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From roots to reach: how family SMEs balance and leverage social capital while reconciling the paradoxes of internationalization

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ABSTRACT

This study examines how family-owned small and medium-sized enterprises (SMEs) navigate the complexities of international expansion while preserving their local identities and connections. Cognizant of their nested roles in local economies and the risks to their local reputation and legitimacy, many family SMEs are hesitant to venture into international markets. Using a longitudinal case study approach, we examine how four Swedish family SMEs partner with regional multinational enterprises (MNEs) and pursue international opportunities by leveraging bonding social capital (within local networks) and bridging social capital (through international ties). We advance a model that captures the tensions that arise throughout the internationalization process. Our study demonstrates that despite the paradoxical tensions related to the trade-off between localness and international expansion, family SMEs can leverage bridging social capital with local MNEs to access global value chains while balancing the need to preserve localness and their role in their regions through bonding social capital. Conceptualized as a form of network governance this 'balancing competence' enables family SMEs to manage paradoxical tensions effectively by sustaining local legitimacy while simultaneously pursuing international opportunities.

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Introduction

In today's interconnected and competitive global economies, large multinational enterprises (MNEs) play a pivotal role in shaping global markets (Prashantham and Birkinshaw 2008, 2020). However, MNEs are only one contributor to a country's economic development. In developed nations, the increasing presence of MNEs significantly impacts many family-owned small and medium-sized enterprises (hereafter 'family SMEs'), which are often overlooked but vital for the growth and prosperity of the domestic economy (D'Angelo, Majocchi, and Buck 2016). For a growing-minded and ambitious family SMEs, collaborating with large MNEs that provide complementary resources and expertise is essential (Debellis, Rondi, Buckley and De Massis 2024). Such collaborations can create opportunities, including access to international supply chains (Stoian, Dimitratos, and Plakoyiannaki 2018), knowledge exchange (Tsang 2020), research collaborations (De Massis and Foss 2018), and the ability to launch innovative products on an international scale (Prashantham and Birkinshaw 2008).

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Family SMEs are the dominant organizational form worldwide, playing a crucial role in job creation and economic growth in their home markets (Baù et al. 2021; D'Angelo, Majocchi, and Buck 2016; Kontinen and Ojala 2011). However, these businesses often adopt a conservative and risk-averse approach (Fang et al. 2021), especially concerning international expansion. This caution is primarily due to uncertainties and a lack of information regarding foreign markets and the internationalization process (Boellis et al. 2016; Calabrò et al. 2017; Kontinen and Ojala 2011; Lahiri, Mukherjee, and Peng 2020). Family SMEs tend to rely on their well-established, localized capabilities (Debellis et al. 2021; Leppäaho and Jack 2021). Moreover, through their international activities, family SMEs contribute to regional growth (Fletcher 2004; Zucchella 2021). Their strong legacy and value-driven orientation (Leppäaho and Jack 2021), combined with a community-focused approach (Hadjielias, Discua Cruz, and Howorth 2023), enable family SMEs to make distinct contributions to their local environments, thereby influencing regional development in their home markets (Boso et al. 2017; Fletcher 2004; Kraus et al. 2021).

However, reliance on domestic markets can restrict the growth potential of family SMEs and impede their efforts to expand internationally (De Massis et al. 2018). This creates a paradox (Smith and Lewis 2011) where, despite the strength of their social capital, family firms must balance the preservation of local identity and legitimacy with the demands of international expansion, which can challenge their established networks and internal capabilities (Spielmann et al. 2022). As a result, the social capital within family SMEs often leads to a gap between the skills available in their existing networks and the diverse competencies required for successful international growth (D'Angelo, Majocchi, and Buck 2016). Social capital, defined as the resources found in interpersonal networks (Adler and Kwon 2002; Nahapiet and Ghoshal 1998), can be categorized into two types: 'bonding' (local) and 'bridging' (international) (Eklinder-Frick, Eriksson, and Hallén 2011). An overemphasis on bonding ties in family SMEs may restrict their ability to explore international opportunities due to excessive embeddedness and rigidity (Laursen et al. 2012; Uzzi 1997).

Surprisingly, there is limited research in the international business and international entrepreneurship domains on how families of SMEs navigate the paradox between remaining locally rooted and pursuing international growth. To address this gap, we pose two complementary research questions: (1) *What are the emergent tensions that family SMEs experience when trying to remain locally rooted while growing internationally?* (2) *How do family SMEs develop bonding and bridging social capital with external partners to reconcile these tensions?* We address these research questions through a qualitative inductive analysis of multiple case studies in central Sweden, an area influenced by large multinational companies in the power/automation industries (such as Atlas Copco, ABB, Bombardier, and Volvo Construction Equipment) and the paper/pulp sector (including BillerudKorsnäs and StorEnzo). Based on our analysis of data from four longitudinal case studies, which included 39 semi-structured interviews, 42 participant observations, and thousands of pages of archival data, we advance a model that illustrates the tensions that arise during the internationalization process. This model illustrates how family-owned SMEs can engage with local MNEs, allowing them to secure a balance between maintaining their local identity and exploring international opportunities.

Our findings make several important contributions to the literature on international entrepreneurship and SME growth (Baù et al. 2021; Minichilli and Piscitello 2014; Minola et al. 2022). Our first contribution is that family SMEs, despite facing disadvantages in size and experience, can cultivate and leverage bonding social capital with local MNEs to foster bridging social capital with global value chain actors (Tian et al. 2018). This contribution builds on a growing body of research suggesting that network development enables firms to better identify and exploit international opportunities (Coviello and Munro 1997; Kaartemo, Coviello, and Nummela 2020; Kontinen and Ojala 2011; Tolstoy 2010). Second, our findings reveal a process in which a family of SMEs adopt similar patterns to develop and leverage networks with local MNEs (Prashantham and Birkinshaw 2008). This process involves capturing opportunities to connect with international value chains while preserving their

local identities and legitimacy (Jafari-Sadeghi et al. 2023; Zahra, Neubaum, and Naldi 2007). Building and mobilizing bridging social capital requires a family of SME managers to balance the demands of sustaining local identity with the need to engage dynamic international value chain actors (Baù et al. 2021). Applying paradox theory repositions this balancing competence not merely as a tactical response but as a network governance competence that supports long-term success, reflecting the ongoing navigation of tensions between local and global priorities. This conceptualization aligns with our findings on the gradual development of social capital, generational differences in networking approaches, and shared responsibility in managing such tensions.

The paper is organized as follows: the next section reviews the theoretical components of the family SMEs' bonding and bridging social capital in local and international contexts. The methods section describes the data collection and analysis. This is followed by case profiles and a presentation of the empirical data. Finally, discussions and conclusions, including limitations and suggestions for further research, are advanced.

Theoretical background

Family SMEs networking behaviors and internationalization paradoxes

For family SMEs looking to expand into foreign markets, international exposure is critical (Kano and Verbeke 2018). This exposure is the extent to which a firm's management team engages with international stakeholders through their prior experiences or network relationships (Muñoz-Bullón and Sánchez-Bueno 2012). Research has shown that international exposure through previous work experience and the engagement activities of management teams positively influences a firm's ability to internationalize (Reuber and Fischer 1997; Sapienza et al. 2006). However, in a rapidly changing business environment, the knowledge gained from past experiences can quickly become outdated, making current and ongoing international networks equally important (Bruneel, Yli-Renko, and Clarysse 2010). Initially, the Uppsala model of internationalization suggested that the necessary knowledge for international expansion was acquired mainly through direct operations abroad (Johanson and Vahlne 1977). More recently, Johanson and Vahlne (2009) updated their model to emphasize the importance of international exposure through network relationships, even suggesting that smaller firms without sufficient networks may face the 'liability of outsidership'. Network relationships can help family SMEs identify and act upon international opportunities, whereby entrepreneurial firms seek and seize opportunities borne from networking connections (Coviello and Munro 1995, 1997). Coviello and Munro (1995) reported that 64% of small entrepreneurial firms entered their initial foreign markets and chose entry modes on the basis of opportunities presented by network contacts rather than through proactive identification at the firm level. Similar findings are reported by Chen and Chen (1998) and Johanson and Vahlne (2011), indicating that networks can significantly boost family SME growth in international markets by providing new opportunities and offsetting the costs or risks associated with market unfamiliarity and a lack of legitimacy. These relationships provide both resources and legitimacy (Oviatt and McDougall 1994). Family SMEs, which may be typically cautious and risk-averse when entering foreign markets (McDougall, Oviatt, and Shrader 2003), benefit from the resources and credibility gained through networks, leading to higher growth and performance levels internationally. However, how these impacts manifest in local environments remains less understood (Baù et al. 2019; Lu and Beamish 2001). An emerging stream of research increasingly challenges the view that family SMEs are risk-averse, pointing instead to greater heterogeneity in their approaches to networking, innovation, and risk-taking (Hu and Hughes 2020; Kraczy, Hack, and Kellermanns 2015), calling for a greater understanding of the conditions that shape these approaches. Networks also provide family SMEs with vital information about international

markets, relating to business factors such as customer and competitor bases, institutional factors such as government regulations and norms, and internationalization processes including the capabilities needed to enter a foreign market (Hadley and Wilson 2003; Sharma and Blomstermo 2003). Access to such information helps family SMEs collaborate with local firms and overcome the 'liability of foreignness'. While family SME networks can facilitate international expansion, this simultaneously creates significant tensions between remaining locally grounded and pursuing international opportunities (Baù et al. 2021). Thus, family SMEs face interconnected paradoxes in pursuing local and international activities (Smith and Lewis 2011). Tensions that emerge from network-enabled international entrepreneurship and the distinct localness of family SMEs can only be balanced if family SMEs embrace international opportunities while simultaneously remaining locally rooted. For a family of SME managers to transcend an either/or mindset (De Massis et al. 2015), they must make use of mechanisms that allow them to embrace, rather than eschew, paradoxes, where persistent tensions between internationalization and remaining locally rooted are a constant (Baù et al. 2021; McAdam et al. 2024). Family SMEs surrounded by MNEs enjoy a privileged position in that their local work with these MNEs provides international exposure, and by embracing this paradox, they are better able to develop creative solutions to these tensions (Smith, Lewis, and Tushman 2016).

