comprises over 13,000 companies across 16 industries, with a majority categorised as SMEs (PFI, 2016). The industrial sector employs 13% of the total workforce and contributes 16% to the Palestinian gross domestic product (GDP) (PFI, 2016).

The Palestinian GDP for 2018 was $14.6m USD with a growth rate of 3.1% (PCBS, 2019b). The economy is essentially a service economy characterised by high unemployment rates reaching 24% in 2019 and a labour force underutilisation of 32% (PCBS, 2019a). Therefore, 50% of the 4.6m population lives below the poverty line (PMNE, 2017).

Doing business in Palestine is extremely challenging. Palestinians lack control over their borders and natural resources. Mobility restrictions on people and goods and the migration of labourers into Israel for employment are further economic impediments. The high transaction costs of exporting directly from Palestine and the current restrictive political situation affect the competitiveness of Palestinian companies. The "Paris Protocol", a customs union agreement enacted in 1994 between Palestine and Israel, significantly affects multiple aspects of the Palestinian economy. One of its limitations is the number and types of products that can be produced by Palestinian companies due to import restrictions on certain raw materials and chemicals (USAID, 2013). In particular, these constraints limit Palestinian companies' access to international markets (MAS, 2010; OECD/EU/ETF, 2018). Moreover, the COVID-19 pandemic of 2020 is expected to further contract the already vulnerable Palestinian economy by 2.5% in 2020 (World Bank, 2020).

These occupation-imposed challenges in Palestine necessitate both regional and international expansion to ensure survival. Hence, many Palestinian executives visualise potential and meaningful economic growth and enhanced competitiveness possible only through international expansion (Muna and Khoury, 2012).

Yip's globalisation framework, in which drivers for internationalisation include market, cost, governmental and competitive drivers (Johansson and Yip, 1994; Johnson and Scholes, 1997; Johnson *et al.*, 2010), resonates well with the views of Palestinian executives. Thus, companies are mainly driven by cost, market and competitive drivers. Internationalisation is increasingly viewed as an opportunity to create value and thereby enable the creation of competitive advantage for SMEs (Welch and Luostarinen, 1988; Kuada, 2006; Rundh, 2007; Saixing *et al.*, 2009). This is particularly important for firms in developing extreme economies as internationalisation provides these firms with the opportunity to diversify their business portfolio and to mitigate risk by operating in another country (Dunning, 1992; Rugman, 1979). In addition, establishing networks with foreign enterprises enhance market knowledge and experience. This, in turn, strengthens the resolve and commitment of local companies to internationalise (Granovetter, 1994; Johanson and Vahlne, 1990).

2.1 The Palestinian pharmaceutical industry

The pharmaceutical industry contributed less than 1% of GDP and 1 to 1.5% of total Palestinian exports in 2016 (OEC, 2017; Pal Trade, 2017). The industry today has six companies, five in the West Bank and one in the Gaza Strip. A majority of Palestinian companies are private and family-owned. However, the five pharmaceutical companies in the West Bank are now publicly traded and larger in size, collectively employing over 1,000 people. The market share of pharmaceuticals is divided as follows: Palestinian companies: 59%; Israeli companies: 19% and other foreign companies: 22% (Alhaya Aljadeda, 2018; PFI, 2009; USAID, 2013).

The pharmaceutical industry is considered a major industry sector in Palestine. It provides medicines to the local market at lower competitive prices than Israeli and foreign drug manufacturers. It also ranks highest in terms of workers' productivity (USAID, 2013). In the late 1960s, a shortage of certain medications on the Palestinian market led to the emergence of numerous pharmaceutical companies. In the 1990s, political instability and changes in industry regulations led to the consolidation of multiple companies into the six companies that together comprise the present day Palestinian pharmaceutical industry (Abu Alia, 2007; PFI, 2016; USAID, 2013).

