



Social Capital Beyond Borders: How Latin American Firms Pursue Legitimacy in Foreign Markets Despite the Effects of the Liability of Foreignness – An Exploratory Study

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Abstract

Abstract – EN

Latin-American firms are increasingly expanding abroad as internationalization allows them to diversify risk and mitigate negative conditions faced at home. Nevertheless, upon expansion, they are also confronted with the effects of the liabilities of foreignness (LOF) and emergingness (LOE), stereotypes and stigmatization. This study investigates the role that social capital plays in internationalization processes and legitimacy-building in foreign markets. Unveiling whether a strong focus and commitment on environmental, social, and governance (ESG) practices poses as a legitimacy enhancer abroad also belongs to this study's scope.

An exploratory, qualitative approach was adopted through the use of semi-structured interviews to gain in-depth insights into how Latin-American firms experience internationalization, make use of social capital, and build legitimacy internationally. Findings reveal that social capital is fundamental for the success of international expansions. Nevertheless, this is the case especially for SMEs during the initial stages of an internationalization and is most effective in collectivistic cultures. Legitimacy is achieved through the combination of market strategies devoted at reputation-building, adaptation to the local market, and social capital. ESG effort was found to be a critical legitimacy enhancer, although most relevant for Latin-American firms expanding beyond the region, as the latter appears to be increasingly valued abroad than domestically, where it is inconsistently adopted.

This research contributes to previous literature by advancing the understanding of social capital's role in shaping the internationalization strategies of Latin-American firms, often overlooked in the literature, and presents legitimacy-building as a multi-stage process, formulating specific recommendations for managers.

Keywords: social capital, legitimacy, internationalization, liability of foreignness, ESG, Latin-American Firms.

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Resumo – PT

Empresas latino-americanas estão cada vez mais expandindo-se para o exterior, pois a internacionalização lhes permite diversificar riscos e mitigar condições negativas enfrentadas em seus países de origem. Entretanto, ao expandirem-se, enfrentam também os efeitos das responsabilidades da estrangeiridade (LOF) e da emergência (LOE), estereótipos e estigmatização. Este estudo investiga o papel do capital social nos processos de internacionalização e na construção de legitimidade em mercados estrangeiros. Além disso, examina se um forte foco em práticas ambientais, sociais e de governança (ESG) atua como potenciador de legitimidade no exterior.

Foi adotada uma abordagem exploratória e qualitativa por meio de entrevistas semiestruturadas, buscando percepções sobre como empresas latino-americanas vivenciam a internacionalização, utilizam o capital social e constroem legitimidade internacionalmente. Os resultados mostram que o capital social é fundamental para o sucesso das expansões, especialmente para PMEs nas fases iniciais da internacionalização e em culturas coletivistas. A legitimidade é alcançada combinando estratégias de mercado focadas em reputação, adaptação ao mercado local e capital social. O esforço em ESG mostrou-se um importante potenciador de legitimidade, sendo mais relevante para empresas que se expandem além da região, onde é mais valorizado do que domesticamente, onde sua adoção é inconsistente.

Esta pesquisa contribui à literatura ao aprofundar a compreensão do papel do capital social nas estratégias de internacionalização de empresas latino-americanas, frequentemente negligenciado, e apresenta a construção de legitimidade como um processo em múltiplas etapas, oferecendo recomendações para gestores.

Palavras-chave: capital social, legitimidade, Internacionalização, desvantagem de ser estrangeiro, ESG, Empresas Latino-Americanas.

Título: Capital Social Além das Fronteiras: Como Empresas Latino-Americanas Buscam Legitimidade em Mercados Estrangeiros Apesar dos Efeitos da Desvantagem de Ser Estrangeiro – Um Estudo Exploratório

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Artificial Intelligence tools (AI) were used to translate the Abstract in Portuguese, for back-translation methods and transcription purposes, and as auxiliary in coding procedures.

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1 Introduction

In the current globalized economic landscape, firm internationalization has emerged as a crucial strategy for many multinational organizations (MNEs) in their pursuit of sustainable development and the expansion of their market share (Xie & Zeng, 2025). Firms extending their operations beyond borders, seek not only financial growth but also access to resources, technological know-how, and competitive advantages (Johanson & Vahlne, 2009). Particularly, Latin-American firms, appear to have exhibited an accelerated internationalization rate over the last decades, challenging the long-standing dominance of MNEs from developed economies. Weak competitive advantages and solid political capabilities, stemming from their experience of operating in volatile environments, seem to be the main drivers behind this trend, and internationalization figures as a valid mechanism to surpass their competitive and latecomer disadvantages, while bypassing restrictions and avoiding institutional limitations dictated by their origin (Velez-Ocampo & Gonzalez-Perez, 2021). Nevertheless, the plethora of opportunities associated with firm internationalization, also presents firms with the increasing complexity of doing business in a foreign environment and with a host of formidable challenges (Xie & Zeng, 2025). The Liability of Foreignness (LOF) can be identified with the liability of foreign firms to be perceived as outsiders in a host country and is associated with the lack of familiarity with the local environment, different stakeholder expectations and demands, and different regulatory frameworks, among others (Zaheer, 1995; Eden & Miller, 2004). In this regard, Latin-American firms may be confronted with an amplified form of LOF originating from stereotypes and stigmatization associated with their countries of origin, such as perceptions on lower standards of governance, volatile economies, corruption levels, poorer technological capabilities, but also misconceptions about products with inferior quality, low product safety standards and weak protection of workers' rights (Velez-Ocampo & Gonzalez-Perez, 2021; Liou, 2025).

Nevertheless, LOF should not be seen as a static and inevitable disadvantage, but as a dynamic challenge instead, which can be mitigated by firms that direct their efforts at building credibility, fostering trust, and align with host-country expectations over time, thus investing in a legitimacy-building process. In fact, as firms gain legitimacy, they are perceived as appropriate, desirable, and trustworthy actors able to benefit the societal welfare of the country that is hosting them, building long-term reputation and mitigating the effects of LOF (Suchman, 1995).

In collectivistic cultures, such as those from the LatAm region, business tends to be relationship based, where trust among parties is associated with a higher degree of cooperation and assistance in navigating unfavorable conditions. Under such circumstances, social capital (SC) emerges as a powerful tool to ease and speed-up internationalization and legitimacy-building processes. SC is broadly understood as the resources embedded in the relationships of corporate or individual actors, which can be mobilized to facilitate cooperation, the creation and flow of knowledge, and mutual trust (Nahapiet & Ghoshal, 1998). In the context of internationalization, SC is thus able to help organizations bridge institutional voids, mitigate uncertainty, and access valuable market knowledge, ultimately allowing them to smooth the process and embed more effectively in foreign markets. Moreover, in business environments that are increasingly shaped by concerns over sustainability and corporate social responsibility matters, and where firms are no longer solely judged on their profit-maximization abilities, to integrate environmental, social, and governance (ESG) practices in organizations' business models has become an imperative. That is because ESG effort figures as a critical indicator of credibility and long-term viability for the firm (Aguilera, 2007) thus, it is possible to speculate that the adoption and transparent communication of ESG practices can act as a legitimacy enhancer and can help firms counteract the disadvantages associated with LOF. Latin-American MNEs internationalizing in foreign markets with stronger and more developed economies, might especially benefit from the integration of such practices in their business strategies, as foreign consumers are likely to be more attentive to such behaviors than domestic ones, which can signal their commitment to invest in the societal welfare of the host country, contributing to build legitimacy abroad.

SC and legitimacy are both concepts that originate from the field of sociology rather than economics, as such, and although there is a significant body of research addressing them, clear conceptualizations or finalized frameworks of the latter and their effects for organizational theory studies are still lacking. Moreover, although the positive association of ESG effort and legitimacy is recognized in recent literature, few studies focus on the benefits of SC for the internationalization of firms and none, to my knowledge, on the relationship between the use of SC and the means through which organizations build legitimacy abroad. Additionally, emerging markets appear to have been especially disregarded in this context, as most empirical research has centered on MNEs from developed economies, while the scarce attention devoted to emerging markets has overwhelmingly focused on Asian contexts, particularly China and India, overlooking the distinct challenges faced by Latin-American enterprises. This lack of

attention leaves an important blind spot resonating with the means used by Latin-American firms to overcome LOF and build legitimacy in foreign markets, and how they mobilize SC and integrate ESG practices to achieve this end. Addressing this gap is crucial, as these firms increasingly compete in the global market and yet remain understudied in international business theory. By examining the complex interplay between SC and legitimacy for internationalizing Latin-American firms and the potential role of ESG effort as a legitimacy enhancer, this thesis aims to contribute to the literature by offering insights that it hopes will be valid for both further theory development and managerial practice.

It will do so by attempting to answer the following research question: *How do Latin-American firms leverage social capital to ease internationalization processes and build legitimacy in foreign markets? Can a firm's commitment to ESG practices serve as a legitimacy enhancer?*

First, a thorough literature review will build the theoretical background of this paper. Second, the proposed qualitative methodology will be justified and explained, after that, results and key findings emerging from the data will be presented and discussed, as well as the limitations of this study. Lastly, some directions for future research will be formulated and a summing-up conclusion will close the paper.

2 Literature Review

2.1 Social Capital

Ever since the course of the last century, the study of social networks has been gaining attention from researchers and academics in different fields, ranging from sociology and development studies to economics. Over time, network research's aim has been to explain the social patterns that characterize human interaction by observing social structure as a network of actors who are in some way connected through a set of relationships (Gabbay & Leenders, 2001). As the significance and applicability of network structures became increasingly evident across disciplines, the concept gained popularity among management and organizational theory scholars, who began to recognize its potential in explaining how patterns of interaction among individuals and groups enable coordinated action toward achieving collective goals and pursuing individual interests (Gabbay & Leenders, 2001). Eventually, the growing interest toward this body of research incentivized the study of network theory in organizational

contexts, exacerbating the role of networks in facilitating access to resources and promoting knowledge sharing, ultimately allowing firms to benefit from a more rapid growth, reduce uncertainty derived from the external environment, and foster innovation, all factors that are deemed as fundamental for the success and long-term sustainability of the latter.

This academic discourse laid the foundation for the emergence of SC as a key concept for understanding how organizations benefit from the size and density of their networks, build trust, facilitate cooperation, identify opportunities, and overall improve performance through their social structures.

SC, which has been described as a “wonderfully elastic term” and is roughly understood as the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action, is a concept that has been relentlessly invoked by sociologists, political scientists, and economists to answer to a broadening range of questions emerging in their fields (Adler & Kwon, 2002). Various theorists have underlined how, since the term has been used by authors from different backgrounds, a long series of definitions and diverging interpretations have been postulated, leading to confusion and undermining efforts to develop a coherent theoretical framework, (Adler & Kwon, 2002; Claridge, 2018; Siisiäinen, 2000; Lochner, Kawachi & Kennedy, 1999). Consequently, I begin by attempting to make some clarity and citing the main contributors before delving in the structure of SC and its applicability.

Coleman (1988) figures as one of the pioneers of this body of research and offers a good starting point by signaling that SC is defined by its function and it is not a single entity but a variety of different entities. However, these entities have two characteristics in common on which, probably, almost all scholars will agree on:

1. They all consist of some type of social structures.
2. They facilitate certain action of actors, let that be individuals or corporate actors, within the structure.

