The Importance of Trust for Entrepreneurial Internationalization: Evidence from Mexico

This article presents six case studies, based on unstructured in-depth interviews with CEOs from small and medium-sized Mexican companies, to explain why and how trust is relevant for internationalization. These firms suffer from negative stereotypes about their culture and the country’s legal system, which creates a lack of individual and institutional trust. Therefore, we argue that mistrust is an additional barrier to entrepreneurial internationalization in the case of Mexico, and likely in the case of other developing countries. Other implications and specific findings are discussed.

Este artículo presenta seis estudios de caso, basados en entrevistas no estructuradas con directores generales de pequeñas y medianas empresas mexicanas, para explicar por qué y cómo la confianza es relevante para la internacionalización. Estas empresas sufren estereotipos negativos sobre su cultura y el sistema legal del país, lo que crea una falta de confianza individual e institucional. Por lo tanto, argumentamos que la desconfianza es una barrera adicional a la internacionalización empresarial en el caso de México, y probablemente en el caso de otros países en desarrollo. Se discuten otras implicaciones y hallazgos específicos.

DOI: 10.58416/GCG.2023.V17.N3.04  Received 28.01.2023  Accepted 26.04.2023
1. Introduction

Little is known about international entrepreneurship in developing or emerging countries (Leite et al., 2016; Ngoma, 2016; Shirokova & McDougall-Covin, 2012; Zahoor et al., 2023). In Latin America, only a few articles explore this topic (Leite et al., 2016; Lopez & Alvarez, 2018). Moreover, these studies do not discuss the particularities that hinder or favor the internationalization of companies from these countries (Lopez & Alvarez, 2018; Watkins-Fassler & Rodríguez-Ariza, 2019). Therefore, this article aims to study the process of entrepreneurial internationalization in Mexico (a country with a wide network of free trade agreements), asking whether specific variables affect Mexican companies’ business internationalization.

We advance that for Mexico—and for many other entrepreneurs in developing countries as well—trust is a fundamental variable for a successful internationalization process. For this discussion, trust is understood as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis, & Schoorman, 1995: 712).

Perhaps the importance of trust has not been properly incorporated into the previous literature because it mostly focuses on developed countries (Kahiya, 2020; Zahoor et al., 2023), where entrepreneurs originating from these countries do not confront negative stereotypes, and where the legal system and institutions regulating business are much more robust and reliable than in developing countries, i.e., there is no a lack of individual and institutional trust. However, because of recent changes in the international order, frictions between domestic and international institutions have been emphasized in the process of internationalization (Hua et al., 2022). Moreover, the relevance of trust for the internationalization of companies from emerging countries has been obscured by the analysis of social capital, networking, and/or ties (Leite et al., 2016; Ngoma, 2016; Shirokova & McDougall-Covin, 2012; Trigkas et al., 2021).

In contrast, this research claims that the role of trust in the process of entrepreneurial internationalization is highly relevant in the case of firms from developing countries, as noted in domestic entrepreneurship (Mangeloja et al., 2022). We focus on Mexican firms to support this claim, showing evidence of a lack of institutional trust and negative stereotypes, e.g., dishonesty and laziness, negatively affecting individual trust. In the case of Mexico, and despite its large role in international trade, it is anticipated that companies, especially SMEs, must overcome this lack of trust to be able to succeed in the process of entrepreneurial internationalization (in addition to all the other factors previously identified in the literature). Accordingly, the evidence presented here favors this claim, which is supported by six case studies based on unstructured in-depth interviews with six CEOs from Mexican SMEs.
2. Brief Literature Review: The Role of Trusts

Entrepreneurial internationalization is “the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services” (Oviatt & McDougall, 2005: 540). The common elements among several definitions suggest that internationalization is a process by which firms coordinate and conduct different business activities in several countries (Jones et al., 2011; Nummela et al., 2022). Overall, innovation (Do et al., 2023), risk-taking (Hunt et al., 2023), and proactivity can accelerate internationalization when combined with precise knowledge of foreign markets (Galdino et al., 2019) and the correct creation of networks to detect and exploit opportunities, including the case of global start-ups (Zahoor et al., 2023).