The pharmaceutical industry is heavily regulated. Manufacturers must comply with international standards in order to meet the regulatory demands in both domestic and foreign markets. Although the production methods of the Palestinian pharmaceutical industry align with international standards, they are not universally accredited, as Palestine is not a member of the World Trade Organization (WTO). This necessitates additional extensive testing and procedures (USAID, 2013). Regulatory approval procedures vary within different countries (Yadav, 2013) and therefore, licencing and registration of products abroad is a major constraint facing Palestinian pharmaceutical firms. Diplomatic relations create a further constraint. Palestinian firms are restricted when seeking to establish trade agreements with many neighbouring countries. Routing via Jordan is possible, but it is time consuming and costly (Pal Trade, 2017).

3. Theoretical framework

3.1 Internationalisation and learning through social capital

Some firms follow the gradual internationalisation described by the Uppsala model as a sequential internationalisation process, where firms make additional commitment into foreign markets upon gaining experiential market knowledge (Johanson and Vahlne, 1990). Others align with the "born global" rapid internalisation model (Knight and Cavugsil, 2005; Zou and Ghauri, 2010). This research resonates more closely with the Uppsala model to offer an explanation for how SMEs in extreme contexts learn to internationalise through social capital.

The Uppsala model that has been used extensively to describe the internationalisation process in SMEs explains how a firm learns and gains knowledge throughout its internationalisation process, whereby that learning enables further international expansion. Firms need to develop knowledge in order to deal with constraints and uncertainty in foreign markets (Johanson and Vahlne, 1977, 1990). Experience gained by a firm in foreign markets is an important source of learning (Chang, 1995). Wen *et al.* (2017) thus argue that internationalisation is a process that combines business operations with experiential learning and the development of new capabilities in foreign markets. The internationalisation process requires both managerial and organisational learning to establish an international mindset and manage cross-cultural issues; whereby learning needs and approaches reflect the stage of internationalisation achieved by the organisation (Andersen *et al.*, 1998; Anderson and Skinner, 1999).

Managers leverage experiential learning in various ways. These may range from routine and fixed approaches to non-routine and flexible approaches at different levels of learning (Hedberg, 1981; Schroder *et al.*, 1967). Lower-level and higher-level learning, known as single- and double-loop learning, respectively (Argyris and Schön, 1987), result in different levels of cognitive development. At a lower-level of learning, managers rely on their own convictions and experiences to evaluate their surroundings and make decisions (Bateson, 1972; Doornich, 2018; Fiol and Lyles, 1985). Higher-level learning involves questioning and reflection that enables an adaption of values and norms, and a redefinition of rules (Argyris and Schôn, 1973; Bateson, 1972; Fiol and Lyles, 1985). This learning is improved via networks enhanced through social capital (Kogut and Zander, 1992, 1996), thus representing a rich source of experiential knowledge (Holm *et al.*, 1999; Welch and Welch, 1996).

Social capital is distinguished from other forms of capital (i.e. financial, human or physical) in that it is embedded in relationships that exist in social networks (Adler and Kwon, 2002; Coleman, 1988; Ratten and Suseno, 2006; Kontinen and Ojala, 2012a). Nahapiet and Ghoshal (1998, p. 243) describe social capital as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit". Closed network can sometimes limit access to new knowledge and new approaches (Kontinen and Ojala, 2012a; Nahapiet and Ghoshal, 1998; Musteen *et al.*, 2010). This notwithstanding, there is overriding consensus amongst scholars that social capital is an invaluable asset when accrued and exploited over time (Ratten and Suseno, 2006; Useem and Karabel, 1986). A particular feature of social capital, in contrast to traditional assets, is that it is not depleted when deployed. On the contrary, firms' social capital is enhanced by its increased exploitation (Roos *et al.*, 1997). Several researchers in the social capital domain distinguish between firms' internal and external social capital. Internal social capital relates to associability and trust while external social capital reflects reciprocal interaction among firms (Leana and van Buren, 1999).

Ratten and Suseno (2006) emphasise the role of social capital in creating knowledge and learning. At the core of the learning process, the exchange and combination of intellectual capital is facilitated by the structural, cognitive and relational dimensions of social capital through access, sharing of context and trust, respectively. Nahapiet and Ghoshal (1998) argue that in this way social capital provides an effective and efficient catalyst for organisational learning.