For families of SMEs aiming to enter foreign markets, leveraging international exposure through both past experiences and current network relationships are vital (Calabrò et al. 2017). These networks provide opportunities, resources, legitimacy, and essential market information, all critical for growth but equally important for maintaining local embeddedness. Social capital can be exploited to obtain knowledge, information, and relevant support (Banalieva and Eddleston 2011), and an individual actor's position in networks may dictate how information and knowledge can be favourably obtained (Tian et al. 2018). We view these insights as particularly helpful in exploring the role of social capital in family SME local and international growth, and in reconciling the emergent tensions.

International opportunities, emergent tensions, and social capital in family SMEs

In studies of international entrepreneurship, social capital often serves as a theoretical framework and is commonly observed empirically as relationships among directors, family members, or firms (Coviello and Munro 1997; Sharma and Blomstermo 2003). Prashantham and Birkinshaw (2008) examined social capital in terms of home-country and host-country relationships and their impact on accessing international opportunities. There is also substantial research linking social capital to the discovery of opportunities. Zaefarian, Eng, and Tasavori (2016) suggested that social networks often lead to the first international opportunities, whereas subsequent opportunities emerge from business networks within family SMEs. However, some studies argue that opportunity identification or creation are not dependent on the network's configuration but rather results from discovery, luck, and serendipity (Chetty and Agndal 2007; Vasilchenko and Morrish 2011). Thus, the nature of social capital in terms of relationships can have varying effects on the exploitation of international opportunities.

Social capital, coupled with an actor's favourable position within a network, can be exploited to obtain knowledge, information, and relevant support via embedded relationships (Baù et al. 2019; Tian et al. 2018). Eklinder-Frick, Eriksson, and Hallèn (2011) explained that bonding social capital refers to relationships that exist within a closely knit group of individuals or organizations. These are strong ties that create trust and solidarity within the group, often on the basis of shared identities, norms, or experiences. However, it may also limit access to external resources or ideas because the group is inward-looking and may resist external influences. In contrast, bridging social capital refers to the connections between different groups or networks. These are weaker ties that link individuals or organizations to external parties, allowing them to access resources, information, and

opportunities outside their immediate circle (Eklinder-Frick, Eriksson, and Hallén 2011). Valdaliso et al. (2011) investigated the effects of social capital and international opportunities on developing absorptive capacity within regions by empirically observing the relational, structural, and cognitive dimensions of social capital. Although their focus is not on specific firms, they highlight how these dimensions change as regions capitalize on international opportunities.

Social capital and its utilization can play different roles when firms change their strategies to exploit international opportunities (Chetty and Agndal 2007). This perspective aligns with Agndal, Chetty, and Wilson (2008), where the authors analysed social capital in terms of the extent to which a firm's relationships are embedded in social and business networks. Although these studies incorporate change, they do not explicitly focus on the ongoing process of opportunity exploitation. Lew, Sinkovics, and Kuivalainen (2013) also built on the idea that social capital plays varying roles by examining how dependence on the resources, trust-building, and behavioural monitoring of partners interrelate in the context of exploiting international opportunities. While social capital has been shown to have significant benefits for international opportunity recognition in the context of family SMEs, our understanding of how family SMEs balance the paradox of exploitation of international opportunities while maintaining their identities and legitimacy in their local regions is still nascent. We highlight the challenge of sustaining the trust, cultural identity and local relationships that define family SMEs' success as they transition into global markets (Baù et al. 2021).

Furthermore, we argue that maintaining this balance is essential for family SMEs to remain resilient and competitive without losing their core values and community ties (Debellis et al. 2021). Accordingly, our study aims to examine the following questions: (1) *What are the emergent tensions that family SMEs experience when trying to remain locally rooted while growing internationally?* (2) *How do family SMEs develop bonding and bridging social capital with external partners to reconcile these tensions?*

Methods

Research setting and sample

Sweden is often regarded as a highly internationalized economy with a strong export orientation, but also one where firms, especially SMEs, maintain strong regional and local roots (Jonsson and Foss 2011; Lundberg and Öberg 2021). The research setting for this study is the automation/power and paper/pulp industries in the Närke, Västmanland, and Södermanland regions of Sweden. These three regions were chosen because of their significant contribution to national GDP and are characterized as industrial regions hosting many large MNEs and family SMEs. For example, BillerudKorsnäs and Stora Enzo are located in the Närke region, known as 'the paper province', in Sweden, while the Västmanland and Södermanland regions host large MNEs including ABB, Westinghouse, Bombardier, and Volvo Construction Equipment, and are recognized as major hubs for automation. The Närke region accounted for approximately 13.9% of The Swedish exports, while Västmanland and Södermanland together accounted for a combined 29% of The Swedish exports in 2018 (Swedish Central Statistics Bureau 2018). These industries were selected because family SMEs operate on the periphery of large MNEs, utilizing relationships to explore international opportunities. Sweden's power/automation and pulp/paper sectors are shaped by world-leading MNEs, providing a suitable context to examine dispersed value chain operations and opportunities for local businesses to collaborate and expand, particularly given Sweden's high proportion of family SMEs in industrial regions (Bjuggren, Johansson, and Sjögren 2011). Initial contact with all family SMEs was facilitated via the industry engagement office of a regional Swedish university. To provide greater analytical generalizability, improve robustness, and support cross-case replication (Yin 2014), we included two cases per industry. Our longitudinal design allowed us to examine how change is incorporated and

managed within these organizations (Pettigrew 1990) and to track evolution over time. Based on the sampling criteria outlined below, we chose four family SMEs to participate in the study (anonymized as Calli, Dilli, Milli and Palli). On-site visits commenced in 2017, with subsequent interviews in 2019 and 2021. SMEs were shortlisted on the basis of several sampling criteria. A primary condition was the inclusion of SMEs whose operations had internationalized, serving as a boundary condition for the study (Ranfagni, Runfola, and Sarti 2021). Given the heavily internationalized nature of both industries, we sought SMEs with scope to engage with international networking opportunities. We also selected family SMEs that evidenced strong local ties, as we aimed to explore potential tensions in maintaining local embeddedness while expanding internationally. Our second criterion was that only organizations with no more than 200 employees were included. Family SMEs of this size are the backbones of economies and are more sensitive to tensions between internationalization and local embeddedness (Baù et al. 2021). Finally, we observed that SMEs across both industries were predominantly either product-oriented or service-oriented. To facilitate robust cross-case comparisons, we sampled both product-oriented and service-oriented family SMEs from each industry (Eisenhardt and Graebner 2007), enabling examination of how SMEs navigated tensions between pursuing international opportunities and maintaining local embeddedness. We adopted this approach as Swedish industries and their constituent family SMEs are in comparable contexts to German 'Mittelstand' firms (de Groote et al. 2023) and Italian industrial districts (Ghinoi et al. 2024), where similar tensions exist. This comparability allows our findings, the tensions examined and the mechanisms uncovered for reconciling them, to be transferable to broader international contexts.

Data collection

We use several data sources: (1) core interviews with managers at different organizational levels; (2) additional follow-up interviews (spread out over 24-month intervals) were conducted with the majority of respondents on two more occasions; (3) onsite observations at events, board meetings and strategy meetings; and (4) archival material, including news media articles about the cases and the industry and company press releases. Such varied sources of data assisted in facilitating triangulation and improving the accuracy of our findings (Eisenhardt 1989; Yin 2014). Table 1 summarizes all the major data sources. In total, we conducted 39 interviews across the cases over three phases of data collection. These interviews were all conducted in English, lasted one to 2 hours and were recorded and transcribed. A semi-structured interview guide was developed that focused on the competitive position of the organization, including recent changes in its international expansion efforts. We also examined the firm's legacy, changes in expectations related to that role and practices related to the tensions experienced. We also sought to understand how the SMEs navigated these expectations and tensions, in terms of formalized policies (such as mission, vision, values, rules, and guidelines) and actual firm activities and operations, exploring changes over time. We prompted respondents to provide examples of international opportunities they deemed successful, as well as instances where they struggled. The initial data collection pointed to the roles of non-family managers and their key roles in shaping internationalization approaches. Accordingly, we examined the roles and engagement of non-family managers as an emergent avenue of inquiry (Eisenhardt 1989; Yin 2014). Finally, we concluded each interview by looking towards the future to explore expected challenges and how they might be addressed. Across all the interviews, we examined contextual changes in the operations of the organization to add to our contextualized understanding (Reuber and Fischer 2022).