Moreover, Coleman (1988) also proposes some baseline attributes of SC:

1. It is a type of capital, meaning it makes it possible to achieve ends that would have not been achievable in its absence.
2. It is embedded in the relationships individual or corporate actors have with one another.
3. It is an intangible resource.

One of its key peculiarities stands in identifying actors as resources that can be used to achieve one's interest (Coleman, 1988). Nevertheless, SC can as well be used to achieve collective and mutually beneficial interest. In this regard, Uphoff and Wijayaratna (2000) provide a complementary perspective by underlining that the benefit most often associated to SC is mutually beneficial collective action (MBCA). This is the case because, SC, unlike other forms of capital recognized in economics such as, physical capital, natural resources and human capital, which tend to benefit those who are using them rather than others, is expected to produce goods that are more collective in the long term.

Putnam's work (1994) allows to extend the discussion initiated by Coleman (1988) by specifying the types of social structures that are embedded in SC. In fact, according to the author, *shared trust*, *norms*, and *networks of engagement* constitute the essential elements of SC and are transferable from one social setting to another.

Stocks of SC, such as trust, norms, and networks, tend to be self-reinforcing and cumulative. Successful collaboration in one endeavor builds connections and trust. Those social assets in turn, create information channels able to facilitate future collaboration in other, unrelated tasks, thus reducing the amount of time and investment required to gather information, lowering transaction costs, and accumulating social learning (Putnam, 1994; Nahapiet & Ghoshal, 1998; Uphoff & Wijayaratna, 2000). This description ultimately demonstrates that SC also obeys the principle of appropriability initially introduced by Coleman (1988).

Thus far, trust has emerged as an integral part of SC, however, other empirical work suggests how, in practice, trust also poses itself as a vital antecedent for the creation and development of SC. For example, a quantitative field study conducted in rural China describes trust not only as a component but as the leading attribute of SC, which appears to be a fundamental intervening variable in improving cooperation, lending behavior, and investment. The same study later

concludes that personal trust helps secure credit via informal channels while community trust appears crucial to obtain formal loans from banks (Zhang, Liu, & Liang, 2020).

Furthermore, because of the social structures embedded in it, SC has been referred to as a moral resource (Putnam, 1994). In contrary to other types of resources, that is a resource whose supply increases rather than decreases with use and becomes depleted if not used. This view is supported by the fact that social bonds must be periodically renewed and reconfirmed, otherwise they will lose efficacy over time. Similarly, Adler and Kwon (2002) emphasize that, unlike physical capital, SC does not go through a predictable path of depreciation and highlight that depreciation may not only be the consequence of the lack of use but also of abuse and misuse. A good example is offered by trust and trustworthiness, which, as already pointed out are a critical source in the development of SC. In fact, trust is a tie between individuals that is created and strengthened over time through repeated interaction, as such, trust that is shown today will typically be reciprocated and amplified tomorrow (Adler & Kwon, 2002). However, when trust is broken, especially because of misuse or abuse of the latter, it appears extremely difficult to rebuild. In this sense, it is possible to add to the discussion by postulating that, although SC may not have a predictable rate of depreciation, the failure of a social relationship at a certain moment in time corresponds to a tipping point beyond which this type of capital will depreciate precipitously and will in most cases extinguish itself. This statement is consistent with observing SC as a resource that lacks exclusive ownership rights to the latter since, in a social relationship, the withdrawing of one party will dissolve that connection with whatever capital it contained (Adler & Kwon, 2002).

2.2 Social Capital Dimensions

The concept of SC has also been steadily gaining popularity among organizational theory scholars who increasingly view organizations as social communities (Nahapiet & Ghoshal, 1998), and recognized SC's role in shaping the unique capabilities and value mix of firms to create and share knowledge, thus granting them a distinctive advantage. For this reason, many felt the need to move beyond broad characterizations and examine its underlying components. Nahapiet & Ghoshal (1998) have been fundamental in directing research on SC towards the refinement of a theoretical framework that has been embraced eagerly by numerous scholars who have drawn upon it since the beginning of the 2000s.

According to them, SC can be broken down into three different dimensions: First, structural SC appears to be the tangible component of SC and can be readily observed by the existence or absence of network ties (Claridge, 2018). In other words, according to Nahapiet & Ghoshal (1998), this dimension describes the overall pattern of relationships between actors, meaning who you reach and how you reach them, and is measured based on characteristics such as density, connectivity, hierarchy of the network, and appropriability, which is viewed as the existence of networks created for one purpose that can be used for another (Nahapiet & Ghoshal, 1998). As its main contribution is to explain attributes of a network, it also observes the roles, rules, precedents and procedures that provide information about it and its functioning (Claridge, 2018). Second, relational SC refers to such facets of relationships such as trust, obligations, respect and even friendship, which together increase the motivation to engage in knowledge exchange and teamwork (Gooderham, 2007). Moreover, as the latter stresses, the significance of this dimension became clear after receiving empirical support from organizational settings. For example, in the early stages of an acquisition the lack of personal relationships and trust between the parties can lead to decreasing efficiency and information asymmetries hurting the flow of knowledge and know-how in the newly created organization. Nahapiet & Ghoshal (1998) also underline how, trust and trustworthiness, norms and sanctions, obligations and expectations, and identity and identification are among the determinant facets of this dimension. These qualities shape the nature and quality of connections or networks (Claridge, 2018). Unlike structural SC, which focuses on the quantity of ties rather than on the quality of the latter, relational SC represents the affective part of this construct and is intangible. Lastly, cognitive SC relates resources providing shared representations, interpretations, and systems of meaning among parties (Nahapiet & Ghoshal, 1998). This dimension is made up of the cognitive schemes and systems of meaning intrinsic to vocabulary and narratives (Claridge, 2018), for this reason, other authors have taken a step forward in identifying those shared narratives as shared codes, goals, vision, language, and culture that provide the basis for effective communication and the creation of SC (Claridge, 2018; Tsai & Ghoshal, 1998; Gooderham, 2007). Like relational SC, is intangible in nature, however it differs from the latter as it concerns the interpretations of a shared reality rather than observing the quality and attributes of a relationship, a good example can be found in the use of language and codes since, certain words used within an organization or network may have different or no meaning outside them (Claridge, 2018).

Even though it is possible to separate the structural, relational, and cognitive dimensions of SC analytically, it is important to note that all features of this construct are highly interrelated (Nahapiet & Ghoshal, 1998). As Claridge (2018) points out, in practice, the dimensions of SC may appear so intertwined that it becomes nearly impossible to dissect them as they appear not only connected but also mutually reinforcing (Uphoff & Wijayaratna, 2000).

For the purpose of clarifying the conceptual confusions associated with SC, it appears relevant to mention two other tensions in the literature that have been dividing scholars for the past decades: The first regards the distinction between formal and informal connections, hereby referred as structured, institutionalized ties that are fostered and facilitated via a defined group that has been created to obtain to a clear purpose, often involving contracts or a type of membership; and as personal relationships that are in most cases created as a product of chance or specific circumstances through informal channels and usually lack a clear purpose for their establishment respectively, as they are more based on casual, informal social ties such as sympathy and friendship, and that find their foundation in reciprocal trust, affection and personal rapport lacking formalized agreements able to explain the reason behind their existence. Second, no consensus was reached on the most appropriate structure of networks for SC (Li, 2007). On one hand, bonding SC defines closely-knit networks with a focus on internal ties, while bridging SC is identified with a focus on external linkages across networks (Adler & Kwon, 2002), and is theorized by Burt (1992) as the best alternative to create effective SC. An extensive review of these debates is available in the appendix.

2.3 Social Capital and the Internationalization of Firms

Nowadays, firms that internationalize their operations, for example through exports or by establishing subsidiaries in foreign markets, increase their chances of growing, gain a sustained competitive advantage over-time and increase their overall profitability. Nevertheless, crossing borders requires organizations to demonstrate a high degree of adaptability as they pave their way into markets of foreign territories which may have different customs, regulations, stakeholder expectations, forms of communication and market trends, requiring firms to identify, access, and integrate new knowledge. Successfully navigating the complexity and uncertainty arising in these environments, often depends critically on a firm's capacity to build and leverage networks bridging across different cultural, institutional, and geographic contexts. Consequently, it is possible to argue that SC can pose as a key success factor and a learning

mechanism. That is, SC can help organizations connect with key individuals in foreign markets from which they can acquire non-redundant information, increase their understanding of the external environment, and identify emerging opportunities that may not be visible within their domestic networks. Therefore, it is possible to speculate that internationalizing not only determines an expansion of operations, but also an expansion of relational spaces in which the quality and diversity of a firm's connections can determine its ability to compete, innovate, and gain legitimacy in global markets.

Gooderham (2007) notes that firms become multinationals as they internationalize in multiple locations, and that internationalization should be initiated as long as the cost of it is inferior to that of using the market. Moreover, having access to new knowledge alone is not enough to ensure a smooth and successful internationalization, what matters the most instead, appears to be the firm's ability to transfer knowledge across its international network (Gooderham, 2007).

Johanson & Vahlne (2009) reviewed their 1977 Uppsala Model of Internationalization by observing the business environment as a web of relationships and networks rather than as a neoclassical market with many independent suppliers and customers, outlining that insidership in relevant networks is a necessary condition for the success of any internationalization. Moreover, network relationships were found to have an impact on foreign market selection as well as on the mode of entry into a specific geographic market (Johanson & Vahlne, 2009). The term internationalization mode refers to the organizational structure used to enter and penetrate a foreign market, examples include: indirect exporting through domestic or foreign intermediaries, joint ventures, licensing and franchising, strategic alliances, and establishing sales and, or manufacturing subsidiaries (Agndal & Chetty, 2007). The 1977 Uppsala model proposed that firms internationalize incrementally by following a learning by doing process and gradually increasing their commitments, as such, firms may choose to enter a foreign market via lower commitment entry modes like exporting first, and pass onto higher commitment modes over time, for example establishing local subsidiaries. Nevertheless, the revised model acknowledges how relationships developed through time and experiential learning allow firms to gain more knowledge about the resources and capabilities of their counterparts, leading to an incremental increase in their commitments, for this reason, a network of business relationships provides a firm with an extended knowledge base and internationalization is seen as a multilateral network development process (Johanson & Vahlne, 2009). Consequently, foreign market entry should not be studied as a decision about modes of entry, but as a position-building

process in a foreign market network (Axelsson & Johanson, 1992; Johanson & Vahlne, 2009). Consequently, not only does SC play a crucial role in the success or failure of firms' internationalizations, but is likely that conditions of insidership, i.e. whether firms or individuals within firms are linked to other individuals or firms in foreign markets, might play a role in the decision as to whether internationalize or not in the first place.

Another important implication of the revised model regards the issue of opportunity recognition: In the past, the resource-based view argued that organizations do not have any privileged knowledge about external resources required to identify future opportunities, suggesting them to focus their search for opportunities on the basis of internal resources on which they are supposed to have privileged knowledge on, highlighting how a mix of effort, luck, alertness and flexibility was decisive to this end (Denrell, Fang, and Winter, 2003). However, everything changes when a network view of markets is brought to the discussion: In this case, firms can, and do have privileged access to information about foreign markets from their relationships with partners and business networks, ultimately demonstrating that existing business relationships able the identification and exploitation of opportunities while having remarkable impacts on particular choices such as the geographical markets a firm will decide to enter and which entry mode will be employed to do that (Johanson & Vahlne, 2009).