However, our knowledge of the process of entrepreneurial internationalization in developing countries is scarce (Leite et al., 2016; Lopez & Alvarez, 2018; Ngoma, 2016; Shirokova & McDougall-Covin, 2012; Zahoor et al., 2023) and the major findings agree with the well-documented cases in developed countries (Jones et al., 2011; Kahiya, 2020).

Here, we argue that, in addition to other confounding variables, trust is a key variable to understand entrepreneurial internationalization. In Russia, social networks play a minor role in the process of internationalization (Shirokova & McDougall-Covin, 2012), which disagrees with the major findings in many other countries. Nevertheless, honesty and trust —necessary for building networks, and vice versa— seem to be relevant. Another example of the underestimated role of trust is the guanxi relationship in China, a key variable explaining the business success of foreign entrepreneurs (Ngoma, 2016). Trust is relevant for the development of guanxi relationships, yet the independent role of trust in internationalization is underestimated because it is mainly treated as an indicator of the intensity of the guanxi relationship. Similarly, in Brazil, the evidence suggests that social networks are highly important not only to start the process of internationalization but also for its development and maintenance (Leite et al., 2016). However, the role of trust is once more undervalued and treated as a moderator of the effects of networks.

It is easy to agree with the moderator role of trust; we can even recognize reverse causality between networks and trust. However, the motivation of the current research is the lack of empirical evidence on the direct effects of trust in the process of internationalization. Having said this, the literature has recognized two main sources of trust (Smith & Lohrke, 2008), which are also relevant to the process of internationalization. The first one is the genuine affective bond that one of the parties wishes to establish with the other. Such a personal level of trust would overcome, for example, initial doubts about a potential supplier to sell goods to a newly established company that lacks the proper credit record. The second source of trust is derived from a cognitive choice. The supplier (or customer) may not be fully receptive to the efforts of the newly established company to develop a personal relationship, but after making inquiries to review the collateral (e.g., the deed for a property or the credit line in his or her credit card) the supplier (or customer) chooses to trust, legitimating the business.

If potential foreign partners do not perceive the newly established companies as trustworthy, it would be more difficult and lengthier to establish the formal ties and strong networks that companies seem to need to internationalize (the moderator role underlined above). For our research, this would suggest that Mexican entrepreneurs not only have to overcome the liability of newness (Abatecola et al., 2012), but in addition, they also have to address the perception that their efforts to build personal rapport may lead to
illegal activities, since the institutional quality in Mexico can be considered weak, or because of negative stereotypes of Mexican culture, resulting in a lack of trust —institutional and individual— that must be resolved to launch the business.

Note that trust is also treated as a proxy of social capital, à la Putnam, in the sense that it allows members of a certain society to trust one another (Mangeloa et al., 2022; Putnam, 1995), removing the incentives for cheating and misbehaving, and thus facilitating economic growth and business opportunities (Putnam, 1995). Trust is essential for developing social capital or networks, as it is for launching new ventures, but individual and/or institutional trust is also an autonomous variable playing a major role in the process of internationalization, at least in countries with a lack or low levels of institutional trust. Accordingly, in the case of Mexican companies, we wonder whether or not internationalization is limited by trust.

3. Methodology

The question is why and how trust directly favors or hinders the internationalization of Mexican companies. To answer these types of questions, the case study is an accurate method to use (Yin, 2017). Moreover, case studies were used before to study the role of networks in Russia (Shirokova & McDougall-Covin, 2012), China (Ngoma, 2016), and Brazil (Leite et al., 2016). Accordingly, based on unstructured in-depth interviews,² we present the cases of six Mexican companies.

The participants are five men and one woman, all of them owners and CEOs of their companies, between 40 and 55 years old. For the selection of the cases, special attention was paid to the balance between traditional entrepreneurs in the manufacturing sector, entrepreneurs in the service sector (particularly in technological services), and entrepreneurs of more intangible activities (commercialization of products through simple import and export operations of finished products). It was also important to find participants with experience in several countries. Although Mexican entrepreneurs are naturally attracted to the US market, the interviews were conducted with people who, in addition to having extensive knowledge of the US market, also had experiences in other countries, such as Canada, European, Latin American, and Asian countries. Finally, without underestimating the success of Mexican multinationals, we focus on SMEs, because they are more representative of the average Mexican entrepreneur.
4. Case Studies

4.1. Case 1: Kurago Biotek

Kurago Biotek is a food biotechnology company that creates probiotics for health and nutrition purposes. Mr. JA, its CEO, agreed to speak in a deep interview. Kurago Biotek was founded in 2006, and they have 17 patents related to their products, processes, and applications in England, Germany, France, Italy, Spain, Austria, the US, Brazil, and Mexico, with offices in Mexico, the US, and Germany.