In all the interviews, we promised anonymity to encourage candour and used nondirective questioning and focal attention to facts and actions to facilitate open-ended narratives

Table 1. Description of the firms and data collection process.

| | Calli | Dilli | Milli | Palli |
|-----------------------------|--|---------------------------|---------------------------------|-------------------------|
| Number of employees | 198 | 98 | 90 | 74 |
| Age of organization | 54 years | 31 years | 24 years | 27 years |
| Industry | Automation/Power Product | Automation/Power Services | Paper and Pulp Services | Paper and Pulp Product |
| Orientation | High | High | Moderate-Growing | Moderate-Growing |
| Export growth intensity | 4 (Germany, South Korea, USA, Finland) | 3 (USA, Canada, UK) | 2 (Finland, Germany) | 2 (Poland, Spain) |
| New market entries | | | | |
| Respondents: | | | | |
| | 1st Generation, founder | 1st Generation, founder | 1st Generation, founder | 1st Generation, founder |
| | 2nd Generation Ops Manager | 2nd Generation Manager | 2nd Generation Planning Manager | 2nd Generation Manager |
| | R&D manager (NFM) | | Supply chain manager (NFM) | Marketing Manager (NFM) |
| | Global Product Manager (NFM) | | | |
| Interviews: | | | | |
| 1st round interviews (2017) | 4 | 2 | 4 | 3 |
| 2nd round interviews (2019) | 4 | 1 | 4 | 3 |
| 3rd round interviews (2021) | 2 | 1 | 2 | 1 |
| Observations/Events: | | | | |
| Site visits | 4 | 8 | 8 | 3 |
| Strategy meetings | 3 | 2 | 5 | 2 |
| Board meetings | 1 | 1 | 3 | 1 |
| Industry events | 1 | 2 | 2 | 1 |

*NFM refers to non-family manager. Note that in Dilli, the roles of NFM were captured via observations and interviews with family members rather than interviews with NFMs.

**Additional archival sources collected include media articles, annual reports; company press releases, minutes from strategy meetings, partnership proposals, and business agreement.

and minimize response bias (Eisenhardt and Graebner 2007). The follow-up interviews (approximately 24 months apart) provided new insights and contextual understanding of the family dynamics related to remaining local or expanding internationally. Following all initial interviews, we organized a workshop with informants from the case companies to share our preliminary analysis of these family-owned SMEs, their local and international contexts, and the tensions identified. These discussions assisted in validating our understanding of the contexts of these family SMEs. Further data were collected from onsite and offsite events, including site tours, strategy and planning meetings, and company expos (e.g. Industry Day in Gothenburg and Stockholm, and ScanPack, Northern Europe's leading packaging fair). During these events, we attended presentations by informants from the sample cases, as well as from competitors and industry experts. These observations supplemented the interview data and helped triangulate our findings. We documented our observations at all events with extensive notes and memos composed shortly afterwards.

We also supplemented interviews and observations with archival material, including company reports, strategy meeting minutes, internal presentations, press releases, social media accounts on LinkedIn and Facebook, and publicly available financial reports (e.g. from Allabolag.se, a Swedish business directory providing detailed information on organizations, including corporate information and data analytics). We continued to collect, document and incorporate archival data throughout the study, covering the period of 2017–2022. Both archival and observational data are embedded within our findings.

Data analysis

Data analysis began with case descriptions to develop a holistic story of each family SME, conducted in accordance with established case study guidelines and treating each case separately (Eisenhardt 1989; Yin 2014). The interviews were transcribed verbatim, and each source was iteratively analysed through Atlas.ti. Our procedure followed Braun and Clarke's (2006) steps for thematic analysis. Two authors familiarized themselves with the case data, immersing themselves in the dataset to search for meanings and patterns prior to formal coding (Braun and Clarke 2006). A list of generic codes grounded in participants' narratives was formed. Interview data, together with data from websites, newspaper articles, and public records, were arranged into narratives and collated into tables for case comparison purposes. To ensure transparency and minimize bias, the coding of data was undertaken by two independent research team members, who met at regular intervals to review the analysis. Where divergent opinions arose, a third team member (an expert in entrepreneurship and family business) served as moderator (McAdam et al. 2023). Through this iterative process, preliminary categories and first-order codes were generated (Gioia and Chittipeddi 1991). Trustworthiness was further ensured by maintaining a traceable evidence chain and returning to case companies for follow-up discussions to clarify and validate the analysis (Braun and Clarke 2006). The second stage consisted of a cross-case analysis aimed at comparing findings and examining patterns (Eisenhardt 1989). We progressively clustered first-order codes into broader second-order themes, identifying similarities and differences across cases (Gioia, Corley, and Hamilton 2013). As coding advanced, we moved iteratively between theory and data, allowing concepts to arise from the evidence. For example, we observed that family SMEs faced conflicting tensions in networking: while local embeddedness fosters strong loyalty and cultural alignment, international networks often require diluting that local focus, leading to misalignment of embeddedness. We identified tensions regarding identity (local authenticity vs. international recognition) in which managers reconciled by balancing social capital with local and international partners, often deploying non-family managers as 'lieutenants' to bridge the gap between bonding social capital (local) and bridging social capital (international). The final phase focused on consolidating related theoretical dimensions through multiple iterative cycles, arriving at the final data structure in [Tables 2 and 3](#).

Table 2. Local and international contextual tensions in family SMEs.

| EMPIRICAL OBSERVATIONS | 1ST ORDER CONSTRUCTS | 2ND ORDER THEMES | AGGREGATE DIMENSION |
|---|--|---|---|
| <ul style="list-style-type: none"> • Being present in the local community is the foundation of the SME • Success has been rooted in local connections • The pull between local roots and global expansion creates tension • Increasing focus abroad erodes local relationships. • More time spent with foreign suppliers and clients than with stakeholders in their own backyard • Drifting away from local roots • Erosion of localness and roots • Living in two worlds (navigating duality) • Cultivating international opportunities • Founders feel the need to preserve local presence • Founders locked into local norms • Founders assume responsibilities for regional development • Successors international ambitions • Successors detachment from local networks | <p>Local embeddedness provides significant advantages (loyal networks, cultural fit, and local knowledge)</p> <p>Engagement in international networks necessitates the erosion and / or dilution of local embeddedness</p> | <p>Embeddedness incongruence</p> <p>Global vs. Local identity</p> <p>Intergenerational goal differences</p> | <p>Local and International Contextual Tensions in Family SMEs</p> |

Table 3. Balancing social capital in family SMEs to reconcile local and internationalization tensions.

| EMPIRICAL OBSERVATIONS | 1ST ORDER CONSTRUCTS | 2ND ORDER THEMES | AGGREGATE DIMENSION |
|--|--|---|--|
| <ul style="list-style-type: none"> • Cultivating strong supplier and partner ties at the local and regional levels • Reciprocal knowledge-driven relationship-building • Community building and engagement • Global networking opportunities facilitated through engagement with local MNEs • ‘Piggybacking’ off local MNEs • Entering and expanding into broader international markets facilitated through local partnerships • Entrusting the management of SME relationships with local stakeholders. • Safeguarding local relational continuity • Assuming (taking on) responsibility of international partnerships and growth. • Delegating responsibility for international operations to SME managers tasked with international expansion goals • Trusted advisors across generations act as long-term confidants • Advocates for local industry priorities whilst simultaneously navigating international opportunities • Non-family managers may leverage prior experience and existing networks to connect 2nd generation managers with both local and international industry partners. • Facilitating the space for 2nd generation managers to pursue their goals • Preserving the heritage of the firm whilst enabling change | <p>Leveraging relationships with local MNEs and SMEs to ensure local stability</p> <p>Leveraging relationships with local MNEs to pursue international opportunities</p> <p>Responsibility for maintaining / preserving social capital in local networks relationships</p> <p>Responsibility for developing social capital in international network relationships</p> <p>Non-family managers as trusted lieutenants to founders / 1st generation</p> <p>Non-family managers as trusted mentors to 2nd generation managers</p> | <p>Mixed networks</p> <p>Distributed responsibility</p> <p>Non-family manager mediation</p> | <p>Balancing Social Capital to Reconcile Local and Internationalization Tensions</p> |

Findings

Case presentations - networking activities of sampled SMEs

Case 1: Calli (see Figure 1)

Calli was founded during the 1970s when the founder (first generation) left Volvo to start a company providing components for large construction equipment. It currently employs 198 employees. Located in a region rich in automation and power industry MNEs, Calli has had an international orientation from the outset, forming partnerships with local companies operating globally to serve MNEs both in Sweden and in their foreign markets. Despite this external outlook, Calli’s local heritage and reputation have always remained a priority, as expressed by the founder (first generation): ‘*Since the early days, we always have approached our local relationships with a long-term collaborative vision, we always had in mind how this would capitalize on our strengths and support the local businesses*’. This level of local embeddedness has at times limited the risk that managers were willing to take in internationalization efforts, with the founder (first generation) expressing some reluctance to expand due to the risks to employees and the region’s employment base. This case illustrates the challenges of balancing social capital and internationalizing the functional activities of SMEs. Calli leveraged local bonding social capital by building relationships with Swedish automation MNEs, becoming a trusted local supplier of engine components recognized for quality and reliability. Central to sustaining these relationships was a structured partner management