2.4 Social Capital for Latin American firms

Lastly, it should be noted that SC may be even more important and decisive in certain contexts or countries than others. This is because SC, can either be a substitute for or can complement other resources, as a substitute, actors can sometimes compensate for a lack of financial resources or human capital by "superior connections" (Adler & Kwon, 2002). Previous research has explained how, in the case of emerging markets' firms, weak home country institutions, exchange rates volatility and other contextual disadvantages require firms to develop contextual management capabilities, such as lobbying or leveraging social networks (Hermans, et al., 2024) This statement is consistent with the work of Velez-Ocampo & Gonzalez-Perez (2021) who state that emerging markets' firms usually gain adaptability and resourcefulness from operating in unstable contexts which require them to develop strong political capabilities. In this context, Latin-American firms master the ability to adapt to turbulent business environments and compensate for resource constraints through improvisation and creativity, which train them to adapt and combine internal and external resources more effectively in

uncertain situations (Velez-Ocampo & Gonzalez-Perez, 2021). As exemplified by the authors, forming alliances with counterparts from developed economies is especially important to acquire new knowledge and technology.

The tendency recognized by the literature for Latin-American firms to rely heavily on within-group ties and networking mechanisms in business is closely linked to and, in fact, is rooted in the collectivistic cultural orientation shared across the region. Collectivism refers to one of the six dimensions theorized by Hofstede (1980) in its cultural dimensions framework, which aim is to analyze national cultures and their impact on organizational behavior. Collectivistic cultures tend to prioritize relationships over tasks, and cooperative behavior is strongly encouraged. Business relationships are perceived in moral terms as to imitate a family link, leading to a stronger presence of informal communication in respect to countries with individualistic cultures (The Culture Factor Group, 2023). Moreover, it appears important to stress that in Latin-America and in emerging economies in general, where formal institutions may be weak or distrusted, trust-based networks and SC can be a source of institutional legitimacy as demonstrated by Chen, Haga & Fong (2016) who argue that forms of bonding and bridging SC coupled with government ties in foreign markets help firms to be legitimized faster abroad and increase their performance. Nevertheless, settlements with a more diverse external connectivity, suggesting a surplus of bridging SC are less exposed to corruption (Wachs, Yasseri, Lengyel, & Kertész, 2019). For Latin-American firms, that suffer prejudices and stereotypes about their operations and are generally perceived as countries more prone to suffer from the adverse effects of corruption, relying on bridging SC can thus constitute a strategy to improve their image outside of their region and be perceived as trustworthy, reducing the risk of stereotyping.

2.5 Liability of Foreignness (LOF)

The benefits associated with insidership to international networks have been discussed, however, for a firm that does not have a position in a relevant network and as such, is considered an outsider, it appears to be way more difficult to make any internationalization strategy successful. That is because doing business abroad is associated with costs arising from the uncertainty of the environment, from cultural, political, and economic differences, and from the need for coordination across geographic distance (Hymer, 1976; Zaheer, 1995). In this context,

to experience the disadvantages associated with being an outsider, means to suffer from the liability of foreignness (LOF).

LOF has been broadly defined as all the additional costs a firm operating in a foreign market incurs that a local firm would not incur, thus resulting in a competitive disadvantage for the internationalizing firm (Zaheer, 1995). These additional costs normally depend on contingent factors such as the size and other characteristics of the firm and the industry in which it operates. Additionally, Eden & Miller (2004), argue that the key driver behind LOF is represented by institutional distance, which comprises the cognitive, normative, and regulatory differences between home and host countries. However, Zaheer (1995) notes that LOF usually arises from at least four sources:

1. Costs directly associated with spatial distance, such as the costs of travel, transportation, and coordination over distance and across time-zones;
2. Firm-specific costs based on a particular company's unfamiliarity with and lack of roots in a local environment;
3. Costs resulting from the host country environment, such as different regulatory environments, the lack of legitimacy of foreign firms and economic nationalism;
4. Costs associated with the home country environment, such as sales restrictions to certain countries imposed to specific products, although less common.

No matter the source, LOF is likely to result in lower profitability and lower chances of survival for internationalizing firms. Nonetheless, it is possible to make a distinction between firms that appear prone to suffer it more heavily in comparison to others. For example, firms that do not adapt their products or services to the needs and characteristics of the host country market may suffer more disadvantages and may take a longer time to be legitimized from the local consumers in respect to firms that are able to adapt and tailor their businesses appropriately. Similarly, enterprises that leverage their dispersed subunits in a value-adding manner exploiting economies of scale or scope, and firms whose subunits have differentiated roles and levels of integration, are expected to feel LOF less (Zaheer, 1995). Moreover, strategies to overcome LOF virtually reduce to two main general behaviors of the firm in a foreign market, as the latter can either try to transfer to its foreign subsidiaries the knowledge, resources and capabilities acquired through time by the parent firm, or leverage the advantages associated with the

establishment of a local subsidiary in a determined geographical area, thus permitting it to act like a local firm by mimicking other successful firms in that environment.

When discussing LOF, the notion of psychic distance plays an important role to understand internationalization dynamics. Psychic distance has been defined by Johanson & Vahlne (2009) as factors that make it difficult to understand foreign environments. In simple terms, psychic distance refers to the perceived differences in culture, language, business practices and values among others, that separate a firm's home country from the foreign market it seeks to enter. Consequently, the larger the psychic distance, the greater LOF's effect. As an example, consider a Mexican firm wishing to enter the European market: In this context, it is safe to argue that the Spanish market would be initially preferred as entry point over the one of a more culturally distant country such as Finland. This predilection can be explained by the reduced psychic distance between Mexico and Spain, stemming from shared language, historical ties, and cultural affinities, which together facilitate the understanding of the foreign environment and reduce significantly the perceived risks associated with doing business in it.

Many scholars have addressed the issue of whether LOF can be addressed and incorporated by the costs of doing business abroad (CDBA) (Eden & Miller, 2004). Nevertheless, it should be noted that LOF's key distinction from CBDA is that it is grounded in socio-institutional analysis, while the latter concept comes from a purely economic approach to MNE theory. In fact, as Zaheer (2002) elaborates, the costs of doing business abroad focus on market-driven economic costs, on the contrary, LOF is rooted on the social costs associated with access and acceptance. Consequently, as the author notes, LOF's costs depend heavily on the presence or lack of firms' network linkages in the host country, the institutional distance, and additionally, the psychic distance between the home and host countries' markets, consistently to the liability of outsidership theorized by Johanson & Vahlne (2009) in their newest conceptualization of the Uppsala Internationalization Theory.

As noted, LOF alone is capable of undermining firms' efforts in foreign markets and constitute a great impediment to the profitability and long-term survival of the latter. Nevertheless, organizations operating in certain contexts and, or from certain countries may also suffer an amplified form of LOF stemming from stigmatization and stereotyping costs other firms may not equally face. Amid these conditions, the case of Latin-American firms becomes particularly

relevant, as they are often confronted with stereotypes and prejudices that may exacerbate their struggle for legitimacy when doing business in more powerful economies.

The liability of emergingness (LOE) refers to the additional burden that firms from emerging markets experience because of their origin (Velez-Ocampo & Gonzalez-Perez, 2021), as they are often confronted with lack of credibility, acceptance, and legitimacy in international markets. As noted by Velez-Ocampo & Gonzalez-Perez (2021), there are three main sources behind LOE:

1. The disadvantageous structural conditions of emerging multinational enterprises' home country (EMNEs).
2. Unsophisticated and uncompetitive managerial skills.
3. Local stakeholders' concerns over quality and reliability toward EMNEs that may originate legitimacy deficiency.

More specifically, LOE, that has also been theorized by other scholars as liability of origin (LOR), stems from the adverse attributions that relate to the home country due to the real or perceived conflict with the regulative, normative, or cultural-cognitive elements of the host country (Ritvala, Granqvist, & Piekkari, 2021). Moreover, these organizations may also suffer from adverse country-of-origin effects represented in international consumers animosity, negative stereotypes, and beliefs about inferior quality among ethnocentric consumers, resulting in ideologically driven resistance by local audiences. Consequently, firms that suffer from these additional liabilities, may be misunderstood completely upon their entry in a foreign market (Velez-Ocampo & Gonzalez-Perez, 2021; Ritvala et. Al, 2021). Ritvala et. al (2021), describe stigma as a moral categorization of an organization that provokes a strong, negative, emotional reaction among audiences and highlight how a stigmatized organization is affected by a fundamental, deep-seated flaw. In this context, stigmas are relational and intimately associated with the act of stereotyping, unconscious expectations, and norms that play out in social encounters. For this reason, it can be differentiated by LOF, as the latter can be reduced over time through action by firms themselves as they learn more about the institutional environment of the host country, while the former is likely to burden the organization for considerable time generating negative legitimacy spillovers (Ritvala et. Al, 2021). Previous research has shown how firms that are headquartered in developed countries have stronger reputations and receive better recommendations than those from Latin-America, confirming

that such organizations benefit from the halo effect of their country of origin. This issue, which often tends to be disregarded by previous literature, appears to be of particular importance for Latin-American and other emerging markets' firms as their competitiveness and growth is often constrained by their location-specific assets. However, as they internationalize, they are able to access more resources, grow, and acquire new capabilities, ultimately making it possible to diminish the difference between them and MNEs from developed countries.

2.6 Legitimacy

One of the elements of competition and conflict among social organizations involves the conflict between systems of belief or points of view (Suchman, 1995). The negative externalities produced by LOF for firms internationalizing to a foreign market were exemplified above. However, institutional theorists identify the lack of sociopolitical legitimacy faced by foreign firms in a host country, as the primary source behind the emergence of LOF. That is because, initially, internationalizing firms do not fit into an existing organizational category in local audiences' cognition due to unfamiliarity with the firm or brand (Zeng & Xu, 2020). Suchman (1995) defines legitimacy as the generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Legitimacy is perception based because it is intrinsic to the reaction of observers to the organization as they see it, thus, it is possessed objectively but created subjectively. Moreover, it is dependent on the thoughts of collective audiences, yet independent of particular observers. A legitimized firm is able to justify its existence, what it is doing and why, and it is perceived as more meaningful, predictable and trustworthy. On the contrary, organizations that lack acceptable legitimated accounts of their activities, are more vulnerable to claims that they are negligent, irrational, or unnecessary (Suchman, 1995).