Their mission is to apply high technology in fermented foods for the health, nutrition, and well-being of human beings, and to ferment Mexican ingredients and bring them to the world. They internationalized almost immediately after founding because the company needed to internationally protect its intellectual property in the biotechnology area. Kurago Biotek has been the subject of several recognitions and awards regarding biotechnology. The company is convinced that biotechnology will mark the progress in economic, scientific, and technological matters as well as the very social and psychological behavior of people; in their words, biotechnology will be as influential as was electricity in its time.

Its internationalization process began with technology transfer to the locations where they conducted their initial operations. In Europe, they chose Germany to start their internationalization process because it is the most regulated country in the European Union, and the company felt that a product made in Germany would have a high prestige and value for the European market, increasing the possibilities of success in the rest of the continent. The next country where they internationalized was the US. The geographical proximity to Mexico and the fact that it is the largest economy in the world made the US a naturally attractive market. A decisive factor in the internationalization process was that such geographical proximity allowed family members of the partners to relocate to those markets to manage the offices in those countries.

In this case, we should note how an important factor in the company's decision was the fact that relatives could move to the selected expansion market. At some point, the company was considering expanding to Japan, the world's largest market for fermented foods, but the decision was disregarded because no family member was willing to relocate there to manage the business.

Regarding trust, Mr. JA mentioned an anecdote when he flew to China to participate in a biotechnology course. He was warned not to trust the Chinese, but once he arrived in Shanghai, he realized that the Chinese deserved his trust and respect, and also understood that Germans may hold the same preconceived perceptions against Mexicans as he initially did towards the Chinese. He further mentioned that to do international business, building trust based on the respect and admiration of the other culture is paramount. He argued that the company may have the best products, the best processes, and the best employees, but if it does not trust the other culture, in turn, the company does not earn trust from the potential partners at the other end of the deal, and internationalization may fail. He also mentioned that learning the language of your business counterpart could help to build their trust and better understand their culture. Moreover, even if that particular venture does not succeed, learning the culture and the language would be valuable for future attempts.

Kurago Biotek's CEO strongly stated that it is the company that internationalizes, not the entrepreneur. At the end of the day, the mix of products/services and their value-added are backed by a company image that goes beyond the individual businessman. "What happens", he insisted, "if the entrepreneur dies? The company must have a contingency plan that allows the internationalization process to continue if..."
the person in charge dies*. Finally, he recommends that companies seeking to internationalize should be humble enough to recognize their limitations and not make assumptions about the scope they can have in their internationalization process.

4.2. Case 2: MBGE

MBGE is a company founded in 1999. Mr. JMB is the CEO and the interviewee. MBGE is a Guadalajara-based IT solutions company that has customers from all over the world. MBGE won the Mexican National Export Award in 2017. They also have a partnership with Amazon Web Services for Mexico.

The internationalization of the company dates back to 2001. Mr. JMB considers his company to be international not only because he has customers around the world, but also because those customers engage in international trade (imports/exports) to different countries. He mentions that being a company dedicated to information technology and selling something intangible such as specialized services provides his company the advantage of being able to serve any company, of any size and in any circumstance around the world. However, this same advantage implies that they must compete in a much more fierce and dynamic market since they go against companies that may as well be from Canada or Vietnam. He also considers that the main dimension where the competition takes place is human resources since a person who works in his company can equally perform in any other company in the world that is dedicated to the same line of business.

Indeed, the software created at MBGE is fabricated specifically to address operational problems that foreign trade companies face daily. Being so specialized and unique, solving problems leads the company to often find serendipities; that is, customers would ask the company to apply the software and its solutions to other plants in other regions of the world where the customer also operates to see if the results are the same.