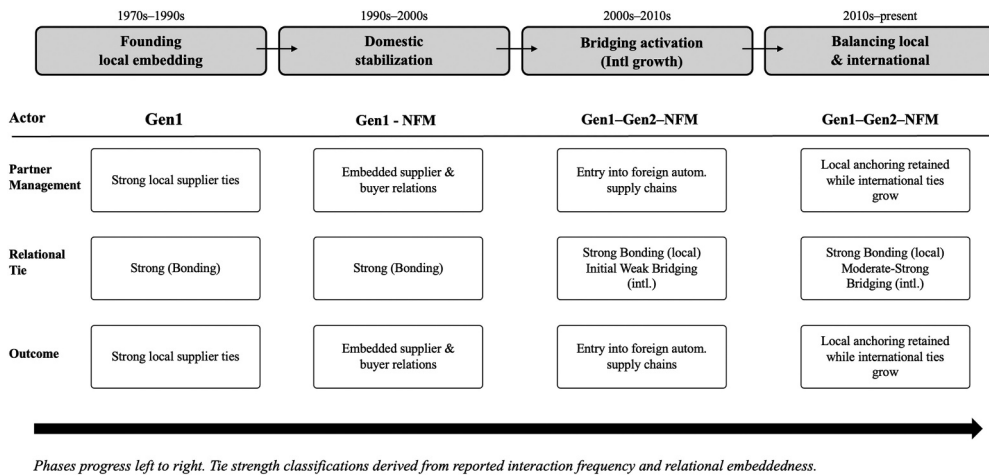


Figure 1. Timeline of Calli local and international growth.

process led by the founder (first generation), whose long-standing personal ties to the regional automation industry constituted the firm’s strongest and most durable network ties. The founder (first generation) engaged in regular check-ins and informal lunches with domestic MNE partners, building interactions of high frequency, reciprocal trust, and shared history. In Calli, the Ops Manager (second generation) and Global Product Manager (NFM) in technical and logistics roles supported this relationship coordination through day-to-day operational communication with MNE procurement contacts, maintaining day-to-day relationships that were task-focused and sustained, but less personally embedded than those held by the founder (first generation). Together, this relationship coordination generated a granular understanding of each MNE partner’s procurement priorities, with the founder (first generation) capturing strategic intelligence and the Ops Manager (second generation) and global product manager (NFM) tracking operational requirements – an embedded network competence that competitors found difficult to replicate. Critically, this local knowledge extended beyond the domestic market. Calli’s technical teams, led by the Ops Manager (second generation) and Global Product Manager (NFM), adapted product specifications, delivery schedules, and technical documentation to meet MNE operational standards, initiated by the founder (first generation) whose strong ties with MNE senior leadership provided early warnings of changing requirements. Domestically, these adaptations secured long-term supply agreements. Internationally, the credibility established through these processes allowed MNE partners to introduce Calli to procurement counterparts in foreign subsidiaries, activating bridging ties to international networks it could not have accessed independently. The routines of local partner management thus served as the mechanism through which bonding social capital was converted into international bridging social capital.

Case 2: Dilli (see Figure 2)

Founded in 1994, Dilli currently has 98 employees. Initially operating in eastern Sweden, the company experienced rapid growth and relocated to Mid-Sweden, with much of this success attributed to the deregulation of the Swedish electricity market – which opened opportunities for an independent machine diagnostic company focused on the power industry. Internationalization was not initially considered; however, as noted by the founder (first generation), this viewpoint shifted over time, resulting from ‘chance encounters during collaborations with local MNEs that led to valuable partnerships and opportunities abroad’. The introduction of the founder (first generation)’s eldest son (second generation) created a more pronounced shift towards a global outlook, and through leveraging connections with significant industry actors, Dilli began acting as a diagnostic contractor for MNEs abroad, entering North American markets and establishing a dedicated US office. Respondents highlighted that personal experiences and prior

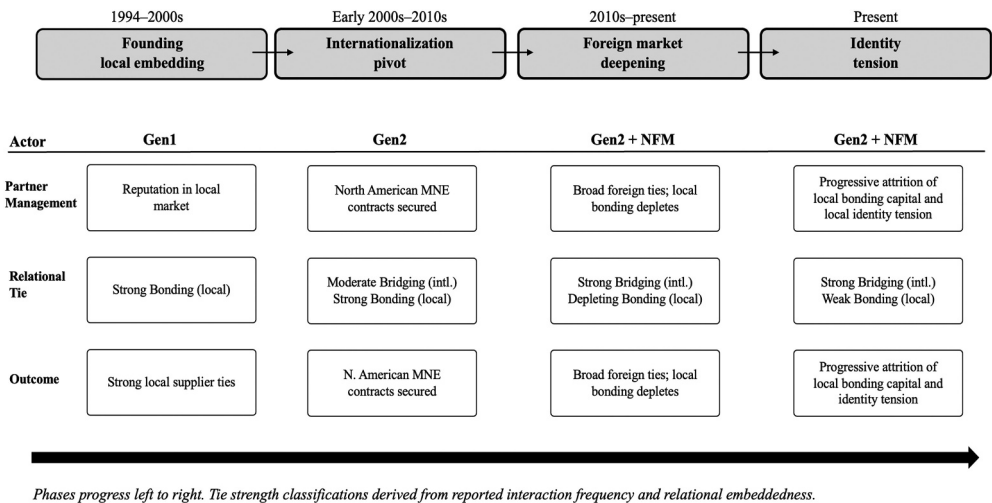


Figure 2. Timeline of Dilli local and international growth.

employer relationships were important in developing firm-level connections with foreign suppliers and that technological capabilities typically developed after establishing linkages with external organizations in North America. Distinctively among the sampled cases, Dilli’s partner management evolved to reflect a deliberate pivot towards foreign markets, progressively reallocating managerial attention away from the local bonding routines that had anchored the firm in Sweden. This reorientation was driven by the 2nd Generation Manager, who introduced a fundamentally different relationship portfolio: rather than extending the founders (first generation) regionally embedded relationships with Swedish MNE partners, the 2nd Generation Manager cultivated new relationships with international clients principally in the US, progressively strengthened through repeated interaction and dedicated account management. Relationship coordination, previously through informal local check-ins, was replicated by the 2nd Generation Manager in the US office through regularized communications and on-site diagnostic review cycles. Customer knowledge development likewise pivoted, with the 2nd Generation Manager building expertise in regulatory standards, grid infrastructure, and equipment failure patterns specific to North American power networks. Correspondingly, customization and adaptation processes previously aligned to Swedish MNE standards were reconfigured under the 2nd Generation Manager to meet North American certification and reporting requirements. These foreign-facing routines reinforced Dilli’s international bridging social capital but at the cost of local bonding ties: as founder/first generation’s operational involvement diminished, bandwidth was redirected internationally and the strong bonding ties anchoring Dilli in its regional network weakened through reduced contact frequency. As Dilli expanded internationally, maintaining its Swedish identity became increasingly challenging, with international growth perceived to dilute the company’s distinct character, requiring constant managerial effort. Dilli continues to utilize local networks to safeguard its Swedish heritage, but balancing bonding and bridging social capital remains challenging as growth abroad reduces scope to maintain local ties.

Case 3: Milli (see Figure 3)

Milli operates within the paper and pulp industry and was founded in 2001. With 90 employees in Mid-Sweden, it has grown into one of the leading paper converting providers in Scandinavia. Deeply embedded within the region, the organization remains proud of its role as a local employer, as captured in the Planning Manager’s (second generation) reluctance to outsource: ‘We are proud of offering employment opportunities here . . . All production shall be located here; my father wanted that.

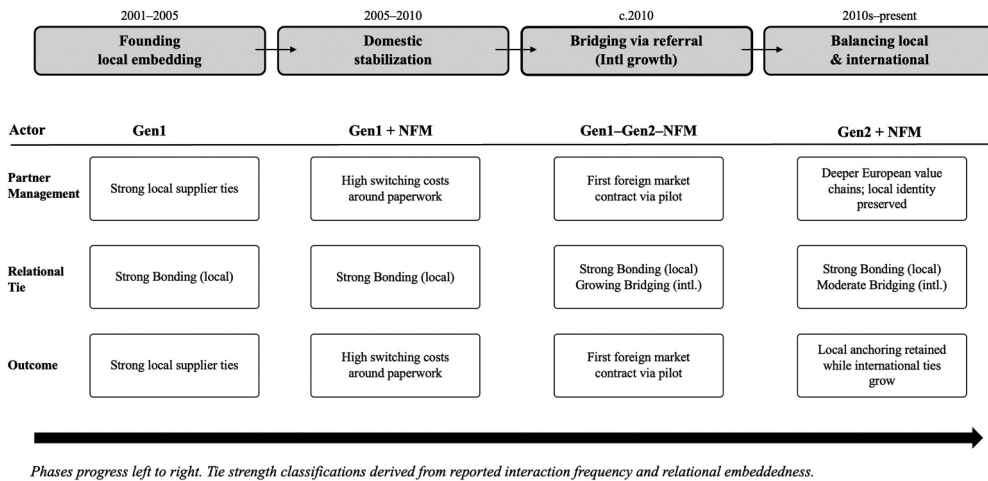


Figure 3. Timeline of Milli local and international growth.