Suchman (1995) identifies three types of legitimacy. Even though all involve a perception about whether the activities of organizations are desirable and accepted within some socially constructed reality, each type of organizational legitimacy is induced from a somewhat different behavioral dynamic. First, *pragmatic legitimacy*, is based on some sort of exchange legitimacy and rests on self-interested driven calculations of an organization's stakeholders and consumers on the perceived expected value for them resulting from the organization's activities (Suchman, 1995). In simpler terms, constituents support the activities of an organization if such activities benefit them directly, as such, support doesn't stem from the believe or accordance with what

a firm represents but rather on whether it is capable of providing for the needs of the audience, making it the type of legitimacy easier to obtain if the organization is willing to be responsive and give out such incentives. Nevertheless, dispositional legitimacy can be identified as a subdimension of pragmatic legitimacy and is associated with personifying organizations and treat them as autonomous, coherent, and morally responsible actors. Accordingly, dispositional legitimacy is accorded to those organizations that reflect the audience's values, are honest, wise, trustworthy in their eyes and have their best interest at heart. Second, *moral legitimacy* reflects a positive normative evaluation of the organization and its activities. Unlike pragmatic legitimacy, is sociotropic, meaning that it does not concern whether firms' activities benefit the evaluator but rather rests on judgements on whether the activity is "the right thing to do" and if it effectively fosters societal welfare. Consequently, constituents will judge organizations based on the consequences of their activity, their techniques and procedures, and their leaders and representatives. Although more difficult to obtain in respect to pragmatic legitimacy, firms are still able to actively manage impressions using corporate strategy, for example by embracing socially accepted techniques and procedures, caring for local communities and monitoring their social and environmental impacts. Last, *cognitive legitimacy*, rests on the acceptance of the organization as necessary or inevitable based on some taken for granted cultural account, extremely established, successful multinationals operating on a global scale such as Google provide a great example, as consumers are so accustomed to their presence and to rely on the latter that the existence of the organization itself becomes non-questionable and its absence unthinkable. As such, cognitive legitimacy represents the most powerful source of legitimacy identified up to date, although the by far hardest to obtain for the majority and the luck of the very few (Suchman, 1995).

Pragmatic, moral, and cognitive legitimacy are highly interrelated and coexist in most of real-world settings, making it difficult for scholars to postulate coherent and tangible recommendations for managers, however, differentiating them paves the way to recognize that there are some facets of legitimacy that are easier to obtain in the short term, especially in the context of firms internationalizing to foreign markets, for instance, managerial focus on achieving moral legitimacy could potentially pose as a key success factor for rather unknown EMNEs entering more established economies that over the last decades have devoted much effort to the introduction of policy regulating the environmental, social, and governance impacts of organizations.

2.7 ESG effort as a legitimacy enhancer

Building on Suchman's (1995) framework of legitimacy, internationalizing firms can strategically pursue legitimacy through multiple pathways. In recent decades, corporate socio-political engagement and ESG effort, which is broadly understood as the environmental, social, and governmental impacts the organization has on society and to which it commits to produce positive externalities from its operations, have been signaled as good strategies to reduce LOF and gain legitimacy for a firm operating in foreign markets. This is the case because organizations are no longer regarded as purely economic entities that solely pursue profit maximization, but are expected to have a positive impact on the governance, the environment, and the society of the countries in which they operate (Xie & Zeng, 2025). Recent studies have shown how MNEs use corporate social responsibility (CSR) as a strategic tool to promote firms' sustainable development in a global market and enhance their legitimacy by positively influencing host-country stakeholder perceptions. Institutional pressure in the host-country is one of the reasons why foreign firms decide to engage in ESG activities, as a result, they are able to improve their trustworthiness, reputation, and public image, as ESG activities will be perceived by the public as beneficial to the host country while mitigating LOF's effects (Xie & Zeng, 2025; Kim, Kwak, & Park, 2025). Moreover, another study outlined how EMNEs facing discriminatory challenges in more developed host markets can significantly diminish their disadvantages by engaging in strategic CSR and increasing their effort towards ESG practices (Liou, 2025). Nevertheless, as Liou (2025) stresses, ESG and CSR strategies can possibly result in negative perceptions when implemented ineffectively or if perceived by the general audience and stakeholders as superficial or unrelated to core business objectives. Nevertheless, it is possible to argue that, if implemented well, a focus on ESG practices can act as a legitimacy enhancer for Latin-American firms entering foreign markets, which are at the center of this study, especially more advanced and regulated economies.

3 Methodology

3.1 Research Approach

Various scholars outline the intrinsic complexities associated with the study and measurement of SC (Lochner, Kawachi, & Kennedy, 1999; Krishna & Shrader, 1999). After all, if norms and behaviors matter in addition to networks, as is strongly implied in the accounts reviewed above, and if norms, are dependent on context, and if context varies by culture and country, as

questioned by Krishna & Shrader (1999), then can any measure of SC be found that is universally valid across countries and cultural contexts? Probably not, nevertheless, qualitative research methods were consistently found to be more appropriate in the investigation of social phenomenology. This study employs an exploratory, qualitative research approach to uncover trends and perceptions about how Latin-American professionals and firms make use of SC in relation to internationalization processes and legitimacy-building upon entry in foreign markets. Understanding whether ESG effort is an instrument employed by Latin-American firms as a legitimacy enhancer is also part of this study's focus.

The use of qualitative methods was preferred since, as the nature of this study implies, the explanation and observation of results rather than their replication is the ultimate aim of this investigation, and as highlighted by Shah & Corley (2006) and Mintzberg (1979), rich description and explanation of the interplay between complex relationships can only come from anecdote, by documenting the perspectives of the participants involved in the study. Furthermore, the use of semi-structured interviews stimulates open-ended discussion and ensures flexibility in questioning to allow participants to share which aspects of a phenomenon are most important from their experiences (Shah & Corley, 2006), allowing the researcher to analyze unanticipated empirical findings. As such, new combinations are developed through a mix of established theoretical models and new concepts derived from the confrontation with reality (Dubois & Gadde, 2002).

3.2 Sampling procedures

A purposive sampling strategy constrained by convenience was mainly employed to contact participants. Additionally, the snow-balling effect was also helpful to identify potential respondents through email and LinkedIn. While the initial aim was to interview only Latin-American founders and CEOs of MNEs that had expanded outside of the region, access constraints led to a more diverse sample which ultimately also included employees, firms that did internationalize but only regionally, and SMEs. Nevertheless, rather than a limitation, variation allows to uncover additional insights regarding motivations and barriers that firms face at different stages. Although contact was established with approximately 25 individuals, 9 accepted to be interviewed. This emerged issue may be related to both time-zone coordination difficulties and the informal and often tacit nature of SC, which may have discouraged potential participants from sharing their personal experiences and perceptions in this regard. Among

participants, the majority are high-ranked Latin-American officials working in different sectors, 4 are founders and CEOs of their companies, 4 are employees, and 1 is an internationalization consultant to Latin-American companies, allowing for triangulation and sample variations that are key in this type of research to reflect reality. Moreover, to ensure the applicability and extendibility of results and recommendations to the Latin-American region, perspectives from different countries had to be incorporated. Our study committed to this rigor by interviewing participants from seven Latin-American countries, namely Mexico, Colombia, Ecuador, Guatemala, Peru, Argentina, and Uruguay. A summary of each participant specificities and firm related characteristics is available in the appendix.

3.3 Interviews

The interview protocol was designed to gather insights and perceptions about how recurring to the use of SC can help Latin-American firms grow and succeed in international contexts. In particular, the interview was divided in 4 sections, each assessing a dimension of the present study. The first section addressed the perceived importance of structural, relational, and cognitive SC for Latin-American actors, and the questions were inspired by the Social Capital Assessment Tool (SCAT) theorized by Krishna & Shrader (1999); second, the internationalization section concerned questions aimed at gathering information about the specific experiences or perceptions in relation to the challenges of internationalization and the role SC plays in this context; third, the legitimacy section contained questions addressing the real difficulties of dealing with LOF and how can Latin-American firms build legitimacy and reputation in international markets. Lastly, some questions were asked on the perceived importance and implementation of ESG and CSR practices in Latin-America.

Interviews were conducted online, via Zoom, to ensure participants based in different locations could participate. Moreover, anonymity was ensured, sensitive data were treated with confidentiality, and participants were advised and provided consent to be recorded for transcription purposes. The data gathered from the interviews were used to generate 282 codes in total, which were later analyzed through thematic analysis to develop themes and spot patterns, increasing the understanding of the investigated phenomenon.

3.4 Validity and Reliability

Several measures were taken by the researcher to ensure the validity and reliability of this study. First, the interview design was meticulously elaborated to gather insights while minimizing possible biases and leaving enough room for discussion without steering respondents toward predetermined answers. Participants' selection was targeted at including the perspectives of key individuals working in different industries and in different Latin-American countries to obtain findings with wider validity.

Furthermore, to prevent language barriers from being a limitation and allow respondents to feel at ease while sharing their experiences, interviews were conducted in two languages, i.e. English and Spanish. In this regard, to prevent translation biases, the back-translation method exemplified by Brislin (1970) was adopted to ensure reliability. The back-translation method consists in translating the original interview questions in English to Spanish and then back to English by a different translator or, in this case, a different translator tool, to safeguard linguistic equivalence. Once the procedure was finished, the back-translated items were checked with the original ones and, as major differences did not emerge, the lack of translation biases was confirmed.

4 Research Findings

This aim of this study was to understand how Latin-American entrepreneurs and executives perceive and make use of SC to make their firms competitive and profitable over time, and what role can the latter play in ensuring successful international expansions. Moreover, the issue of whether SC can help Latin-American firms navigate the legitimacy-building process they incur upon entering foreign markets and overcome LOF and LOE, was also under investigation, as well as if a firm's ESG effort could act as a legitimacy enhancer.

The findings reveal that Latin-American firms indeed deem SC as a powerful ally, especially to compensate for the lack of other resources and unfavorable conditions resulting from the local environment. Also, gaining legitimacy in foreign markets was recognized as key and as a serious challenge for Latin-American firms, that often must confront themselves with negative stereotypes about them. In this regard, the ESG effort of a firm was said to help an easier and quicker legitimacy-building process. Nevertheless, the findings shed light on the fact that if that is particularly true for Latin-American firms wishing to expand outside of Latin-America, due

to the fact that for example, the US or Europe have posed incremental attention on the environmental, social, and governmental responsibilities of corporate actors, the situation is different inside Latin-America where, although attention on this matter is currently increasing, there is still considerable progress to be made. A table of all themes and sub-themes developed from this analysis is reported in the appendix.

4.1 Preliminary Insights

Before delving deeper in the analysis, some preliminary findings that emerged from the interviews and that stand as the foundation of this research’s results and discussion will be presented¹.