All three dimensions contribute to the organisational learning process by facilitating inter-unit, cross-functional and inter-firm exchanges (e.g. Burt, 2000; Ratten and Suseno, 2006; Stuart, 1999); these contribute to the generation of new knowledge (Kogut and Zander, 1992; McEvily and Zaheer, 1999). Doornich (2018) further argues that the structural dimension focussing on relationships comprises three categories: bridging, bonding and linking. Bridging is a loose, horizontal connection between the parties with irregular interactions based on common interest; bonding leads to frequent interactions and, ultimately, mutual trust, dependency and reciprocity. Linking is a vertical connection between firms and the public sector. The relational dimension focuses on the interpersonal relationships between parties, which can be either arms-length or embeddedness. Arms-length relationships involve little personal involvement and no obligations for a future commitment, whereas embeddedness focuses on long-term commitments and requires continual effort on the part of both parties. The cognitive dimension relates to knowledge. Cognitive resonance occurs when managers share cognitive frames of reference that enhance their access to knowledge; cognitive dissonance occurs when the cognitive frames of reference differ and results in conflict that hinders access to new knowledge.

3.2 Implications for modes of foreign entry

Social capital has an important impact on the progression of a firm's mode of entry (Meng *et al.*, 2016; Musteen *et al.*, 2010). Three factors, in particular, come into play: "Efficacy" refers to an organisation's mode of entry motivated by a quest for valuable information, knowledge and resources. "Serendipity" relates to chance opportunities resulting from unexpected events and "liability" refers to a mode of entry motivated by ineffectiveness in a firm's current entry mode. While efficacy relates to firms' access to new knowledge, serendipity and liability relate to managerial learning through new experiences and learning from failure (Chetty and Agndal, 2007; Kontinen and Ojala, 2011; Rodrigues and Child, 2012).

With more accumulated knowledge and learning, firms become increasingly capable of progressing from low-resource commitment entry modes (ex. exporting) to high-resource modes (ex. joint ventures) (Johanson and Vahlne, 1977, 1990). According to the Organisation for Economic Co-operation and Development OECD (2009), export is the most common foreign market entry mode and represents the first level of engagement for SMEs, as it does not require a large amount of capital investment. It also has less financial and commercial risk compared to other modes of foreign entry. Opportunities for internationalisation beyond exporting include licensing/franchising, joint ventures, foreign direct investment (FDI), wholly owned subsidiary as well as other forms (Johnson *et al.*, 2010; Wheelen and Hunger, 2012). Each mode of entry has benefits and drawbacks; these need to be evaluated to ensure companies' successful internationalisation (Dunning, 1992). Accumulated learning thus influences the internationalising firm's behaviour (Åkerman, 2014; Anderson *et al.*, 2001; Gao and Pan, 2010). Managerial knowledge gained through international engagement develops proactive perceptions to internationalisation and guides the strategic objectives of the firm by accommodating processes, systems and organisational structures (Ghauri *et al.*, 2005).

4. Research methodology

This research adopts a qualitative approach to explore the internationalisation of Palestinian pharmaceutical companies. Qualitative research methods enable researchers to understand and interpret the studied phenomenon in its natural, contextual setting (Bhattacherjee, 2012; Cope, 2005; Guba and Licoln, 1994; Thompson *et al.*, 1989). Research questions probing "how" and "why" questions are mostly suitably investigated by case study research (Yin, 2014). The essence of a case study is that it seeks to illuminate decisions, "why" they were taken and "how" they were deployed (Schramm, 1971). Hence, a case study approach was deemed appropriate to empirically examine the rationale and approaches that underlie the internationalisation endeavours of SMEs in the Palestinian pharmaceutical industry. With reference to Dana and Dana (2005), the case study approach allows for studying a limited number of cases in a deep and holistic manner whilst, at the same time, analysing and understanding key aspects of the particular context or environment within which these cases occur (Robson, 2002, 2015).