That's in me too, I would find it hard to go against that'. Milli leveraged local bonding social capital through the founder (first generation)'s personal network to build strong relationships with the local Swedish paper industry, as illustrated by the founders (first generation): *'For us, geographical destination was the second worry. First, we had to grow our local market presence . . . The first country we went to outside Sweden was Finland. We actually had some contacts here in Sweden, and they made the introductions to the Finns'.* Central to sustaining these local ties was a partner management process personally led by the founder (1st generation), whose prior industry relationships constituted the firm's strongest network ties, characterized by high contact frequency, deep personal familiarity, and long shared industrial history. The Supply Chain Manager (NFM) supported relationship coordination through routine service delivery communications with local MNE partners, maintaining day-to-day functional ties. Customer knowledge development was overseen by the founder (1st generation) through direct access to senior MNE procurement contacts, operationalized through the non-family manager who tracked paper grade requirements, seasonal volume fluctuations, and delivery preferences. This knowledge informed customization and adaptation activities, adjusting reel dimensions, modifying storage procedures, and configuring delivery schedules, reinforcing local relationships and consolidating Milli's position within the regional paper network. Crucially, these partner management routines functioned as a latent mechanism for international lead generation – whereby cross-border introductions were initiated through the founder (1st generation)'s strongest ties with MNE senior contacts who had experienced Milli's domestic service quality firsthand. The entry into Finland exemplifies this dynamic, emerging from a trusted MNE partner of the founder (1st generation) who brokered the introduction to Finnish buyers. The conversion into a commercial contract followed a sequenced pattern: informal relationship-building managed by the founder (1st generation) and the Planning Manager (2nd generation), followed by a pilot supply arrangement in which the Logistics and Operations Manager (NFM) took operational responsibility, and then joint adaptation of delivery and storage terms. What began as a weak bridging tie was progressively strengthened through this sequenced process. As the Planning Manager (2nd generation) took over, Milli tapped into international bridging social capital through the Planning Manager's (2nd generation) network – an approach which involved developing partnerships that provided access to European networks and integrating the company deeper within international value chains. At the same time the founder (1st generation) maintained strong, personally embedded ties with regional Swedish partners built over decades. Together, this

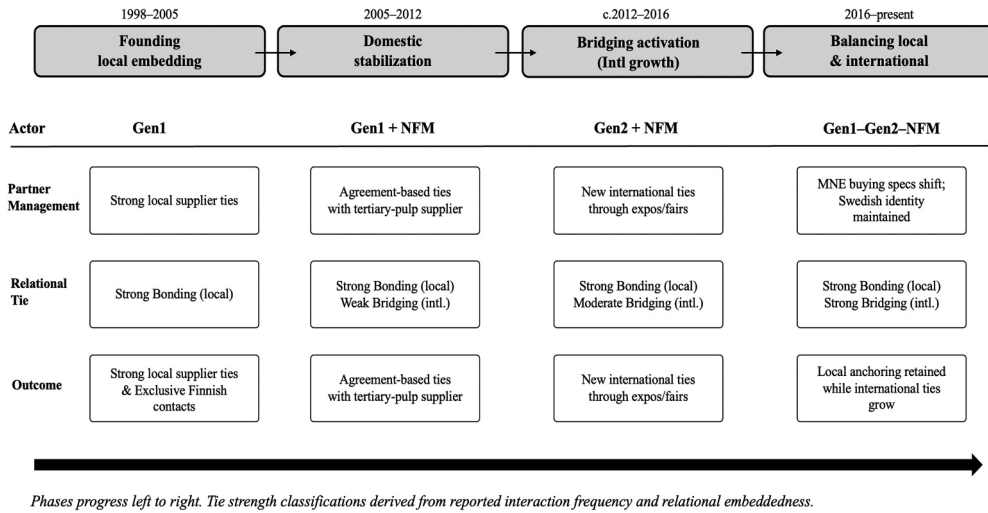


Figure 4. Timeline of Palli local and international growth.

approach allowed the company to dedicate resources to both preserving its Swedish identity and expanding into European markets.

Case 4: Palli (see Figure 4)

Palli is an SME in the paper industry, founded in 1998 by paper and pulp industry executives. Based in Mid-Sweden, the company has 74 employees and has become one of Sweden’s leading paper converting companies with core competencies in manufacturing floor protectors, converting paper, and warehousing. The founder and his children work in managerial positions and serve on the corporate board. Initially, the company produced protective paper exclusively for a large French construction, before leveraging strong local industry connections and building on the founder’s (first generation) prior career as a paper and pulp executive, they managed to diversify the customer portfolio and to focus on regional growth. The founder (first generation) forged strong relationships with local MNEs within the paper sector through deliberate partner management routines. Relationship coordination was conducted personally through scheduled supply performance reviews, informal problem-solving meetings, and open communication channels with MNE procurement and logistics contacts. The longevity of these ties was reflected in supply agreements renewed repeatedly – a marker of the strong bonding tie quality cultivated by the founder (first generation). The Marketing Manager (NFM) maintained functional ties through transactional-level contact, ensuring day-to-day service continuity. Customer knowledge development saw both the founder (first generation) and the Marketing Manager (NFM) accessing strategic procurement intelligence through senior MNE contacts, while the Marketing Manager (NFM) built operationally specific knowledge of product specifications and warehousing constraints. This knowledge informed systematic customization and adaptation, adjusting paper grades, floor protector dimensions, and warehousing configurations, entrenching Palli within partners’ supply chains and producing a domestic network characterized by high switching costs and long-term stability. As the domestic network’s scope

proved insufficient for tapping into an increasingly globalized industry and the 2nd Generation Manager took the reins, they expanded Palli's networking approach beyond Sweden's borders, attending trade fairs across Scandinavia, interacting with key decision-makers in the metal industry, and building relationships with international buyers from major steel producers. The conversion followed the same partner management logic developed domestically, with a deliberate relationship coordination phase – following each trade fair introduction, the 2nd Generation Manager made follow-up visits, hosted prospective clients at the Mid-Sweden facility, and engaged in sustained dialogue, with the Marketing Manager (NFM) providing functional continuity that allowed weak initial ties to develop into more durable partnerships. The 2nd generation, under the guidance of the Marketing Manager (NFM), built customer knowledge of international steel and metal industry buyer specifications before undertaking customization and adaptation of product dimensions, load-bearing specifications, and packaging configurations, each strengthening bridging ties through functional compliance and relational investment. As Palli's Marketing Manager noted: *'we all had to work tirelessly with our local networks for growth. But Gen2 was the driving force behind connecting with big businesses locally to offer our services and product abroad. He didn't just see it as a way to continue our business locally, but also as an opportunity to strengthen our presence outside of Sweden'*. Palli thus leveraged local bonding social capital anchored in the founder (1st generation)'s strong personal ties with regional Swedish partners to develop a domestic base, while the 2nd Generation Manager utilized bridging social capital to access international industry networks and global value chains.

Family SME international and local contextual tensions

Across these cases, we observed how competing tensions within family SMEs arise as they try to balance the need to expand to international markets with the expectation that the local regional environment, from which they draw their legacy, will not be neglected. See [Table 4](#) for constructs advanced and illustrative data. First, we observed how *embeddedness incongruence* captures the relative status of family SMEs' positions in domestic and international networks and their fit and complementarity with each other (Baer et al. 2021; Wiklund et al. 2013). Using Calli as a case in point, the need to maintain their existing social contract with regional business and political actors placed constraints on their willingness to internationalize. Fearful that expansion plans could put local jobs at risk, the SME's prioritization of local responsibilities delayed any moves towards international expansion. The current MD captured these tensions: *'It feels like a delicate dance between honoring our legacy here in Eskilstuna, people rely on us... but we have to continue seizing the opportunities abroad to secure our future'* (founder/1st generation, Calli).

The second tension we advance is *local versus global identity*, defined as circumstances where the family business develops a local identity and latterly a global identity as they grow. While both identities can be activated together, acting consistently with one requires actions inconsistent with the other (Shepherd and Haynie 2009). Across all cases we evidenced a tension in the perceived risk of losing local authenticity versus appealing to a broader international market. Using Dilli as an illustrative example, the founder's desire to help grow the region created a sense of duty focused on local development, initially reducing the firm's interest in international expansion. While the founder's collaborative regional efforts made the firm less inclined to explore international outreach, his two sons, who had previously worked in local MNEs, held more ambitious growth ambitions for European markets, creating significant intrafamily tensions.

Our findings reveal that family SME identity is deeply linked to enduring local impact and contribution – consistently cited as a key priority by founders across all cases. The firms' identities were heavily rooted in their local environments, such as employers, collaborators, and, in some instances, key strategic players in indigenous industries, such as paper and pulp manufacturing. However, while deeply bound at the local level, the pursuit of international operations carried the potential to dilute the firm's local identity. This is illustrated by Palli, where significant

Table 4. Local and international contextual tensions in family SMEs.