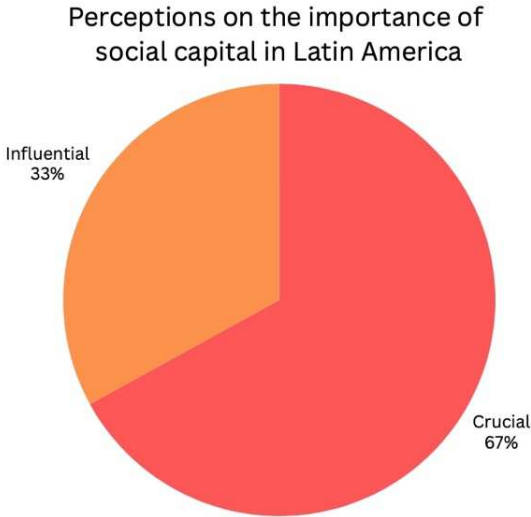


Figure 1

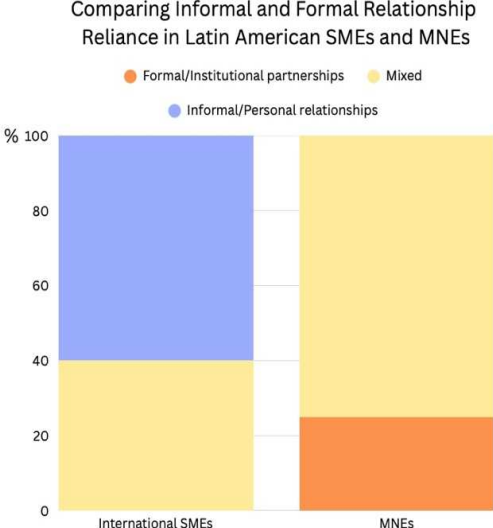


Figure 2

Figure 1 shows that 67% of participants regarded the employment of SC as crucial in their business activities, 33% deemed it as influential, and none considered it to be irrelevant. For example, Participant 7 (P7) reflected on the importance of SC underlining how potential business partners referred from trusted people or family members are usually prioritized: *“Personal relationships are the ones that matter the most... Oh 100%, because I know that somebody that I trust is recommending this person and it has to be because of a certain case”*. Moreover, about internationalization, P2 stated:

¹ All visuals were made with Canva.

If you want to enter a new market, and there's someone who has already built the entire network of contacts, knows suppliers, has worked with regulators... they will do it much faster than someone who is discovering who his counterparts are.

One of the main benefits of SC stands in understanding that a connection made today for a purpose can serve other purposes tomorrow, enabling opportunities that would have otherwise be hard to obtain. For instance, one entrepreneur (P3) described how a university friendship later became a critical business connection:

At university... a great friend of mine, his family owns one of the largest laboratories in Colombia... and today they manufacture the product for us. If I hadn't had that contact, maybe my product wouldn't have the quality it has today, nor the backing in terms of permits, certifications, and consumer guarantees.

Figure 2 highlights how informal connections are especially important for the growth and opportunity recognition phase of international SMEs, in contrast, MNEs rely on both formal and informal connections to operate their businesses.

Participant 1 (P1) is an Argentinian entrepreneur that founded his company (SME) more than twenty years ago, as he notes:

In Latin America, personal relationships are usually the first door to do business... especially in the initial stage, because everything starts, in my particular case, from a trust that they have to place in you, believing that you will deliver.

On the contrary, P8 is a young consultant in a well-established MNE who offered a different perspective, demonstrating how SC use is dependent on factors such as firm size and industry: *"Formal connections. (company) thrives because of formal partnerships with big companies, banks, and even industries. Informal networks aren't as useful due to confidentiality requirements and the sensitivity of the information we handle"*.

Determining whether Latin-American firms really suffer an amplified form of LOF and which factors most strongly influence both internationalization decisions and successful expansions was also important, the next visual representations aim to answer these questions.

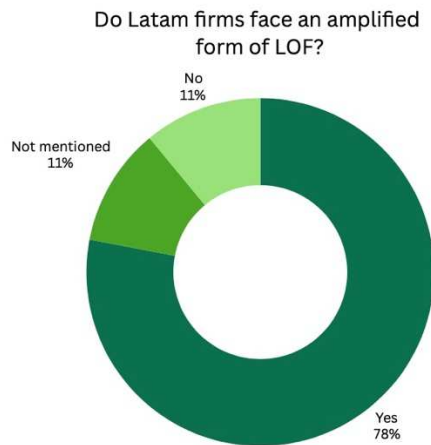


Figure 3

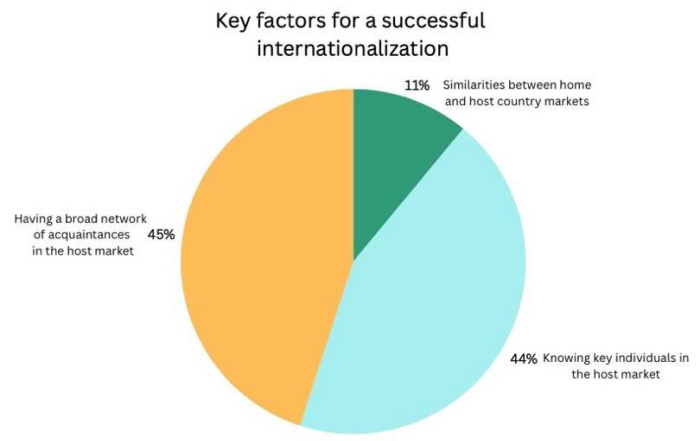


Figure 4

Figure 3 displays that 78% of respondents believe Latam firms suffer an amplified form of LOF resulting from their origin, due to perceptions about reliability and compliance (P8). As P3 sadly acknowledges: *“We are from a third world country and there are still prejudices... if you compare a Colombian product with a French one, many will choose the French based on perception”*. P4 offered an example underlining how even big Latam companies suffer disadvantages compared with international competitors:

[company] is like five times the size in products and sales compared to Nestlé. Right? But it hasn't the same reputation Nestlé has around the world... Latinos can be seen as not punctual, more into partying, not that focused etc... So of course, that also has an influence.

Lastly P2,6,8 outline how stereotypes make Latam firms and professionals appear as untrustworthy, unprofessional, and less hardworking, originating skepticism in their regards.

Figure 4, reports which factors are regarded as most relevant for the success of internationalizations, uncovering which type of SC, whether structural, relational, or cognitive is the major asset for expanding abroad. The almost reached tie shows how vast and open networks are preferred to gather as much information as possible about the host market and for opportunity recognition purposes, while trust is still important as the foundation of effective business relationships. P9 and P1 offer complementary perspectives:

Having a substantial network of acquaintances is important, not just individual key positions, but a broad network. It provides referrals and clarity on where to go and what to do once you're there; a broad network allows you to obtain a clearer vision...and if they don't know you, even better! That is, that they know you but not too much. So that you can truly listen to a voice that is disinterested, that for me is important, because close contacts may be biased.

In contrast, P8 shares the benefits stemming from trust: *“Knowing key, trustworthy individuals, having loyal, informed people ensures security, guidance and potential investment... less is more”*. Surprisingly, cultural similarities, such as sharing the same language or the presence of a diaspora among others, between home and host country emerged as the least incident factor for the success of internationalizations. Actually, it was discovered that treating a market with a diaspora as a safe success assuming a diaspora will behave the same as in its home country, is one of the biggest mistakes in expansion, as in practice, it rarely works this way. For instance, Mexican consumers in Mexico do not act the same as Mexican buyers in Florida (P9).

To complete an initial and intuitive skimming of the data, Figure 5, summarizes the most frequently mentioned barriers for Latin-American firms expanding abroad, with LOE/stereotypes representing the most severe barrier and high entry and compliance costs the least determinant.

Most frequently mentioned barriers for Latin American firms expanding abroad

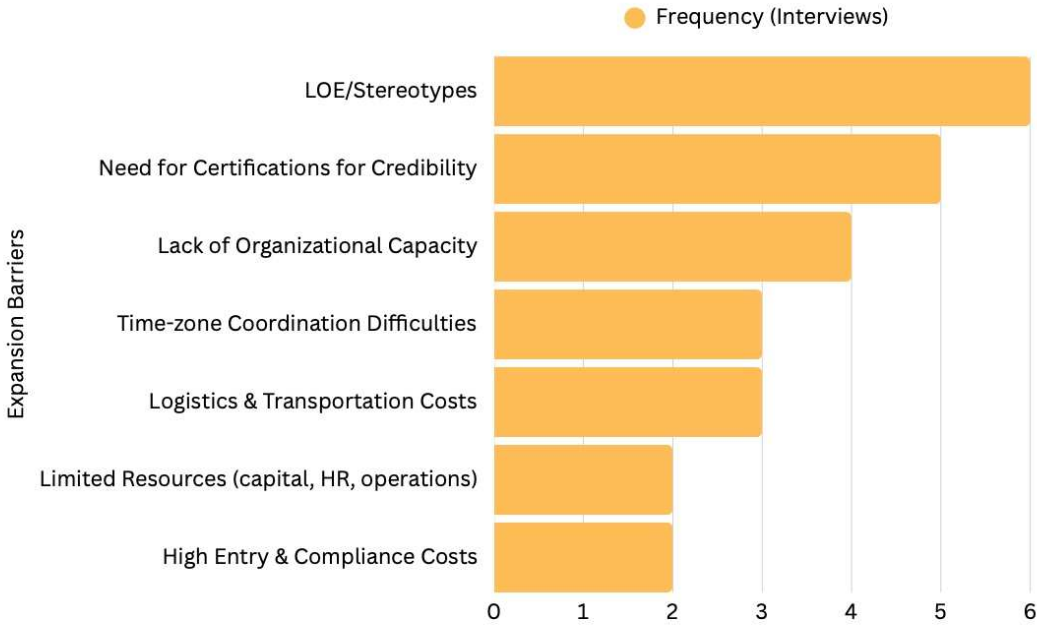


Figure 5

Nevertheless, a few less echoed perspectives are also beneficial for the analysis. For example, as P1 explains, cultural differences emerging from operating in a foreign market represent barriers difficult to overcome: *“The most difficult thing is human relations between different customs. That’s a big problem, even more important than money, because money can be*

obtained but making two people from completely different cultures agree on something...that's a whole different story". Similarly, P7 sheds light on a particular problem affecting family-owned firms, as nepotism can produce inefficiencies:

Unfortunately yes, there have been situations where we gave people opportunities because of ties they shared with the family, and they didn't do what they were asked so we had to bring in someone external that could complete the job... this over reliance on internal people can sometimes limit opportunities and affect expansion decisions.

Lastly, it should be stressed that these barriers may be experienced differently by different firms and are context-dependent, P9 exemplifies how firm size especially affects the degree of difficulty associated with building legitimacy, as big, global brands face way fewer obstacles in comparison to SMEs and startups, which are the ones struggling the most. Additionally, lack of structure and specialized staff in SMEs can undermine internationalization efforts, as the founder and employees of these firms usually take on multiple roles to compensate for the lack of resources (P1;P3;P6). As P3 explains: *"My role is... yes, I'm the founder. The signature says 'founder,' but when you're in an emerging company, I do everything, literally everything... the financial, commercial, and marketing strategy, I lead it, develop it, and do it all".*

Nevertheless, Latin-American firms were also found to have a unique strength and advantage over international competitors: resilience. Both P1 and P2 have outlined how conditions of instability, inflation and volatility in Latin-American economies foster significant operational resilience that is culturally embedded and is applied in business contexts. Moreover, dealing with constant uncertainties changes the perception of money from being an end to a tool, according to P1: *"One doesn't have to be afraid of failure...for me money exists to generate something, it isn't the ultimate goal in any way, it just measures your results but doesn't define a person",* outlining how resilience can redefine attitudes towards risk and become a strategic asset in internationalizations. Results will now be summarized by the remaining, most important themes.