Mr. JMB described trust as an absolute and exceedingly important quality, especially for an international IT solutions company. He accepts that while trust is now one of their main organizational values, it was not so at the beginning; the company did not explicitly incorporate trust as an organizational value until 2019. The company decided to do so inspired by the trustworthiness equation, first introduced by Maister, Green, & Galford (2000). Accordingly, trustworthiness in a company is the sum of credibility, reliability, and intimacy divided by self-orientation.

Mr. JMB considers that because of such emphasis on trustworthiness building, his company did not lose any customers during the Covid-19 crisis. He believes that in an internationalization process, it is the person who internationalizes and not the company because people are what make a company grow: if people have a mentality of greatness, they will make the company grow and make it international. If, on the contrary, they have a small mentality, the company will not expand.

Finally, he firmly believes that Mexican companies can also be successful by always complying with the rules, and laments the perception that in Mexico you can only be successful “if you cheat”.

4.3. Case 3: Managed Strategies

Managed Strategies is a Mexican company owned and run by Mrs. CH, an American citizen who lives in Guadalajara, Mexico. Managed Strategies was founded in 2008 to act as a liaison between US
companies doing business in Mexico and Mexican companies doing business in the US. Mrs. CH is Mexican-American, so her ethnic background enables her to understand US and Mexican companies’ different needs. She was also at some point the US representative for the state of Utah in Mexico.

Her first project was with a company located in Monterrey in the information technology industry. This company wished to sell its services in the US and needed someone to help it identify sources of investment in the US to attract clients. They also needed someone who understood how Americans and Mexicans think in order to build trust between the two sides and act as an open channel for both distribution and communication.

In her opinion, most Mexican companies want to internationalize, especially SMEs, but those companies erroneously believe that this can be done simply by hiring a company to conduct the process. In her words, the reality is much more complex, since that company will need resources to carry out the internationalization process, which the Mexican firms generally do not have. There are many costs to consider, including time and financial resources. Often Mexican companies want to internationalize but are not willing to invest accordingly. In a few words, she believes that companies on both sides of the border are simply much more optimistic in their internationalization goals than reality would suggest.

She believes that Mexican SMEs are in a very difficult position to internationalize. They do not have the support of the government, and thus they must manage all sorts of complications with payments, suppliers, credits, connections, information, advice, and in general the difficulties of starting a project with no backing whatsoever.

She described trust as fundamentally important for the internationalization of companies. In her experience, when she represents a Mexican company that wants to do business in the US, for her it is very important to let the US company know that they are going to start a business with a reputable company that has the ability to produce. According to her, Mexican companies have a reputation for being slow, so she must reassure potential customers that the company would assign a team member solely committed to working with this internationalization project and to guarantee that the Mexican company can deliver on time.

4.4. Case 4: TFT-Pneumatic, LLC.

This company was founded by Mr. HM, a Mexican engineer based in Houston. The original company was founded by his father in Mexico City in 1986. The company sells and distributes hardware tools for boats and train manufacturers. The project that led to the opening of the company in Texas was the importation and distribution of the same tools from Japan and Norway into the US market. The main driver for internationalizing was the size of the American market – by his own account, roughly 100 times larger than the Mexican market – and the stability and predictability it held for doing business.

However, according to HM, the US market is more challenging: the first two years of operations were very difficult because he lacked the connections who would vouch for him when presenting business proposals. After this time, he gained valuable experience and inserted himself into the Mexican business community living in Houston, which allowed the company to expand without the burden of the newness liability.

Mr. HM believes that it is the entrepreneur who internationalizes and not the company. In his view, it is the businessman who can adapt, change strategies, open new lines of business, or retire entirely if
something does not work. Interestingly, when asked whether this ability would take him to other markets (Canada specifically was suggested) he confessed that at the end of the day the country the entrepreneur goes to is the country that offers the most benefits at the minimum personal costs. “What does Canada give me that I do not have in Mexico?” he questions back before answering himself “Security, confidence, peace of mind, etc. What does Canada provide me that Houston does not give me? Nothing really”.

According to him, for Americans it is easier to trust their international counterparts than for Mexicans because they operate in a country where the system works. “If an operation is settled at 30 days credit, you will settle it on the day you are supposed to, not one day later or before. Everybody knows that”.