| Second order Themes | Most evident in the following cases: | Illustrations |
|------------------------------------|--------------------------------------|---|
| Embeddedness incongruence | Dilli, Milli, and Palli | <p><i>'We have always approached our local relationships with a long-term collaborative vision. We always had in mind, how we would capitalize on our strengths and support the local businesses' (Founder / 1st generation, Dilli).</i></p> <p><i>'As we expanded internationally, it's becoming increasingly difficult to balance our deep roots in the local community with the demands of a global market. Our local presence has been the foundation of our success, it's challenging to maintain that sense of connection as we scale' (Founder / 1st generation, Milli).</i></p> <p><i>'As we've expanded internationally, it's become clear just how deeply our success has been rooted in our local connections. Growing globally has exposed how reliant we are on this community, for our business' (Marketing Manager, NF, Palli).</i></p> <p><i>During a planning meeting, Dilli's management team reflected on the gradual shift where they now spend more time with suppliers and clients in the US than local suppliers and clients. They discussed that the growing focus abroad is starting to erode the close-knit relationships that once defined their presence in their local region (Observation made at Dilli during site visit).</i></p> |
| Global vs. local identity | All Cases | <p><i>'Our roots are still deep in Sweden, but we are international now for many years. It sometimes feels like we're drifting further away from that foundation. We're still deeply engaged in the Swedish market, but the global reach we've built makes it feel like we're living in two worlds' (Founder / 1st generation, Calli).</i></p> <p><i>The U.S. is our biggest market and we have put a lot of energy into growing in that market. We still have to focus on working with Scania, Volvo, SKF, and Epiroc in Sweden' (Calli in Local newspaper, 2017). 'I've come to realize that we no longer feel the need to hold on tightly to our local presence... We're so active in international markets now that our energy is focused on shaping our global presence' (2nd Generation Manager, Dilli).</i></p> <p><i>'So far, I haven't even focused so much on internationalization. My main focus has always been on how to improve our service offering here in Sweden. My kids have other ambitions' (Founder / 1st generation, Milli).</i></p> |
| Intergenerational goal differences | Dilli, Milli, and Palli | <p><i>'I respect how my father was more cautious in the beginning – but my ambition is to take those values globally. I want to increase our services in America – it has caused some arguments, as it changes how my father built Dilli' (2nd Generation, Manager, Dilli).</i></p> <p><i>'I deeply respect the foundation my father built, rooted in community and tradition. But at the same time, I can't ignore the reality – if we don't push for international growth, we risk losing ground' (Supply Chain Manager; NF, Milli).</i></p> <p><i>'The values that shaped our business sometimes conflict with the need for speed and a more globalized approach to our operations. We had to find a way to honor our heritage here while embracing new ways of doing business' (Founder / 1st generation, Palli).</i></p> |

*NF denotes non-family member manager.

interdependencies exist between the firm and key regional stakeholders. Rooted in a sense of regional citizenship, Palli emphasized sustaining and expanding local partnerships, which often took precedence over entering international markets. These interdependencies were brought into sharp focus in 2010, when the region's largest paper mill closed. Reflecting on this, the founder was quoted in the local press: *'we have always been a close community and my dealings with people is always informal, but this has really taught me the importance of relationships and trust in the business and the industry'* (local newspaper 2010).

Finally, we highlight *intergenerational goal differences* as a prominent tension. Aligning with existing research, goal setting, risk-taking, and ambitions may differ substantially across generations within family businesses (Diaz-Moriana, Clinton, and Kammerlander 2024). In the Milli case, tensions arose between the founder and his children as he insisted on maintaining a local-oriented approach, prioritizing community roots and traditions, while the 2nd-generation managers were eager to expand internationally. Similarly, in Palli: *'There's a constant tug-of-war between wanting to stay true to the family values that shaped this*

business and the pressure to modernize and expand. My father's expectations were always rooted in maintaining our local roots, but I always feel that the world is shifting. I don't want to damage the respect everyone has for my father, but we must look more broadly' (2nd generation manager, Palli). In Table 4, we draw upon the cases, providing illustrative examples of these inherent tensions

Balancing social capital in family SMEs to reconcile local and internationalization tensions

This section presents findings on how family SMEs reconcile tensions between localness and internationalization, leveraging social capital to transcend an either/or mindset (De Massis et al. 2015). Research highlights the vital impact of networks for family SMEs (Anderson et al. 2007 Fletcher 2002; O'Donnell et al. 2014), with the most helpful networking perceived to be social and informal (Keen, Sanchez-Famoso, and Dana 2024). For family SMEs, *mixed networks*, defined as the combination of social and business network relationships (Seaman, McQuaid, and Pearson 2014), are critical for deriving local advantages and forging international connections simultaneously. Using Calli as an example, the 2nd generation Operations Manager leveraged contacts at Volvo and ABB, as illustrated by the R&D Manager (NFM): *'It takes time to learn about who you know and who they know. You have to stay friends, as you never know who the right connection is and where it might lead you ... Our preferred supplier status with Volvo has opened all sorts of doors to tier 1 suppliers'*. Calli built local bonding social capital as a trusted supplier of engine components to Swedish automation MNEs, before utilizing bridging social capital to access the automation industry in Germany, South Korea, and the USA. Swedish headcount remained stable and Calli sustained community engagements, such as sponsorships of local floorball teams, throughout internationalization. For Calli, international growth and local rootedness were sustained simultaneously. Next, we emphasize the concept of *distributed responsibility*, referring to shared responsibility among SME managers and network partners for sustaining bonding and bridging social capital while staying locally grounded and pursuing international opportunities. This approach was evident in Milli and Palli, whose founding managers believed community ties were the foundation of long-term growth – valuing relationships built over decades rooted in trust, loyalty, and community purpose. Milli's founder (1st generation) noted: *'For me, sustaining local relationships is critical. Our identity is grounded in these relationships'*. Meanwhile, the 2nd generation managers brought a different lens shaped by experience in local multinationals, viewing international growth as evolution and by actively leveraging existing ties to explore opportunities beyond Sweden. Palli's 2nd Generation Manager added: *'My networks extended beyond the community, and we have to preserve these connections as they influence how we grow and the opportunities we can develop'*. Milli entered Finland and Germany through domestic MNE partnerships, as highlighted by the Planning Manager (2nd generation): *'as we grew, keeping our employees here in Sweden was never in question. These are our neighbors, our community ... growth abroad has to mean something for the people at home too'*. Milli continued its sponsorship of the county's football team, maintaining a regional presence even as its international footprint expanded. Palli's internationalization similarly extended into Poland and Spain through bridging ties from locally embedded MNE relationships. Across all three cases, stable Swedish headcount, ongoing community engagement, and continued regional partnerships confirm that effective balancing competence allowed these firms to pursue international growth without eroding local embeddedness. Finally, we advance *non-family manager mediation*, defined as non-family managers' mediating role between the founder's traditions and the 2nd generation's ambitions. Typically, 1st generation founders focused on bonding social capital and local connections, whereas 2nd generation managers focused on bridging social capital and international connections. Non-family managers serve as mediators – lieutenants to the 1st generation and mentors for the 2nd generation. This was evident in Calli and Milli: at the annual Scanpac expo in Gothenburg, the non-family Marketing Manager was observed counselling the 2nd-generation Planning Manager on leveraging the family's legacy and regional embeddedness as a compelling asset (researcher observation of Milli management at the Scanpac expo). In contrast, the Dilli case illustrates what happens when local relational ties break down, with community engagement progressively deprioritized, as captured by Dilli's 2nd-generation manager: *'to*

expand we had to go outside of Sweden. International partnerships offered us the customers we couldn't find locally. It wasn't about turning away from home but about securing a future that the Swedish market couldn't sustain'. Dilli's founder (first generation) served as a counterbalance, remaining in the local region and working alongside local partners, noting: 'even as we grow we still have to keep up the business here in Sweden, this occupies my time now'. While Dilli remains locally present, its embeddedness has atrophied, as the absence of non-family managers left no counterbalance to mediate goal tensions between the 1st and 2nd generations and over-prioritization of international activities. Table 5 captures the different approaches family SMEs adopt for balancing bonding and bridging social capital and the mechanisms that enable family SMEs to navigate both.

Table 5. Balancing social capital in family SMEs to reconcile local and internationalization tensions.

| Second order Themes | Most evident in the following cases: | Illustrations |
|-------------------------------------|--------------------------------------|---|
| <i>Mixed networks</i> | All Cases | <p>'We strategically built relationships locally and beyond our community, collaborating with suppliers and partners here and from other regions in Sweden building the region but also opening doors to new opportunities in other locations'(Global product Manager, NF, Calli).</p> <p>'We initially network to exchange ideas, share knowledge, and refine our processes. But we actively seek connections outside our region with industry associations and international partners, ensuring that we remain central to our community but adaptable to market opportunities' (2nd Generation Manager, Dilli).</p> <p>'We have a close-knit team who have shared values; how this influences our relationships locally has been the cornerstone of our success . . . it has helped us weather many challenges. But we are also nurturing relationships with international companies, so we are open to new growth' (Founder / 1st generation, Milli).</p> |
| <i>Distributed responsibility</i> | Calli, Milli, and Palli | <p>'We consciously delegate the responsibility of maintaining local relationships to our team who are deeply connected in our community and with local partners who are essential to our day-to-day operations. This frees up the young ones to look after relationships with the local international firms' (Founder / 1st generation, Milli).</p> <p>'For our international growth, my father entrusts me and my brother with managing connections to international partners so we could expand . . . so he could ensure that our core values and local relationships remained' (2nd Generation Manager, Palli).</p> <p>'As our operations shifted more to focus on global sales, we realized that relying only on our local connections wasn't enough. We had to concentrate on seeking and looking after partnerships with companies that help us in our international operations . . . you still need to look after the local relationships especially when we see that we are losing connection to our community' (2nd Generation Operations Manager, Calli).</p> |
| <i>Non-family manager mediation</i> | All Cases | <p>'Regional business in our industry have come under significant pressure from international competition and regulations, but our industry is a leader in paper and pulp globally; we should be focusing on developing our industry here at home' (quote from Palli non-family marketing manager during a local radio station interview, 2019).</p> <p>'I joined Ulf [founder] shortly after he started the business and have been a mentor to Morten [son of founder] for many years so have always been caught in the middle. I deeply value our local heritage, it's important for our business to maintain our local partners, but I also see we have to give the next generation space to shape the company's future' (Supply Chain Manager, NF, Milli).</p> <p>'During his long life, he has been a trusted advisor and friend for myself and to generations of my family' (written motivation for lifetime award given to non-family Operations Manager, Dilli).</p> <p>'Johan joined Calli from Volvo not long after my father founded the business and quickly became a mentor to me as I found my footing in the industry. He's been vital to introducing me to our partners at Volvo and ABB' (2nd generation Operations Manager, Calli).</p> |