The study reports on the results of interviews from four of the six SMEs in the pharmaceutical industry, which operate in the West Bank, and have been active in the international market for over ten years. The two companies excluded from the research are a newly established firm, not engaging in any internationalisation initiatives at the time of the study, and a Gaza-based company, which was excluded due to significant decrease in operations as a result of the political situation.

Although this study shares the limitations typically encountered in the case study approach, this approach was deemed nonetheless to be suitable in view of the limited number of companies in the industry sector (Bhattacherjee, 2012; Kisfalvi, 2002; Sekaran, 2003). The research thereby offers a basis for reasonable generalisability within this industry (Robson, 2002, 2015; Sim, 1998; Yin, 2009).

The case study investigation is based on eight in-depth semi-structured interviews, two from each company, with key founders and executives. Although these companies are publicly held, the key founders and initial founding families are still heavily involved in key decision-making. The interviewees were selected based on the length of time with the company, their position within the company, and their direct involvement in strategic decision-making, including internationalisation initiatives. Interviews were conducted in one-and-a-quarter to two-hour face-to-face meetings. Discussion during the interviews was guided by a pre-determined set of open questions to ensure consistency whilst at the same time offering opportunity for elaboration on important issues as they emerged during the discussion.

At the beginning of each interview, the participant was briefed on the objectives of the research. Interviews were recorded and later transcribed verbatim, then translated from Arabic to English to facilitate the analysis process. To safeguard the privacy of the participants and their companies, pseudonyms were used. Table 1 contains key information describing the profile of the participating decision makers.

For the analysis of the data, interview transcripts were coded and categorised by common themes and patterns, as suggested by Eisenhardt (1989). After discussion and agreement amongst research team members, a thematic analysis process using NVivo was carried out to derive a common set of themes that then enabled the identification of (1) how these companies use social capital ties to acquire the knowledge needed for successful international expansion both in local and foreign markets, and (2) how the accumulated knowledge and learning through social capital influence these companies' choice of mode of foreign entry and subsequent internationalisation behaviour. The themes and sub-themes generated in this process are presented in Table 2. Alongside the primary interview data, the researchers collected and analysed relevant information published in the companies' annual reports and strategic plans, as well as other documents and articles published by the union of industries and local trade organisations. This enabled triangulation of the data, as suggested by Bhattacherjee (2012) and Ghauri and Gronhaug (2005), and was used to establish internal validity of qualitative data obtained from the interviews.

5. Findings and discussion

5.1 Learning through social capital

5.1.1 Learning through social capital at a local level. All companies reported developing internal social capital in the local market before seeking to build social capital abroad. Due to various political challenges and lack of viable opportunities for internationalisation, companies initially had ample time to build their social capital internally. Companies (A) and

Company	Year of establishment	Ownership type	Number of employees	Interviewed executives	Position
A	1973	public since 1979	285	1	Founder CEO
				2	Operation manager
B	1969	Public	400	3	Founder and Chairperson
				4	CEO and founder's son
C	1986	Public	331	5	CEO and founder's son
				6	Marketing manager
D	1970	Public	197	7	CEO who worked for the company since its establishment
				8	North district Sales Manager

Table 1. Profile of participants and their respective companies

Themes	Subthemes	Examples of codes
Leveraging social capital dimensions	Structural features (binding/linking/bonding) Cognitive features (Resonance/dissonance) Relational features (Arms-length/embeddedness) Local market characteristics Foreign market characteristics	"Lobbying" " Union" " Consortium" "Foreign aid" "Trust"
Learning	Organisational and change processes Adaptation of products Managerial disposition (flexibility, perceptions, mindset and values) Lower level learning Higher level learning	"Quality standards" "GMP" "Expansion beyond local market"
Drivers for changing modes of entry	Efficacy Serendipity Liability	"Lower cost" "Opportunity" "Failure" "Experience"

Table 2.
Themes and sub-themes

(D) were established by medical doctors, chemists and pharmacists who formed partnerships to create a new pharmaceutical company on the basis of their educational background, experiences and expertise. Company (B) initiated its facility as a pharmaceutical distributor. Then, after local government standards were raised to improve the quality of local products, company (B) began to manufacture both human and veterinary medical products. One of the initial founders of company (A) moved on to become the founder of company (C).