4.2 Internationalization

Other than acknowledging the main challenges and barriers faced by Latin-American firms expanding abroad, this study wished to understand the motivations behind the decision to internationalize. First, one of the primary motives for Latin-American firms to internationalize is the economic volatility of their own countries (P1), by pursuing expansion, they are able to diversify risk and mitigate uncertainty. Also, shareholders' and investors' appetite influence

expanding decisions (P1,P2), as well as the initial idea the founder makes up about his/her firm and his/her ambition, because firms born to follow an international trajectory are more prone to internationalize and do that effectively (P3). As P1 recalls: *“I would take my suitcase, go to Mexico, and from the moment I arrived, I had to get in touch with people I didn’t know... it’s complex, but I was ambitious”*. In this regard, a particularly interesting finding is tied to the role the founder has in promoting internationalization, as the firm reflects the personality, limits, and decisions of its founder. In particular, psychological factors such as the loss of personal ambition and the willingness to stay closer to family can halt internationalization projects, and as P1 shared: *“Beyond the finances, not everyone has the emotional tools to face failure, and it’s very difficult to ask someone (business partner) to develop a plan for an internationalization that doesn’t give you any certainty”*, underlining how key actors’ emotions and personalities can play a greater role than other factors usually more discussed. Additionally, financial and market-driven factors also play a big role (P9), as firms recur to internationalization when domestic growth comes to a halt after becoming established enough and/or networks provide opportunities to do so, (P5) while a first attempt to expansion can be made following geographical proximity and is dependent on the availability of a firm’s resources (P7).

4.3 Social Capital

The data also show a strong tendency toward recognizing SC, trust, and networks as the lifeblood of international expansions. P9 regards networking as critical in today’s increasingly changing business environments for its ability to foster awareness and referrals: *“Networking and relationships matter because they get you on top of mind. Sometimes they also call experts like me to recommend companies as potential business partners”*. Moreover, combinations of personal and institutional relationships such as formal associations are said to accelerate internationalization (P3) by making available communication channels between firms, providers and government agents (P5), but also by generating knowledge as a result of informal exchanges between executives (P4), even though they work in different companies or even different industries. In this context, trust acts as the basis for the creation of SC as formal business relationships were found to become more effective because of the trust developed over time among the parties in relationships (P1;P4). Furthermore, trust is fundamental in the relationship between a firm and its suppliers, as P2 notes: *“regardless of the service, feeling support from the other side, from a relational perspective, sending an email or calling someone and having them answer and support you is very important”*. This is especially true in Latin-

America, where firms prioritize establishing a relationship with a counterpart instead of going directly into business talking (P6;P4). Nevertheless, although trust is particularly effective to open doors and initiate valuable relationships, business decisions are ultimately taken on the basis of proven reliability and ability to meet the KPIs of a firm and yield tangible results (P9) capable of sustaining relationships in time.

Another important finding is that the effectiveness of SC is dependent upon the context in which it is created. The specificities of a country and its culture, along the characteristics of certain political, social, and educational environments, make SC simply better at attaining business objectives under some circumstances in respect to others (P1). In this regard, culture shapes how relationships are formed, as P2 outlines: “*In colder countries, you probably won’t have the 2-3 hours business lunches you have in Mexico*”. From the interviews emerged that the contexts in which SC may be more effective are collectivistic and high-context cultures where SC mitigates the risks and uncertainties associated with the external environment (P4;P5). About networks, while informal relationships were found to be more effective in the initial stages of internationalization, professional engineering associations (P1), consultants with international experience (P4), trade fairs (P3), and bilateral chambers were the most mentioned formal partnerships aiding firms leading successful internationalizations and grow. As P9 stresses:

I believe bilateral chambers are a key element. I’ve seen this in Florida: bilateral chambers know the new market, the processes, the advisors, the people, and they know both sides... the country of origin and the host market. This saves companies a lot of time and increases efficiency.

4.4 Legitimacy

One of the aims of this paper is to contribute to the legitimacy literature and generate practical implications for Latin-American managers. The following chart exemplifies the strategies used by Latin-American firms to build legitimacy in foreign markets along the frequency with which they were mentioned among participants.

Key practices Latin American firms adopt to build legitimacy in foreign markets



Figure 6

Other than the strategies reported above, some particularly interesting contingent factors discussed by P1 should be mentioned. First, the European origin of a Latam firm adds credibility and makes it easier to achieve recognition, thus mitigating LOF and legitimacy challenges: *“In our particular case, since the origin of our company is European (Spanish), it was much simpler, because we attached ourselves to the image of the parent company”*. Moreover, it was found that the specific Latin-American country influences the weight of legitimacy challenges, in the case of Argentina:

Argentina was always considered as the Europe of the South, we are the most Europeanized of the American continent as our country is basically made up of European immigrants... culturally we are similar; and this conception is permanently present in people’s minds so it’s a bit easier for us, probably it would have been harder if were from... say Nicaragua.

Moreover, P6 reflected on the fact that Latin-American firms can experience a status booster and gain recognition from starting to do business with the United States: *“When we started doing business with the US, it was kind of a reward for us... we were already doing business across Latam, but entering the US market gave us a kind of status”*. This finding outlines how the United States market, considering also its relative geographical proximity, can be critical for the growth of Latam firms, nevertheless P6 also emphasized how difficult it can get due to biases: *“Before that, we were sending messages or trying to contact people in different companies...it was very difficult to even get an answer, they trust companies within their borders and maybe Canada and Europe, but not more than that”*.

Lastly, although it goes a little beyond the scope of this study, the existence of reversed legitimacy issues should also be acknowledged. In Ecuador, Ecuadorian firms face greater challenges gaining legitimacy domestically in respect to foreign firms because foreign products are regarded as having a higher quality, as P7 described: *“When you bring something from the outside, everyone is like “wow this has to be serious”. People tend to trust things from outside more than things from inside”*. Consequently, it was found that a foreign origin of Latin-American firms not only can enhance reputation and reduce legitimacy challenges abroad, but also domestically.

4.5 ESG, Sustainability & Social Responsibility

ESG commitment has been identified as a critical strategy to enhance legitimacy in foreign markets. P4, P6 and P9 highlighted how especially obtaining ESG certifications, adhering to the International Organization for Standardization (ISO), communicating the traceability of products and the ethical sourcing of raw materials is fundamental and enhances legitimacy. Moreover, implementing structured sustainable programs in local communities can benefit how consumers view organizations (P9). Nevertheless, ESG measures are still perceived with ambivalence throughout Latin-America, on one hand, consumers and younger professionals are becoming increasingly interested in the matter, on the other, the firm is still identified with its primary aim i.e. make profit, and when effort is devoted to ESG, it is still seen as a marketing strategy rather than as a conscious decision for sustainability (P1). Also, attention to ESG varies by region, if in capital cities education on sustainability is more common, as P1 puts it: *“You go 100km away and they don’t even know they have to separate plastic and organic waste”*. Also, Latin-American firms lack formal ESG policies and ESG efforts are still conditioned by costs, as P1 exemplifies: *“Always as long as it doesn’t make me lose money...if that effort makes you lose money, I don’t know if firms would take it”*. Nonetheless, a generational shift is happening, as P6 notes: *“Older colleagues get annoyed whenever they see that they have to fill in something about environmental impacts, however, younger employees view these commitments as essential”*. Lack of investment in ESG also results from the lack of institutional regulations and incentives, underlining how compliance varies with the host country in the case of internationalization, and depends on local regulations. P2 outlines how having a solid commitment to ESG is more critical for firms expanding outside of Latin-America:

Unfortunately yes, it’s more important when expanding to more advanced regions such as the US or Europe, where there are tax exemptions due to ESG policies. In Latam it’s not so relevant... there are no specific policies or significant tax efficiency to justify large ESG investments.

Taken together, these findings suggest that while ESG is emerging as a legitimacy enhancer in foreign markets, in Latin-America its adoption remains uneven, shaped by cost considerations, regulatory gaps, and conflicting views between older and younger generations.

5 Discussion

This paper investigated how Latin-American firms leverage SC to grow and acquire legitimacy in foreign markets as well as whether commitment to ESG can help firms build reputation faster.

The findings reported above confirmed that internationalization can be particularly beneficial for Latin-American companies, enabling them to diversify risk and mitigate volatility conditions in their home markets, consistently with the work of Velez-Ocampo & Gonzalez-Perez (2021). Nevertheless, internationalizing firms face barriers dictated by LOF, such as the initial lack of legitimacy resulting from operating in unfamiliar markets and the need to demonstrate credibility through certifications attesting their ESG involvement. Among them, there are also lack of organizational capacity, coordination difficulties, limited resources, and additional costs associated with logistics, transportation, and compliance to local regulations. This paper took a step forward and found LOE, as theorized by Velez-Ocampo & Gonzalez-Perez (2021), and adverse country of origin effects, such as negative stereotypes and stigmatization (Ritvala, Granqvist, & Piekkari, 2021), to be the primary barrier for Latin-American firms expanding abroad. At the same time, Latam firms were found to approach international expansions as a learning-by-doing process consistently with the findings of Johanson & Vahlne (2009) and to master some culturally embedded and distinctive capabilities such as adaptability, improvisation, creativity, and resilience resulting from being accustomed to operating in unstable contexts. Additionally, a strong orientation on relationship development facilitates trust-building and knowledge sharing, enabling Latam firms to identify and seize opportunities in foreign markets that may remain hidden to competitors, while equipping them with the ability to turn disadvantages into avenues for growth.

In Latin-America, personal relationships are prioritized before contracts and represent the first door to do business. In this context, SC was found to be of monumental importance, positioning trust as the main driver behind it. Personal introductions and formal connections such as chambers of commerce, business associations, and participation in fairs were all found to ignite successful internationalizations and create information channels able to facilitate future

collaboration in other, unrelated tasks (Putnam, 1994). Informal ties were found to be especially important during the initial stages of internationalization of SMEs, while for MNEs, a mix between informal and formal ties proved to be more effective for the long-term sustainability of the latter, as most of the times, MNEs suffer a reduced form of LOF because of being more established and known among consumers. Nevertheless, significant differences were identified between Latin-American and international firms, with the first ones still being plagued by disadvantages associated with their origin. Moreover, bridging SC as conceptualized by Burt (1992) was found to be the best alternative to gain a competitive advantage and mitigate the effects of LOF and stigma in foreign markets. This paper also extended the discussion initiated by Nahapiet & Ghoshal (1998) on the dimensions of SC. Structural and relational SC proved to be the most critical success factors in internationalizations, as the quantity of ties was said to best facilitate the establishment of operations abroad in respect to having close ties with fewer key individuals. Nonetheless, trust emerged as pivotal for the creation and sustainability of relationships as it helps overcome initial skepticism and induces acceptance, outlining once more why SC is so relevant for the development and growth of Latin-American firms in international markets. Although the conceptualization of psychic distance provided by Johanson & Vahlne (2009) remains valid, this study's findings highlight how psychic distance can become a minor factor for the success of internationalizations through the use of structural and relational SC. Specifically, the results' section outlined how choosing to internationalize to a particular country solely on the basis of a perceived reduced psychic distance between the latter and the home market can be misleading, this finding is also consistent with the fact that cognitive SC, which concerns the interpretations of a shared reality and perceived similarities between entities, or, in this context, countries, was described as the least determinant factor for the success of internationalizations.