Theoretical model: balancing local and international environments of family SMEs

Our study examines how family SMEs grow both domestically and internationally and the paradox of competing tensions arising from this dual engagement, responding to the call by Barrett and Moores (2020) for a deeper understanding of how family businesses manage paradoxes. Our model (see Figure 5) explicitly builds on the work of Baù et al. (2021) on bridging locality and internationalization, illustrating a dynamic context in which family SMEs are influenced by their local environments on one side and the international environment on the other, where competing tensions emerge. This paradox of competing tensions and how they are reconciled is particularly relevant when contextualizing family SMEs and how and why they engage in both environments. On the left side of the model, we identify the local environment in which the family SME is embedded (Baù et al. 2019). Our model visualizes how networking activities, local roots, and shared values characterize the ways family SMEs develop locally and contribute to their local environments (Chirico et al. 2011). On the right side of the model, we identify the international environment in which a family SME operates; here, the networking activities of the family SME connects to both the local roots of the family SME and the local international firms, for which international growth is important (Leppäaho, Jack, and Plakoyiannaki 2022). Central to navigating these dual environments is the selective orchestration of ties, the capacity of family SMEs to determine which relationships must be safeguarded locally (bonding capital) and which can be stretched internationally (bridging capital). This orchestration is not centralized; rather, it is a process wherein first generation, second generation, and non-family managers assume differentiated yet complementary roles to manage the firm’s relational portfolio. The activities of the family SME at the nexus of local and international environments create tensions between local origins and global aspirations. These tensions concern how family SMEs maintain their local roots when expanding internationally and how the generational goals of managers inside SMEs may cause conflict, i.e. between the local orientation and the global orientation (Baù et al. 2021). Founders (first generation) typically anchor and safeguard the strong bonding ties that underpin local legitimacy and identity, while successors (second generation) extend the firm’s reach by cultivating bridging ties with international partners, and on-family managers (NFM) act as mediators between the family members goals while maintaining routines of day-to-day relationship

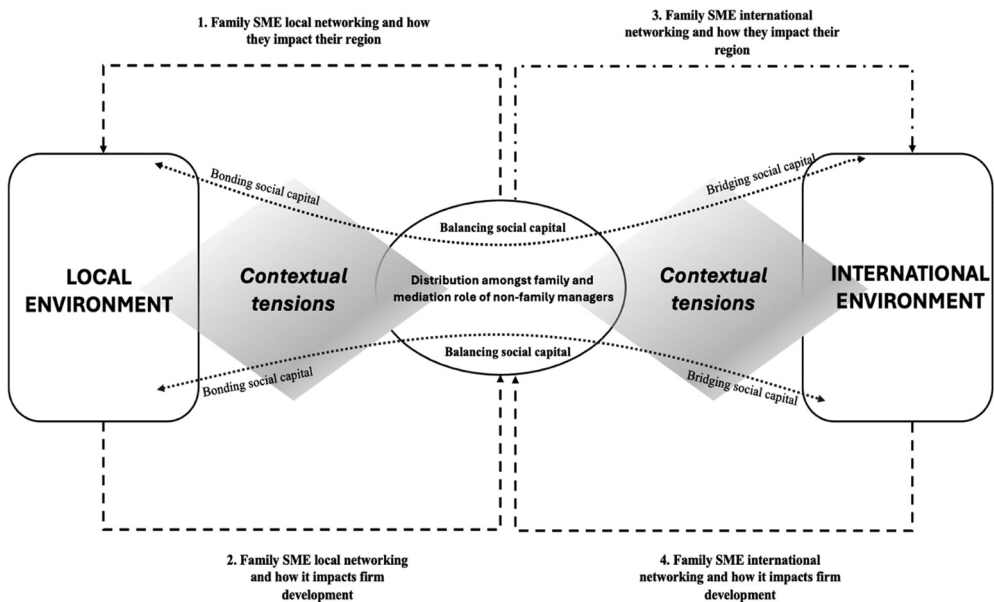


Figure 5. Challenges of bridging the local and international environments of family SMEs.

coordination. Our model visualizes how family SMEs reconcile these tensions, offering a novel perspective on how family SMEs evolve from local to internationally operating firms and how the global environment influences SME contributions to their local environment.

Most research on family SMEs focuses on social capital inside the firm between family members and non-family managers (Arregle et al. 2007; Salvato and Melin 2008; Sanchez-Ruiz et al. 2019). However, our model shows that social capital is pivotal in reconciling the tensions between the localness and international ambitions of a family SME. Bonding social capital helps the family SME maintain strong ties to its roots, fostering trust and cooperation within the local community, while bridging social capital acts as a boundary-spanning mechanism enabling connections with international markets across diverse regions and cultures. The core challenge lies in how family SMEs balance these two types of social capital, bonding and bridging, to stabilize and maintain connections with both local and global partners. This balancing competence is crucial for minimizing the competing tensions that often arise in family SMEs when managing the contrasting demands of being rooted locally while growing internationally (Pinho and Prange 2016). What distinguishes this balancing competence is its function as a form of network governance, specifically, the capacity of a family of SMEs to determine which relationships must be nurtured locally and which can be stretched internationally to overcome growth-related tensions. Careful and selective management of their orchestration of ties, sustained through structured distribution of relationship responsibilities, allows family SMEs to monitor whether local ties remain sufficiently embedded and whether international ties are sufficiently developed. In this way, balancing competence emerges as a distinctive form of network governance, one through which family SMEs manage the competing demands of localness and internationalization without sacrificing the familial values and community obligations that define them.

Discussion and theoretical contributions

Our model (Figure 5), capturing the tensions facing family SMEs as they strive to remain locally embedded while pursuing international expansion, is well grounded in the literature (Basco, Stough, and Suwala 2021; Baù et al. 2021; Ranfagni, Runfola, and Sarti 2021). Where we diverge from prior work is in our identification of the tensions that emerge when family SMEs are pulled between their local roots and traditions, on the one hand, (Block and Spiegel 2013), and their ambitions for internationalization on the other (De Massis et al. 2018). A central contribution of our findings, illustrated in the model, is the recognition that family SMEs face an ongoing challenge in balancing local and global environments to secure sustainable, long-term development. We note how prior research has not fully examined how family SMEs can continuously manage and overcome the tensions of sustaining local embeddedness and contributing to their home regions while simultaneously seeking international opportunities (Baù et al. 2021). Our approach to addressing this challenge builds on the literature on networking in family SMEs (De Massis et al. 2018) and, more specifically, work on family SME social capital (Arregle et al. 2007; Salvato and Melin 2008, 2019; Sanchez-Ruiz et al. 2019; Shi, Shepherd, and Schmidts 2015). Additionally, we draw on insights from paradox theory and dynamic capabilities, which highlight how organizations can navigate persistent and interdependent tensions not by fully resolving them but by accommodating and balancing competing demands over time (Eisenhardt, Furr, and Bingham 2010; Gibson and Birkinshaw 2004). From this perspective, family SMEs exemplify paradoxical thinking: as a balancing competence they must simultaneously draw strength from their local identity and roots while mobilizing resources to expand abroad (Pinho and Prange 2016). Specifically, our findings reveal how family SMEs balance bonding social capital with local external stakeholders, which anchors them regionally, with the need to utilize bridging social capital to establish connections in international markets (Eklinder-Frick, Eriksson, and Hallén 2011; Pinho and Prange 2016). In the following discussion, we advance two key contributions. The first is to the literature on the networking behaviours and orientations of family SMEs, where we show how they manage emergent tensions between local embeddedness and international growth through strategies consistent with paradoxical approaches. The second is to

theories of social capital in family SMEs, where we move beyond a focus on intra-family social capital (Arregle et al. 2007) to reveal how firms must balance bonding and bridging social capital within local networks in order to reconcile the dual, and ongoing, pressures of remaining locally rooted while pursuing international expansion.

How family SME networking shapes local and international orientation

The networks of family SMEs can provide alternative access to their partners' resources. These networks can also help identify, exploit, or create opportunities that influence their domestic growth and decisions regarding foreign entry modes (Baù et al. 2019; Leppäaho, Jack, and Plakoyiannaki 2022). Prior research has long stressed the importance of relationships and networks for family firms, as they represent a valuable resource for developing the local competences of the family SME (Baù et al. 2019), and as a source of information for foreign market growth (Coviello and Munro 1995; Graves and Thomas 2008). However, studies on family firms have tended to focus on the negative influence of family and have shown how the networking behaviours of family firms negatively affect their international growth (Graves and Thomas 2006, 2008, Kontinen and Ojala 2010, 2011). For instance, studies have shown that, in comparison to non-family firms, family firms are less likely to engage in networking with other businesses (Graves and Thomas 2006; Mustafa and Chen 2010) and often lack the bandwidth of network connections necessary for internationalization (Kontinen and Ojala 2011).

Unlike earlier studies, our case analysis highlights how networking governance activities play a vital role in enabling family SMEs to integrate into domestic value chains and leverage domestic networks for international growth (Rosenbaum, Madsen, and Johanning 2019). Furthermore, in our cases, most of the domestic and international expansion processes were driven by network relationships. The cases show that 1st generation family SME managers are more influential in their network relations in the early stages of domestic growth, as they feel that the coordination of networking activities is necessary to embed the firm in the domestic market. Our cases also demonstrate goal tensions between the founder/1st generation of the SMEs and the 2nd generation managers. The founder / first generations deliberately chose not to control or influence the networking activities of the 2nd generation managers. This decision was intended to allow the managers' networks to create unexpected and/or organic opportunities for international growth.