The three dimensions of social capital can be used to explain the managerial learning trajectory in the case companies. All companies exhibited different degrees of structural, relational and cognitive social capital in the local market. Bridging, linking and bonding–associated with the structural dimension–are reflected in the local network ties established by the companies.

Bridging resulted in the formation of a pharmaceutical union in 1996. This union has enabled to collaboratively raise industry standards, help formulate government policies, acquire foreign donor technical assistance, access international training expertise and improve the national image of local products. Collectively, these activities have contributed to enhancing the manufacturing quality and the competitiveness of the entire pharmaceutical industry. The CEO of company (C) explicitly stated:

> In the 1990s, the French and the FDA came for an inspection and we were excellently assessed. Managers of Palestinian pharmaceutical companies . . .were later invited to visit France where we had the chance to see how they manage. . .. We were inspired by their procedures and activities. Their assessment has enhanced our self-confidence and encouraged us to expand . . ..

The four companies researched also collaborated to create a consortium for joint export to Eastern Europe.

Vertical links are reflected by the collective lobbying of the government on the part of the companies to raise their manufacturing standards; this led to a reduction in the number of manufacturers in the industry. Company (A)'s CEO assured: "*No other industry thought of . . .restricting [itself] to a set of very high standards . . .to limit the overall number of manufacturers.*" The four companies studied in this investigation emerged from this initiative. These companies have continued to work with the government and foreign aid organisations to monitor the performance of the industry, implement GMP practices, raise manufacturing standards and meet international quality requirements. The CEO of company (D) commented:

> We were the first Palestinian company to obtain the Jordanian GMP practices in 2008... despite the intense competition in the Jordanian pharmaceutical industry... and the very high standards, we succeeded in registering our products....

Bonding between the four companies in their local market was not evident.

The relational dimension on a local level remains at arms-length and is short-term focused, with companies collaborating locally only on specific objectives. The cognitive dimension was demonstrated through a consensus among the companies to overcome the limitations of the local market and to penetrate regional and international markets. This was evident in the lobbying of the government to raise industry quality standards. In conclusion, the collective learning outcome of the four case companies in the local market is centred mainly on two important objectives: (1) expansion beyond the local market, and (2) adherence to international industry quality standards. Learning was obtained through adopted mechanisms, such as forming a union, lobbying of the government, attracting foreign aid and setting up a consortium for joint exporting.

5.1.2 Learning through social capital in foreign markets and implications for choice of subsequent entry mode. It is evident that the case companies leveraged the three dimensions of social capital (structural, relational, cognitive) in foreign markets to various degrees; thus, internationalisation learning levels and motivation to change foreign entry modes were diverse and triggered by different factors. The research findings suggest that leveraging social capital enabled the case companies to accumulate requisite knowledge and learning initially through their experiences in exporting to foreign markets, and subsequently through their participation in networking opportunities and learning from failed experiences in these markets. More specifically, the three categories of social capital underscored by Chetty and Agndal (2007)–efficacy, serendipity and liability–help explain how the case companies progressively changed their foreign entry modes (Gao and Pan, 2010; Johanson and Vahlne, 1977, 1990). Table 3 presents the initial entry mode and successive foreign entry modes of the case companies.

The analysis indicates variations in the degree of impact the deployment of social capital has had on the level of internationalisation learning amongst the case companies. However, the internationalisation process of the pharmaceutical industry was gradual, consistent with the Uppsala school model. In early years, structural bridging social capital was evident in the attempts to export by company (C), since the importing regulations in Yemen were, in the words of CEO of company (C): "*... the first country to accept Palestinian products without requiring compliance with particular local standards or inspection procedures*." However, this relationship has failed to continue in the long run and the company searched for other potential markets. Consequently, company (C) demonstrated the highest level of social capital