A firm is legitimate when its actions are considered as desirable, proper, or appropriate within some socially constructed system (Suchman, 1995). Firms able to create and leverage SC in the early stages of internationalization are most likely to produce advantages and mitigate LOF in foreign environments, but findings outline how, is only through repeated interaction and proven results that sustained competitive advantages can be reached. Beyond proven performance, product adaptation to local necessities and the use of case studies and testimonials were found to foster pragmatic legitimacy. It is also possible to argue that SC can significantly contribute to the development of the latter. In fact, while bridging SC offers the possibility to reach several international counterparts and develop intelligence about foreign markets facilitating

opportunity recognition, bonding SC allows firms to leverage trusted partners and closely-knit networks to mitigate challenges and bypass institutional complexities arising in the local environment, providing reliable support. Consequently, SC proves to be an effective tool to reassure stakeholders that the firm is meeting their interests and addressing their needs. Moreover, although Latin-American firms are rarely taken for granted abroad, communicating a consistent brand identity, using testimonials and mass marketing can direct such firms towards the achievement of cognitive legitimacy, however, it is likely to be a long process because of the negative effects produced by LOE. Lastly, commitment to ESG principles, ethical sourcing and community value creation are argued to enhance moral legitimacy. However, it was demonstrated how this finding may be more relevant for Latam firms expanding in more sustainability-sensitive and regulated markets such as Europe, while moral legitimacy may not constitute an equally critical differentiator in Latin-America, where the primary function of the firm is still identified with making profit, and regional differences in implementation and contrasting perspectives across generations make social responsibility and sustainability issues less relevant, as well as the lack of financial incentives to foster ESG effort such as tax efficiencies.

5.1 Theoretical Implications

This study significantly contributes to the literature on EMNEs by outlining how SC can be leveraged for successful internationalizations and legitimacy can be obtained abroad despite LOF and LOE. First, legitimacy building should be theorized as a multi-stage and multi-dimensional process. Latin-American firms were found to rely on SC to spot opportunities abroad, ease internationalization, and enhance pragmatic legitimacy. However, if networks grant an advantage, only proven results and tailored market strategies are able to sustain it. Another interesting contribution regards the role played by founders' attitudes and psychological factors in shaping firms' international trajectories, which appears to be mostly disregarded in the literature on internationalization. Additionally, this research demonstrated that SC is context-dependent and is most effective in collectivistic and high-context cultures, where it may be employed to substitute for the lack of other resources in volatile environments. Country of origin effects also emerged to be context-dependent, as they vary across Latin-American countries, with Mexico and Argentina presumably encountering less difficulties in establishing legitimacy abroad in respect to other Latam countries. Lastly, ESG commitment,

although treated with somewhat skepticism in Latin-America, was found to be a significant legitimacy enhancer abroad.

5.2 Managerial Implications

This study wished to formulate some practical guidelines for founders and managers of Latin-American EMNEs. First, legitimacy-building processes abroad should be thought as a funnel and planned and implemented in stages. Instead of expecting immediate profitability and contracts, considerable investment should be directed at fostering trust with counterparts and relationship-building, followed by clearly communicated and transparent performance reports. The use of testimonials and case studies is also suggested at this stage. Moreover, founders should also be aware of how their personalities and perceptions shape the paths of their firms, thus, investing in personal development may be equally relevant as their ability to raise other forms of capital. Additionally, one barrier experienced by EMSMEs operating abroad stands in the lack of coordination and skilled staff because of founder and employees covering multiple roles in initial stages, consequently, it might be beneficial to invest in early coordination mechanisms and find the best possible allocation of tasks. Regarding SC, networks should be balanced carefully, as bonding ties can represent trustworthy references and help mitigate uncertainty but bridging ties are more likely to be effective at providing a greater overview of foreign markets and for opportunity recognition purposes. Moreover, closed networks such as family ties are associated with strengths and weaknesses, as such, hybrid governance structures that combine family involvement and external parties are auspicated. Lastly, managers should focus on implementing credible ESG practices effectively through the achievement of at least one certification and a tangible local initiative that, while keeping costs contained for SMEs, function as a legitimacy enhancer.

5.3 Limitations & Future Research

This research is subject to limitations. First, the sample that could be obtained by the researcher is limited in size and scope and does not capture perceptions from all Latin-American countries. Similarly, although the experiences of officials working in different industries and in firms of different sizes provide valuable evidence for an exploratory study such as this one, they prevent full generalizability of results. Thus, future studies on SC and legitimacy are urged to integrate qualitative and quantitative designs, as suggested by Krishna & Shrader (1999). Moreover, as findings relied on self-perceptions and SC is informal and mostly tacit, the possibility of biases

should also be acknowledged. This study offered several starting points for further research, among them, are assessing how the mechanisms described affect specific internationalization strategies like exports, joint ventures, or establishing subsidiaries; how psychological factors especially associated with ambition, failure and risk tolerance shape firms' internationalization trajectories, and finally how Latin-American firms expanding to specific markets such as Europe or the US, which proven to be increasingly regulated and more psychically distant experience legitimacy challenges and make use of SC.

6 Conclusion

This study explored SC's role in ensuring successful internationalization processes and aiding the legitimacy-building processes of Latin-American firms in foreign markets, as well as whether commitment to ESG practices could pose as a legitimacy enhancer. The findings shed light on a dual reality, while expanding internationally offers the opportunity to diversify risk and circumvent unfavorable domestic environments, it is also true that Latin-American firms face giant barriers resulting from LOF, stereotyping and stigmatization, other than resource constraints. Nevertheless, this paper found that despite these unfavorable conditions, these firms are equipped with unique resilience and adaptability stemming from doing business in volatile economies. Moreover, their strong orientation towards relationship-building before business makes SC the perfect ally which, through trust, eases entry and contact with valuable counterparts in foreign markets. Yet, although it was found to enhance pragmatic legitimacy, the employment of specific legitimacy strategies and a strong orientation on results and financial performance were found to be crucial to make firms fully recognized abroad. ESG commitment emerged as a controversial theme, increasingly valued abroad but inconsistently adopted at home. It has been shown how this research conceptualized legitimacy as a multi-stage process while it demonstrated the effectiveness of SC across different institutional settings in collectivistic cultures. Yet, the stories behind the international expansions of Latin-American firms teach us an important lesson on not having to fear failure and disadvantages imposed on us by the external environment, but rather turn our weaknesses into strengths, always remembering that: "In internationalization as in life, no growth can happen by walking on a straight line, it happens through learning by doing, sometimes by falling, and always by getting back up again" (P1).

7 Bibliography

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8 Appendix

8.1 Network structure for Social Capital

For the purpose of clarifying the conceptual confusions associated with social capital, it appears relevant to mention two other tensions in the literature that have been dividing scholars for the past decades. First, it should be clear by now that social capital's effectiveness in achieving actors' goals is strongly dependent on the existence of networks. In reality, a network per se, especially in the case of corporate actors is made up of both formal and informal connections which, in this paper, may also be referred to as institutionalized and personal relationships. As noted by Li (2007), the unique and critical mix between these formal and informal elements has been strangely neglected by the literature on social capital and related topics, and most scholars have evoked these terms without explicitly defining them or contextualizing them. To address this matter formal connections are hereby referred to as structured, institutionalized ties that are fostered and facilitated via a defined group that has been created to obtain to a clear purpose, often involving contracts or a type of membership. Examples include organizations and business associations they promote, formalized relationships between supplier and client, B2B networks, formal partnerships, and relationships with regulatory bodies governed by explicit rules, official agreements and compliance requirements. In turn, informal connections are defined as personal relationships that are in most cases created as a product of chance or specific circumstances through informal channels and usually lack a clear purpose for their establishment as they are more based on casual, informal social ties such as sympathy and friendship. These types of connections find their foundation in reciprocal trust, affection, and personal rapport lacking formalized agreements able to explain the reason behind their existence. As already stressed, the discussion on formal vs informal connections is vital for the understanding of social capital's functioning and the definitions formulated above surely help in narrowing it down. Nevertheless, the inherent ambiguity and difficulty in providing clear-cut definitions should always be recognized. Realistically, boundaries between the two are blurred. That is, formal connections may, through time, evolve into personal ties as a result of repeated interactions and the formation of trust, underscoring that social capital is a dynamic construct which is inevitably shaped by context, use, and the history of the relationships in which it is embedded.

Although previous scholars have failed in theorizing a sound theoretical framework for the distinction of formality and informality in social capital literature and both forms of connections are recognized in facilitating access to valuable resources and opportunities, there appears to be a predominant consensus in identifying social capital as informal in nature (Li, 2007; Coleman, 1988; Portes, 1998; Woolcock, 1998). This is the case because both the rights and obligations of social capital are implicit rather than explicit (a favor made today may or may not be reciprocated tomorrow in times of need across diverse settings, creating a flexible expectation about the costs and benefits of those exchanges). Thus, social capital cannot be enforced by formal mechanisms, differentiating it from human capital and financial capital (Adler & Kwon, 2002), (Li, 2007). The latter puts it in simple terms by acknowledging that formal access to other's resources is not social capital, only informal access to favor is.


The second tension in the literature is given by little agreement on the most appropriate structure of social networks for social capital (Li, 2007). While some emphasize the benefits associated with strong bonds created in dense and closely-knit local groups (Coleman, 1988), others lean more toward the idea that an open, vast and global social network is expected to yield an increased number of benefits for social capital (Burt, 2001; Adler & Kwon 2002). These perspectives will be analyzed in turn.

All social relations and social structures help the development of social capital, however, according to Coleman (1988) the closure of networks is a predominant condition for their correct functioning, that is because strong social ties help establish norms, manners, and expectations about what types of behavior are to be rewarded, and which are to be punished or sanctioned. Moreover, a closed network will generate a level of trustworthiness among members that is not expected in an open structure (Coleman, 1988). This focus on internal ties within collectivities has been referred to as bonding social capital. On the contrary a focus on external linkages between networks is known as bridging social capital in the literature (Adler & Kwon, 2002).

Burt (1992) has been the main promoter of a bridging form of social capital as the best alternative to gain a competitive advantage and ensure the long-term profitability of firms, arguing that the presence of loose ties or the relative absence of the latter, which he defines as structural holes, are essential in facilitating individual mobility. The foundational idea behind this statement is that dense networks tend to convey redundant information, while weaker ties

can make access to new knowledge, resources, and opportunities possible (Portes, 1998). Consequently, structural holes create a competitive advantage for an individual whose relationships span the holes (Burt, 2000). Moreover, as argued by the author, people on either side of a structural hole circulate in different flows of information making structural holes an opportunity to broker the flow of information between people, and control the projects that bring together people from opposite sides of the hole. This paper considers bridging social capital as a more modern view of network structure in social capital, as it appears better suited for today's everchanging, dynamic business environments which, are governed by uncertainty and face increased complexity as a result of globalization and the establishment of multinationals, underlining the necessity of operating across borders while remaining alert to emerging business opportunities in both domestic and international markets.