Furthermore, our case findings are consistent with those of Dinh et al. (2023), who reported that family firms can acquire information from their domestic networks, which provides access to new international opportunities. We show that existing family SME managers' networks often determine and shape the international opportunities available to the firm. This is especially evident in the Calli and Dilli cases, where it can be observed that without international introductions, the family SMEs would not have benefitted from unexpected opportunities to connect to international value chains. In these cases, the family SMEs carefully nurtured networks that aligned with their core values and local identities (Miroshnychenko, Eddleston, and De Massis 2023). Furthermore, underpinning their diverse approach to networking was the presence of different forms of social capital, i.e. different tactics were employed to develop and maintain their bonding social capital and bridging social capital. These tactics were vital in reconciling the tensions emerging from the networking activities of family SMEs and their local and international orientations.

Balancing bridging social capital and bonding social capital in family SMEs

Studies on social capital within family businesses have highlighted it as a unique resource with the potential to deliver competitive advantage (Arregle et al. 2007; Salvato and Melin 2008, 2019; Sanchez-Ruiz et al. 2019; Shi, Shepherd, and Schmidts 2015), positive effects on family

cohesiveness and human capital (Salvato and Melin 2008), firm preparedness (Chang et al. 2009), and the establishment of corporate goals (Cabrera-Suárez, Déniz-Déniz, and Martín-Santana 2015). Our core contribution takes an inside-out view, where social capital between family SME managers and network partners positively affects their localness and international growth. Our cases demonstrate that bonding social capital facilitates connections to domestic value chains and bridging social capital enables connections to international value chains (Eklinder-Frick, Eriksson, and Hallén 2011). Our primary contribution lies in demonstrating that successful family SMEs deliberately embrace and balance the paradoxical tensions between bonding and bridging social capital. This balancing competence operates as a network governance competence, enacted through the distributed responsibilities of founders, successors, and non-family managers, and through the selective prioritization of relationships across local and international contexts. Unique to family SMEs, this network governance competence allows them to preserve their local reputation, legacy, and networks while seizing international opportunities – underscoring the coexistence of opposing demands inherent in family business growth.

The social capital maintained by family members can be a significant source of competitive advantage (Arregle et al. 2007), yet research seldom explores how social capital between family SME managers and local network partners acts as such. Our findings indicate that bonding and bridging of social capital develop iteratively, whereby family SMEs pivot between these types depending on whether domestic or international activities are prioritized – reflecting the need to maintain stable local relations (bonding) while cultivating diverse external ties for growth (bridging). Family SME managers build bonding social capital through mutually beneficial activities with local partners who share their values (Eklinder-Frick, Eriksson, and Hallén 2011), while second-generation managers use local contacts to explore international value chain opportunities – illustrating the paradoxical duality of leveraging local embeddedness to access global networks (Arregle et al. 2012). Balancing these forms requires a conscious distribution of responsibilities (De Massis et al. 2018; Zahra 2003), whereby founders (first generation) anchor bonding ties to sustain local legitimacy, successors (second generation) extend the firm's relational portfolio through international bridging ties, and non-family managers (NFM) mediate between these orientations as both mediator and mentor.

Closer ties with domestic value chain partners stabilized domestic operations and facilitated international contacts, whereby domestic partners often acted as guarantors for new international contacts (Scholes, Mustafa, and Chen 2016). Bonding and bridging social capital thus influences managerial decision-making about where functions should be performed (Zahra 2003). For a Swedish family SMEs embedded in regional clusters alongside incumbent MNEs, frequent interactions with domestic contacts play a crucial role in strengthening local social capital (Baù et al. 2019). Such embeddedness reflects the paradoxical logic of embracing contradiction (Smith and Lewis 2011): family SMEs cultivate strong local relationships for competitive advantage (bonding) while drawing on these ties to access international opportunities (bridging). This resonates with our findings, revealing the gradual development of social capital, generational differences in networking and distributed responsibilities in balancing persistent tensions. When family SMEs successfully distribute governance of their network, with each managerial role carrying distinct and complementary responsibilities, they can better govern the paradoxical tensions at the intersection of local and international environments.

In this study, we challenge the prevailing notion that family SMEs are resistant to international growth due to tensions regarding the preservation of local legacy and identity (Baù et al. 2021), which often emerge during international expansion (Debellis et al. 2021)

Instead, we propose that family SMEs can navigate these paradoxes by balancing bonding and bridging forms of social capital to grow both domestically and internationally. Balancing bonding and bridging social capital emerges as a network governance competence through the distributed management of local and international ties across generational and non-family managers, offering

a novel explanation of how family SMEs reconcile the enduring paradox of remaining locally rooted while pursuing international growth.

Implications for Practice

The opportunity to enter international markets offers family SMEs substantial benefits, including market expansion, risk diversification across regions, and sustained long-term growth. Yet a significant body of research underscores the challenges SMEs face when internationalizing, such as navigating cultural differences, dealing with regulatory complexity, and contending with established competitors (Lu and Beamish 2001). These difficulties can be even more pronounced in the case of family SMEs, where generational goal misalignment, contrasting attitudes towards risk, and divergent growth ambitions introduce additional layers of complexity (Diaz-Moriana, Clinton, and Kammerlander 2024). Internationalization models, such as the Uppsala framework (Johanson and Vahlne 2009), highlight the central importance of network relationships in driving cross-border expansion. Building on this perspective, we emphasize the role of multinational enterprises (MNEs) as critical partners through which family SMEs can learn, leverage resources, and embed themselves in global value chains. For many family SMEs, engagement with MNEs represents a structured path into established international supply networks (Stoian, Dimitratos, and Plakoyiannaki 2018). Such relationships not only open avenues for knowledge transfer but also provide SMEs with much-needed legitimacy and access to market intelligence (Oviatt and McDougall 1994), both of which are vital for international competitiveness and regional economic contribution.

Managers in family SMEs act as boundary spanners (Pattinson and Dawson 2024), navigating the paradoxical demands of sustaining local embeddedness and family identity while simultaneously pursuing global integration and growth. These tensions resonate with managing paradoxical tensions, which emphasize how organizations must address competing demands that cannot be fully resolved, but rather managed over time. In this context, the balance between tradition and innovation, continuity and change and risk preservation and risk taking becomes central to the internationalization of family SMEs.

Non-family managers emerge as particularly influential in navigating these paradoxes. By balancing bridging and bonding forms of social capital, they mediate between external networks and internal family dynamics. In the cases examined, non-family managers were instrumental in reconciling the preservation of family legacy, reputation, and local identity with the uncertainty and risk-intensive demands of international expansion. Their ability to embrace and navigate paradoxical tensions illustrates their unique value: enabling continuity while facilitating strategic transformation that equips family SMEs for long-term growth.

Limitations and future directions

This study has some limitations, which present rich avenues for future research. First, our selected cases may show potential survivor bias (Yin 2014). Future research should investigate the internationalization process in family SMEs that have failed, with a particular focus on the presence or absence of the bonding and bridging types of social capital, as well as the potential paradoxical tensions that may arise (McAdam, Clinton, and Dibrell 2020). Second, the family firms included in our sample are all small and medium-sized enterprises and while family SMEs form the dominant organizational form worldwide, we do not investigate family MNEs. Notably, family firms (namely, family MNEs) account for 35% of the S&P 500 Industrials and 33% of Fortune 500 companies (Anderson and Reeb 2003). Thus, future research could investigate the internationalization processes of family MNEs and the pathways they take as they transition from being SMEs to MNEs, along with their associated stock of social capital. Somewhat relatedly, as family firms transition across generations, their ownership structures may change from a sibling partnership to a cousin consortium. Further investigation is needed to understand how this evolution of ownership structures can lead to

a weakening of connections to the local community (e.g. given the geographical dispersion of cousin owners) and the potential dilution of bonding social capital. Third, our expansive case study dataset drew upon a pool of interviews, observations, and archival data to achieve theoretical generalization (Yin 2014). However, importantly, the findings of this study are based on a sample of Swedish family SMEs, which may reflect context-specific characteristics. Future studies could adopt a quantitative, deductive approach to apply our findings to different organizational contexts and management perspectives.

Conclusion

Responding to calls for a greater understanding of how family firms navigate the tensions of localness and internationalization (Baù et al. 2021), we examine how family SMEs manage contextual tensions in local and international environments as they grow. Critically, we provide new insights into how balancing bridging and bonding forms of social capital can aid family SMEs as they expand internationally while also illuminating the paradoxical tensions that arise between maintaining close-knit family ties and cultivating diverse external networks. Our study shows that despite their size, SMEs can cultivate and leverage bonding social capital with local MNEs to develop bridging social capital with global value chain actors; such network development then enables these firms to better identify and exploit opportunities abroad. Additionally, our findings show that family SMEs followed similar patterns in developing and leveraging their networks with local MNEs while maintaining their local identities and local legitimacy.

Author contributions

CRediT: **Edward Gillmore**: Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Writing – original draft, Writing – review & editing; **Marty Reilly**: Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Writing – original draft, Writing – review & editing; **Eric Clinton**: Conceptualization, Formal analysis, Methodology, Writing – original draft, Writing – review & editing.

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