Firm	Year of export	Initial entry modes	First market	Other market	Successive entry modes
A	1990	Exporting	Ukraine Yemen	Azerbaijan, Belarus, Algeria	Foreign direct investment
B	2000	Exporting	Jordan	Ukraine, Belarus, Western Africa, Algeria, Gulf countries	Foreign direct investment
C	1993	Exporting	Former Soviet Union (Russia)	Yemen, Malta, European market	Joint venture, partnership and FDI
D	2008	Exporting	Jordan	Algeria, Qatar, Mauritania, Oman	None

Table 3. Case companies' initial and successive modes of entry

deployment. The company expanded beyond the regional markets by leveraging structural bonding, relational embeddedness and cognitive resonance social capital dimensions, thereby benefitting most from learning at both organisational and managerial levels. The learning experienced by company (C) was enhanced by the adoption of an international mindset and the willingness to engage in new experiences and opportunities.

> I have always believed that in order for any company to be able to maintain its local [domestic] image it is essential for it to be able to compete abroad in international markets. The perception among Palestinian consumers has been that all foreign goods should necessarily be better than any local one; we managed to change this perception when local consumers sampled our products. (CEO of Company C)

The attitude of openness and flexibility adopted by company (C) led to its initiating long-term and fundamental changes to its mode of foreign market entry. In the process of obtaining European good manufacturing practices (GMP) approval, company (C)'s CEO was introduced to a European investor, who upon investing in company (C) locally, subsequently established a joint venture with company (C). This facilitated greater access to European markets; a development that is consistent with the findings of Chetty and Agndal (2007) and Kontinen and Ojala (2011), who emphasise that when social capital ties between partners are strengthened, entry mode can move to a high-control mode. As CEO of company (C) stated:

> Our partner [has] taught us a lot. He made us realise the importance of planning and looking into the future. We visited their factories in Germany and observed how they function, plan and think. He has provided me with a new perspective on life and allowed me to set my priorities better. He is very keen on charitable activities and each time he comes to Palestine he visits orphans' home and spends the day playing with kids.

Over the years, the relationship had evolved to a stronger, trust-based, long-term relationship, demonstrating a situation of "cognitive resonance". Exchange visits between the CEO of company (C) and his European counterpart resulted in a strengthening of network ties; these further enhanced the trust basis on a personal, individual level. Serendipity (chance occurrences) opened new windows of opportunity for company (C) to raise its commitment and investment in riskier foreign entry modes. These findings are in line with those of Rodrigues and Child (2012) and Kontinen and Ojala (2011), suggesting that serendipity drives opportunities for building new trust-based personal relationships, which, in turn, facilitates expansion into new markets.

Companies (A) and (B) exhibited lower levels of learning related to European markets than company (C). The analysis suggests this adversely affected the degree of their commitment of resources when investing in European markets, despite the fact that both companies invested regionally through FDI in the Algerian market. In its early stages of internationalisation, company (A) also failed at forming long lasting, bonding relationships with a Yemeni distributor. CEO of company (A) said: "*we cared more about low cost, since their* [Yemeni] *standards are lower*." Thus, this Yemeni relationship can be characterised as bridging and arms-length for the purpose of exporting. It was a failed relationship for both companies (A) and (C) and demonstrated a situation of "cognitive dissonance" (Doornich, 2018). This led company (A) to seek opportunities in an alternative regional market, Algeria through a combination of a strategic alliance and investment in a privately held Algerian corporation. The Algerian market was appealing for its large size. Company (A)'s partnering activity in the Algerian market provides evidence of its deployment of social capital in the form of relational embeddedness (Dunning, 1992; Rugman, 1979), which further amplified the need for strengthening and developing new operational and managerial competencies. For example, companies (A) and (B) reported implementing Six Sigma practices: "*Personally, I have accomplished [two]… certifications under the supervision of certified international trainers, which should be useful in* *improving operational processes*" (Interviewee 2 from company A). Moreover, a growing awareness of the increasing importance of corporate governance led to the training of board members in core governance principles. Interviewee 3, of company (B), stated: "*Despite having an abundance of knowledge and experience in the pharmaceutical industry, all our board members participated in Corporate Governance training*". Collectively, learning gained from these activities contributed to the success of these firms in accessing foreign markets.