8.2 Table 1: Interview and participants' specificities

| Participant Identifier | Sector | Position Type | Nationality | Firm Type | Internationalization |  (h:m:s) |
|-------------------------------|--------------------|----------------------|--------------------|------------------|-----------------------------|---|
| P7 | Exports | Founder | Ecuadorian | MNE | Yes | 00:30:00 |
| P3 | Cosmetics | Founder & CEO | Colombian | SME | No | 01:00:15 |
| P1 | Software providers | Founder & CEO | Argentinian | SME | Yes | 01:55:28 |
| P8 | Consulting | Employee | Mexican | MNE | Yes | 00:38:75 |
| P6 | Chemical products | Employee | Uruguayan | SME | Yes | 00:49:78 |
| P5 | Energy | Employee | Peruvian | MNE | Yes | 00:36:02 |

| | | | | | | |
|-----------|--------------------|---------------------------------|-------------|-----|------------|----------|
| P9 | Consulting | Internationalization consultant | Guatemalan | MNE | Irrelevant | 01:03:43 |
| P4 | Dairy products | Employee | Colombian | MNE | Yes | 01:24:06 |
| P2 | Financial services | Founder & CEO | Argentinian | SME | Yes | 01:39:00 |

8.3 Interview Protocol

Opening

Hello and welcome to this interview, thank you so much for taking the time to participate in this study. This conversation forms part of the investigation process for my master thesis. For the latter, I am investigating the role that social capital plays in easing international expansions and whether it can help the reputation and legitimacy-building processes that Latin-American firms undertake upon expanding internationally, as well as if a firm's orientation and commitment to environmental, social, and governmental practices poses as a legitimacy enhancer in foreign markets.

I would like to inform you that your participation in this study is completely voluntary and anonymous, if you feel the need to, you may withdraw from this interview at any moment in time. All the information shared in this space will be treated with strict confidentiality.

This interview will be recorded for transcription purposes and allow data analysis. I will be the only one to have access and use the transcription of this interview, the latter and the data it contains will be protected and will be deleted once the study is finalized.

Do you have any questions before we begin?

1. Section I - Interviewee and interviewee's company specificities

1.1 Could you briefly describe your role inside the company you work for? And what is the business sector your company operates in (ex. logistics, beauty, consulting etc.)

1.2 Could you briefly highlight where your company was founded and its internationalization profile?

2) Section II - Social Capital

2.1 In your experience, how important are professional networks, institutional contacts, and personal relationships for firms to be successful?

2.2 From your perspective, which type of professional relationships have been most valuable for your company's success: formal connections created through formal channels, such as official, contractual partnerships, or informal connections characterized by a personal relationship?

➔ *Informal connections are naturally associated with relational social capital (Nahapiet & Ghoshal, 1998)*

2.3 In carrying out your business activities and pursuing strategic goals, how important is personal trust compared to professional reliability when choosing external stakeholders? (business partners, suppliers, local agents in international contexts, service providers, distributors, consultants etc.)

➔ *Relevance and reliance on relational social capital*

2.4 Have you experienced cases where formal partnerships became more effective because of developing personal trust over time?

➔ Potential to show that formal networks can evolve into relational social capital and be more effective.

2.5 To what extent do you feel that the people and organizations your company works with share similar paradigms, values, goals, or ways of working with your company?

➔ Assesses cognitive social capital

2.6 In your view, is social capital (*defined briefly as the networks, formal or informal, an individual or an organization has*) more useful and effective in reaching organizational goals faster in certain contexts and in certain countries in respect to others?

➔ Potential to unveil whether Latin-American firms have the tendency to rely more on social capital in absence of other type of resources or to navigate increased complexity in their business environments.

3. Section III - Internationalization

3.1 In your experience, based on which factors, an organization takes the decision to expand its international presence? (let that be exports, opening a subsidiary etc.)

3.2 In your view, based on which factors a geographical location is preferred to others when considering expansion?

→ Potential to unveil the relevance of cognitive social capital (shared values, language, paradigms, culture between an organization's "home country" and international destination). Might also unveil whether the presence of diasporas plays a role in the decision.

3.3 In the context of Latin-American firms: How important can social capital be for a successful expansion abroad?

3.4 For a successful expansion, which of the following would you say helps the most and why?

a) having a substantial network of acquaintances;

b) knowing key individuals in your destination market who you can trust (could be policymakers, potential business partners...);

c) the fact that your country and the country of your destination market share similar culture, values and language and/or a diaspora is present?

4. Section IV - Legitimacy

4.1 Do/Did you feel that being recognized as legitimate and gain reputation in a foreign market is/was a challenging task when your/a company expanded/expands abroad?

→ Addresses whether companies expanded abroad really face legitimacy challenges

4.2 In your opinion and experience, what's the best and most rapid path to achieve legitimacy and build reputation when a certain type of internationalization is taking place?

Follow up: In the case of your company, how was it achieved? What role did social capital play in attaining this goal, if any?

4.3 In your view, would you say it is harder for Latin-American firms to be seen as legitimate, trustworthy, competent and build reputation in foreign markets in respect to other countries' firms? Why?

5. Section V – ESG effort profile

5.1 Could you briefly discuss the effort and engagement of your company in assessing, measuring, and integrating environmental, social, and governance principles into your business strategy and operations?

Follow up: Do you feel that demonstrating a solid ESG commitment is more relevant when international expansions are directed outside of Latin-America rather than within the region? Why?

Closing

Thank you so much for sharing your perceptions and experiences with me, the insights you gave me are particularly important for the development of this research. Is there anything else you wish to add or have any questions?

8.4 Table 2: Summary of Themes

| <u>THEME / SUB-THEME</u> | Number of participants who discussed this theme | Total number of times the theme was discussed |
|--|--|--|
| Motivations, Limitations, and Practices of Internationalization | 7 P1, P2, P3, P4, P6, P7, P9 | 35 |
| <i>Motivations and Limitations</i> | 7 | 20 |
| <i>Market Choice Factors</i> | 6 | 12 |
| <i>Expansion Practices</i> | 6 | 15 |
| Social Capital & Networks | 9 (all) | 60 |
| <i>Entry Point for Business</i> | 8 | 18 |
| <i>Trust as a Central Axis</i> | 8 | 35 |
| <i>Effectiveness of SC depends on Context</i> | 6 | 10 |
| <i>Types of Networks</i> | 7 | 12 |
| Legitimacy for Latin-American firms | 9 (all) | 55 |
| <i>Challenges for Latin-American firms</i> | 7 | 18 |

| | | |
|--|---------------------------|-----------|
| <i>Mechanisms for Building Legitimacy</i> | 8 | 20 |
| <i>Country of Origin Effects</i> | 8 | 12 |
| Founder related factors | 3 (P1, P3, P7) | 18 |
| Cultural factors & regional context | 5 (P1,P3,P4,P6,P7) | 12 |
| ESG, Sustainability & Social Responsibility | 9 (all) | 30 |
| <i>Latin-American Perceptions of ESG</i> | 6 | 12 |
| <i>ESG as a Legitimacy Enhancer</i> | 7 | 18 |
| Resilience & Learning by Doing | 5 (P1,P2,P3,P6,P8) | 12 |
| Organizational Structure & Coordination | 4 (P1,P3,P6,P7) | 10 |

8.5 Sample Coding

| <i>Excerpt</i> | Respondent(s) | Code | Theme | Sub-Theme |
|---|----------------------------|---|---------------------------|--------------------------|
| <i>“In general, in Latin America personal relationships are more important to reach a point in business, obviously in the first instance it's the social relationship with someone who might open a door for you”</i> | P1, P2, P3, P4, P5, P6, P9 | In Latin America, personal relationships are usually the first gateway to do business | Social Capital & Networks | Entry Point for Business |
| <i>“At the beginning, often informal links, such as a supplier connecting you with another is useful, it facilitates introductions and accelerates contacts and business connections”.</i> | | | | |
| <i>“If it's hard in your own country imagine internationally...I had to knock on many doors and call many people I know to create useful partnerships and get help”.</i> | | | | |

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| <p><i>“Before doing business, they ask about family, what you like, your free time... this is how business relationships are conceived here, and it is good because this means that you make personal relationships that could help you in the future as well...you never know”.</i></p> | | | | |
| <p><i>“In South America they need trust and personal relationships before even start doing business sometimes...let’s say, if a company wants to carry out an external project and I don’t know, they have different contacts that can provide information about providers or government contacts that might be useful for specific purposes...Sometimes projects are easier or like more successful if you know the right people and they are not always internal to the company”.</i></p> | | | | |
| <p><i>“We don’t tend to find a business partner and just go directly into business. We kind of try to establish a relationship first”.</i></p> | | | | |
| <p><i>“For us I would have to say that personal relationships are the ones that matter the most and the ones</i></p> | | | | |

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| <i>that you look at first”.</i> | | | | |
| <i>“Especially for start-ups or SMEs, personal contacts are crucial, they act as references and open doors”.</i> | | | | |
| <i>“In [company] we worked with a consultant who was ex P&G, Venezuelan, but lived in China for 20 years. His input was very solid for the company and expansions”.</i> | P4, P9 | Consultants with international experience provide critical knowledge for expansion in foreign markets | Social Capital & Networks | Types of Networks |
| <i>“Relationships are important because they get you on top of mind. Someone might also call an expert like me to recommend companies as potential business partners”.</i> | | | | |
| <i>“It’s what your clients say about you. Testimonials and case studies are crucial; they are your influencers and it’s about demonstrating your results to clients and transmit them trust”</i> | P9, P5 | Communication through testimonials and or success stories helps build legitimacy and fosters trust in foreign markets | Legitimacy for Latin American Firms | Mechanisms for Legitimacy-Building |
| <i>“Communicating to the target or new clients past success stories is important so that they understand who you are, what you bring and why you have been successful in other places. They show that the company understands</i> | | | | |

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| <p><i>locals and is trying to offer something that relates to them building trust from the beginning”.</i></p> | | | | |
| <p><i>“Sometimes they don’t trust Latin American projects as much, or it’s harder to trust Latin American projects in respect to European or American ones”.</i></p> | <p>P2, P4, P7, P8, P9</p> | <p>Latin American firms face additional barriers dictated by skepticism (LOE)</p> | <p>Legitimacy for Latin American Firms</p> | <p>Challenges for Latin American Firms</p> |
| <p><i>“[company] is like five times the size and products of Nestlé right? But it doesn’t have the same reputation that Nestlé has around the world...Latinos can be seen as less hard-working, more into partying and not focused, so of course that also has an influence”.</i></p> | | | | |
| <p><i>“Unfortunately yes, it’s just generalization. People don’t trust Latin America as much as Europe or North America”.</i></p> | | | | |
| <p><i>“Yes, partly due to stereotypes that Latin Americans aren’t hardworking, trustworthy, or diligent. But this is not true for everyone”.</i></p> | | | | |
| <p><i>“Generally, Latin American firms face challenges due to perceptions about reliability and compliance</i></p> | | | | |

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| <p><i>compared to Germans, Japanese or Americans”.</i></p> | | | | |
| <p><i>“I don’t think that my generation will change much...those who come next are starting to have some awareness...I think that with them things can improve”.</i></p> | <p>P1, P6</p> | <p>Perceptions on ESG practices and sustainability vary across generations</p> | <p>ESG, Sustainability & Social Responsibility</p> | <p>Latin American Perceptions of ESG</p> |
| <p><i>“My older colleagues get annoyed whenever they see that they have to fill in something about environmental impacts, however, younger employees view these commitments as essential”.</i></p> | | | | |