From his point of view, the nationality of the business partner is not representative of the Americans. For that reason, it is easy for Mexicans to build trust with their US counterparts as long as they are serious in the way they conduct business.

4.5. Case 5: Audiovisual company from Monterrey, MX

Mr. AT is the CEO of “Audiovisual Company from Monterrey, MX”, an advertising and audiovisual production company, located in Monterrey. The other partner in the company is his brother. His company was founded in 2002, and among their customers, they have small movie studios, advertising agencies, and even a local soccer team.

When the company was founded, digital marketing was incipient and expensive. Their main competitive advantage, thus, was post-production services for video editing. They could do it locally, at a fraction of the cost, instead of customers outsourcing to agencies in Los Angeles or New York.

As competition increased, the business partners decided to go international. In 2012, when they decided to migrate the company to San Antonio, Texas, drug-related insecurity in Monterrey was also an important driver to move abroad.

Interestingly, his company was the only one of the interviewees that sought professional help to complete the internationalization process. The partners turned to a semi-official agency of the San Antonio local government, which offered legal assistance to open up the company, guidance on location and local requirements as well as a physical office, free of rent, for a limited period. In Mr. AT’s words, these were fundamental steps that eased his company’s international processes.

Although the company started operations with a decent number of projects, they soon realized that as technology advances and many careers adapt to the digital realm, there were younger professionals that allegedly could perform the same service from home, armed with a laptop computer, without their trajectory or experience.

This quickly put a question mark on the viability of the San Antonio office, to the point that eventually existing projects were transferred back to Monterrey, and although the San Antonio office is still open, it operates with a minimum of resources.

While he did not single out trust as a factor for companies to internationalize, he did say that he felt discriminated, because of his origin, with potential American clients second-guessing him and the capacity of his business. His company was able to turn those initial perceptions around because, in the audiovisual industry, the customers judge what they see and its quality.
4.6. Case 6: GenEon Technologies, LLC

Mr. NR is the CEO of a chemical company whose main business is to produce sanitizers and other chemical elements for laboratories and industrial parks. They have a specific technology that, using the right mix of elements, transforms water into sanitizer, which can be air sprayed. The present version of the company was founded in the US in 2009, but the original company was founded in 1979 in Monterrey.

When they first tried to internationalize the company in the US they found out that they could not sell the same products that they sold in Mexico, because of state regulations. This made the company look for alternative new lines of business, including a partnership with a Korean company that could supply specialized equipment for chemical plants for them to sell in the US, until the company was able to start its current core business.

Mr. NR’s decision to internationalize was made after he had been working in the family business for about ten years. It took some time to dare to take the first step. His father and uncles, the first generation of managers and the original entrepreneurs, never saw the need, nor were they even curious to open other markets abroad. Once the first operations started in San Antonio, they opened businesses in Georgia, California, New Jersey, New York, and a few small operations in the Caribbean. The company tried to expand into Colombia, but the experience was difficult and not very profitable.

For him, as a businessman, the most important thing is to have the will to succeed in a country that is not one’s own. Naturally, the business needs financial support, at least for the first few years before the company turns profitable. In this sense, Mr. NR believes that the US market is unique for the benefits it provides for businessmen, including access to cheap credits and a stable business environment.

Regarding trust as a factor to internationalize, he laughs when he recalls that for him it was even necessary to change the name of his company so that his clients would perceive the company as trustworthy and "not-so-Mexican". He stressed that language was another important issue – he needed to conduct all his business in English, providing the image of a businessman well-acquainted with the local culture. While he faced no issues in receiving credit terms from US financial institutions, he has been sure to pay on time.

5. Discussion and Concluding Remarks

The internationalization process of the analyzed Mexican companies is well described by theory (Jones et al., 2011; Nummela et al., 2022; Zahoor et al., 2023), and the findings coincide with the scarce empirical literature on the region (Leite et al., 2016; Lopez & Alvarez, 2018; Watkins-Fassler & Rodriguez-Ariza, 2019). Particularly, Mexican SMEs could not wait to have the highest possible level of resources to dare internationalization, as predicted by the Uppsala Model (Johanson & Vahlne, 1977).