Liability was a key motivating factor behind the decisions of companies (A) and (C) to mitigate risk by terminating their exporting relationship with the Yemeni distributor and seeking more profitable modes of entry into other markets. Additionally, for companies (A) and (B), liability was a motivating factor in the decisions to invest in Algeria due to changes in the Algerian importing regulations. Company (A) CEO asserted: "*We were banned from exporting to the Arab World, such as Algeria, in light of our forced commercial political relationship with the occupying power because those countries could not guarantee the products imported were strictly from Palestinian origin.*" Access to the large Algerian market was thus possible only through FDI; FDI provided access, as well as ensured a higher degree of control and opportunities to leverage their capabilities and networks (Chang *et al.*, 2013; Fang *et al.*, 2010). Company (B) further enhanced its network ties with its Algerian partner through structural/bonding, relational/embeddedness and cognitive/resonance. However, before investing in the Algerian market and by tapping short-term, bridging structural social capital, company (B) acquired a pre-established Jordanian manufacturing facility. This facility was financially troubled but had products registered in the Jordanian market. This move allowed company (B) a higher degree of control over the Jordanian market and the internationalisation endeavour of the company was similar to that of company (C), in that both were driven by serendipity, which enabled an opportunity to expand regionally.

The findings suggest that learning from failed export experiences and relationships with early distributors had a positive impact on managerial competencies, such as pricing, costing, financial management and marketing in the case of companies (A) and (C). The CEO of company (A) mentioned: "*Our mistake in Yemen has made us more aware of pricing, economies of scale and costing issues. We have learned to set our prices for the foreign market and ensure making a profit.*" Moreover, company (B) encountered unforeseen challenges, as stated by the CEO: "*We have faced difficulties despite the image that Jordan and Palestine are similar [in culture and geography]*. . .. *We found that we are very different in how we treat our employees and in the communication style of employees and managers.*" Despite these challenges, and through capitalising on their learning experiences, company (B) followed a similar strategy when entering the Algerian market.

Company (D)'s accumulation of learning in the local market resulted in improved product quality, employee development and enhanced marketing processes. Company (D)'s CEO claimed: "*Obtaining the (Jordanian) GMP has expanded our knowledge and enhanced our skills*". Interviewee 8 of company (D) emphasised: "*Absolutely, there is a positive impact on skills development resulting from investments in continuing education, sending employees abroad to obtain further training, and participation in . . . conferences, . . . seminars*". Notably, however, these learning activities do not appear to have had an impact on company (D)'s ability to pursue modes of foreign entry beyond the export stage. Presumably, this relates to mindset constraints that inhibited their ability to perceive and respond to opportunities for alternative international expansion. CEO of company (D) affirmed: "*We care about having our products produced in Palestine, from Palestine to the world. This is an opinion held by our . . . board of directors*".

The research findings suggest that company (D) leveraged bonding, embeddedness and resonance expressions of structural, relational and cognitive social capital, respectively, in nurturing its relationship with its distributor company in Jordan, which represents a major institutional investor and shareholder of company (D). The relationship enabled the company to obtain the Jordanian GMP. Company (D) not only established itself in the Jordanian market, but also used this market as a gateway for further regional expansion. However, company (D)'s concentration on its internal social capital limited its internationalisation activities and left it to depend exclusively on exporting as a mode of entry (Kontinen and Ojala, 2012b; Musteen *et al.*, 2010).

In the early stages of the internationalisation process of the case companies, efficacy was an important factor. Company (B) CEO asserted:

> The unfavourable local market conditions represented by limited size and competitive nature are exacerbated by our inability to market Palestinian products in the Israeli market due to Israel's unwillingness to conduct inspection visits, which are essential to product registration and trading.

All companies initiated their international expansion via an export mode of entry into regional markets by establishing export channels to, and subsequently from, Jordan, which was perceived as a viable gateway to the Middle East and North Africa (MENA) region.

The company's activities in Jordan provided invaluable learning opportunities. These included access to market information and knowledge, particularly with respect to distribution, resources and registration of products abroad. Hence, proximity and structural similarities of the Jordanian market played an important role in the case of all companies. However, while companies (B) and (D) maintained focus on the Jordanian market, companies (A) and (C) leveraged the learning gained in the Jordanian market by extending their international reach, exporting through Jordan to Ukraine and the former Soviet Union, respectively. This provided the opportunity for the companies to assess their competitive potential in foreign markets with minimal degrees of risk and commitment. In contrast, company (D) stressed close internal social capital relations and decided to maintain its original exporting mode of entry without any strategic plans to consider additional entry modes. Companies (A), (B) and (C), on the other hand, subsequently amplified their international expansion by adopting additional entry modes to complement their ongoing exporting activities.

The research findings suggest that the deployment of social capital by the four case companies is directed primarily at foreign market activity, and is contingent on the extent to which an individual company successfully deployed its internal and external social capital.

6. Conclusion, implications and limitations

To conclude, the findings of this study reveal that the internationalisation process of SMEs within extreme contexts like Palestine is contingent on and driven by a number of factors. The research indicates that these lead to a progression of foreign entry modes from lower resource engagement and commitment to more advanced modes of entry. Higher entry modes enhance ownership advantage, expansion of companies' investment portfolio and thereby mitigation of liability of newness and foreignness. Social capital plays an important part in international expansion. Structural, cognitive and relational capital, when astutely deployed by these firms, contributes significantly to the enhancement of learning vital to internationalisation. Drawing upon "social capital" as a theoretical perspective, this study contributes to the current understanding of how social capital ties and networks that Palestinian pharmaceutical firms develop influence managerial knowledge, learning and decision-making, and consequently, their internationalisation behaviour. By highlighting the importance of the role of social capital dimensions in fostering learning opportunities for international expansion, the findings of this research underscore the importance of long-lasting social capital ties and networks in both local and foreign markets. While most of the existing research has explored either the relationship between social capital ties and learning, or between social capital ties and mode of foreign entry, this study examines the relationship among all three. In this way, the findings substantiate and extend the role of social capital in the learning process suggested by the Uppsala model.

Managerial mindset is further shown to be an important factor in the internationalisation of SMEs. The intangible nature of social capital presents particular challenges in this regard. The study provides evidence of the importance of managerial mindset in the form of openness to new opportunities and new ways of doing things. Paramount to the successful orchestration of social capital in the internationalisation process, the findings suggest, is a balance between openess on the part of SMEs to new experiences and opportunities and the realities of the restrictive competitive environments within which these firms operate.

The study also points to the vital role of third party agencies, such as regional policymakers, trade associations and unions in promoting the internationalisation of local firms. The findings of the present study suggest several significant implications for policymaking. Given the crucial role of the Palestinian pharmaceutical industry in the economic development of Palestine at both industry-wide and national levels and its reliance on internationalisation, these raise important implications for policymaking in the region. First, internally directed policies that facilitate and support local firms' internationalisation efforts through the institutionalisation of world-class quality standards by way of regulatory instruments for local industries are imperative. Prioritisation of government and donor support to high-potential industry sectors is a first step. Second, externally-focused policies that enable the negotiation and conclusion of cross-border trade agreements supported by active participation of local companies is crucial for the development of social capital ties necessary for learning and internationalisation. Policies directed at establishing and nurturing a favourable diplomatic context is an essential condition for cross-border trade agreements. Finally, this study accentuates the key mediating role that professional associations, such as the union of the pharmaceutical industry, can play in promoting international activities of its member organisations.

Although this research focuses on the pharmaceutical industry in the extreme context of one particular developing Middle Eastern context, the findings have implications for practice in other comparable developing countries.

This study presents exploratory research. As such, the investigation reported in this paper offers important insights in an area of management studies that has been chronically under-researched, that of SMEs in extreme, volatile, developing economies seeking to expand internationally. The findings of this research thus lay the groundwork for future deepening research in a number of areas. These include an investigation of the influence and impact of learning through social capital ties on companies' strategic and operational performance; the role of managerial competencies (e.g. strategic thinking and planning) and individual differences (e.g. age, gender and education) of the SME's founders when internationalising, and, an extension of this study to other industries in comparable competitive environments.

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