In addition, the cases corroborate that market knowledge, entrepreneurial proclivity, innovation, risk-taking, and the creation of networks/social capital are key drivers of internationalization (Do et al., 2023; Galdino et al., 2019; Hunt et al., 2023; Zahoor et al., 2023). However, for Mexican companies, the network
that proves to be more useful should be formal and rigid, in opposition to previous findings underlining flexibility (Prashantham et al., 2019). Furthermore, it is found that such formality and rigidity may even determine whether the company decides to expand or not. The case of Kurago Biotek is particularly indicative, where the company decided not to open operations in Japan because no family member would move there to manage the operations.

Trust has been understudied in the past (Jones et al., 2011; Kahiya, 2020; Lopez & Alvarez, 2018; Zahoor et al., 2023) or undervalued (Leite et al., 2016; Ngoma, 2016; Shirokova & McDougall-Covin, 2012). However, it is extremely important for the internationalization process of Mexican entrepreneurs, not only as a moderator but also initially and directly influencing the process of internationalization by removing uncertainty. Five CEOs explicitly found trust to be very important to start and develop their internationalization. First, it is necessary to overcome the lack of personal/individual trust due to negative stereotypes about Mexicans. Subsequently, entrepreneurs must develop and maintain trust with their networks (according to the moderator role). Note that the relevance of trust is initially related to the stereotypes that Mexicans suffer abroad, which is also associated with low levels of trust in Mexican institutions, i.e., frictions between domestic and international institutions (Hua et al., 2022). Interviewees think that businessmen from developed countries show trust in their laws and institutions when doing business with Mexicans. That is, they have confidence that if the operation goes wrong their institutions and laws will protect them and will punish their Mexican counterpart. Thus, institutional trust is a fundamental factor for Mexican international entrepreneurs, but it can be moderated by the institutional framework of the country’s partner.

For Mexican companies, trust can indeed be a factor hindering the internationalization process, in the same way as the literature suggests that new companies becoming international confront the liability of newness (Abatecola et al., 2012) or outsidership (Hunt et al., 2023). Therefore, Mexican companies must make more efforts to create the image of trustworthiness, necessary to carry out their operations abroad. Interestingly, there seems to be no particular strategy to enhance such trustworthiness. Some entrepreneurs simply put aside those preconceptions or stereotypes. Others embedded themselves in the local culture by learning the language and behaving according to domestic business practices. Others opted for a full redesign of their operations, changing the name of the company for a new market. Others turned to the local business promotion authorities who, by helping them start their operations, lend the legitimacy that the entrepreneur lacked before. Regardless of the method, the point to stress is that all companies found that increasing trustworthiness was essential for their business to survive.

It is also important to acknowledge the limitations of the present research. Given the qualitative method, as is well known, statistical generalization is not possible. Certainly, the case study approach needs further validation, through the analysis of a statistically representative sample of Mexican companies, or through the analysis of the experience of companies whose internationalization processes are not primarily focused on the US. Therefore, future research should explore experiences focused on other regions.

Despite the limitations of the qualitative approach developed here, we emphasize that the findings indicate that the research question remains pertinent, so there is a need for further research, and this article should be useful in distinguishing several research lines to improve our knowledge of the role of trust —direct and indirect— in the process of internationalization.
Finally, intuitively, it can be argued that companies originating from other developing countries, in Latin America, Asia, and even Eastern Europe, may face similar restrictions because of their low levels of institutional quality. Therefore, the findings of this research should be explored in these other countries.

6. Acknowledgment

The authors thank anonymous reviewers for critically reading the manuscript and suggesting substantial improvements. The study was implemented in the framework of the project Economía y Finanzas, inside of the Doctorado en Ciencias Empresariales at the Universidad Panamericana, Campus Guadalajara, México, where E.D. Tovar-García is the PhD supervisor of J.C. Baker and F. De Anda.

References


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Notes

2. Given the Covid-19 restrictions, the interviews were conducted online between February and April 2021. They were recorded (with the explicit consent of the participants), in Spanish, except for the case of Managed Strategies, which was conducted in English. Transcriptions are available under request. Finally, the conclusions from these exercises were reviewed and confronted by a third party against the original recordings to guarantee their accuracy. Although the interviews were conducted in times of a pandemic and we inquired about it, biases in the responses were avoided by contextualizing the key questions to the years in which the internationalization process began.