

# THE EFFECT OF ENTREPRENEURIAL ORIENTATION AND BRAND ORIENTATION ON SME INTERNATIONALIZATION AND PERFORMANCE: A CONCEPTUAL FRAMEWORK

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## ABSTRACT

*This paper presents a framework for determining the relationships between entrepreneurial orientation and brand orientation on internationalization and performance of SMEs with the moderating effect of industry context and organizational learning. In review of the current literature, it was found that the complex investigation of SME performance involving the above variables has not been studied. Few and fragmentary studies have been conducted involving the variables yet they do not warrant us a broader generalization. Brand orientation has not been studied in association of SME internationalization so far. Studies involving entrepreneurial orientation and SME internationalization have been confronted with mixed results indicating the presence of a moderator/s in the relationship. Industry context is hypothesized as the as the moderator in this framework. The inability of the gradualist and non-gradualist models to explain the SME internationalization fully compels us to explore whether the above models are suited to explain the internationalization of SMEs in a particular industry. The mixed results of internationalization and performance can be attributed to the fact that the moderating effect of organizational learning has been ignored. According to gradualist theories, firm internationalization is based on "experimental knowledge". Hence the ability of the organization to learn moderates the success of international endeavor. Furthermore previous researchers have concentrated on entrepreneur orientation of founder or top managers as a predictor of internationalization. This framework identifies the middle managers' perception of the internal environment for corporate entrepreneurship as an important predictor of performance especially in collectivist countries. This framework also proposes to extend the study to test non-financial aspects of firm performance as a result of internationalization which has gained surprisingly little attention. Therefore to fill this research gap in research literature, a conceptual framework and hypotheses are developed.*

## INTRODUCTION

This conceptual paper presents a new framework for analyzing internationalization of SMEs. The predictor variables, moderators and dependent variable are selected such that the research contributes to the existing body of theoretical knowledge. These variables are defined and discussed in this paper. The research investigates the impact of Entrepreneurial Orientation (EO) of the owner, middle managers' perception of the internal environment for corporate entrepreneurship and brand orientation on SME internationalization and subsequent performance. This paper critically reviews the existing literature, identifies a research gap, build the framework and hypotheses and suggest survey instruments and research design. This framework extends the past research by introducing new variables and moderators in SME context and by looking at the firm performance in multi-dimensional perspective. Due to severe lack of research literature on SME internationalization in developing counties this research is proposed to be carried out in a developing country in South Asian region. It can also be conducted as a comparative study to give a better insight in to the impact of variables in different contexts.

Though research studies related to internationalization of organizations are at its infancy level compared with many other management disciplines, international business activities have been around for many decades. The difference is that the scope, scale and number of organizations that are engaged in international business have increased to a great extent in a very short period of time. The research on internationalization was pioneered by the development of gradualist models of internationalization namely Uppsala model (Johanson and Vahlne, 1977) and Innovation related model (Cavusgil, 1980) and non-gradualist models such as International network approach (Johanson and Vahlne (1990), International New Ventures (Oviatt and McDougall ,1994) and International entrepreneurship approach (McDougall and Oviatt, 2000). Above theories have been modified, re-developed and challenged in the quest of finding a model that can actually predict the pattern of internationalization.

### *Significance of SMEs and entrepreneurship in economic and social context*

SMEs make up over 90 per cent of businesses worldwide and account for between 50 to 60 per cent of employment (UNIDO report, 2002). As well as being important with in economies, small firms are also increasingly active in international markets. For example SMEs have a 30 per cent contribution to total Asia-Pacific Economic Cooperation exports of

US\$ 3.1 trillion (Cateora, 2010). The technical definition of SME varies from country to country in the Asia-Pacific region but is usually based on employment, assets, or a combination of the two. (Kumar, 2012) Realizing and capturing its potential, SMEs of many developed countries now play an important contribution to the foreign income of the country. SME related issues are very often country-specific or regional specific needing especial attention and locally developed and tested models to solve their issues through proper policy support. In fact, research into the internationalization of SMEs based in developing countries is still in an embryonic stage and this lack of empirical studies in developing countries during the last two decades places the applicability of the findings of internationalization studies to these countries in question (Zafarullah et al., 1998)

In addition to its economic contribution, the SMEs play a key role in social development also. Reduction of poverty through more equal distribution of wealth, employment of woman, social stability through reduction in unemployment, use of domestic resources thereby creating a chain of new ventures are important social contributions of a well developed SME component of a country. The importance of this sector in terms of employing working-age population should be a motive for the government to create a favorable environment that may facilitate the internationalization process for enterprises. (Paunovi & Prebe, 2010) In many countries, it can be used to gain broad economic and social restructuring in which under-developed and war torn areas get the benefit of development. It can also be used to sectorial restructure of the goods and services which is a dire need of many South Asian countries with the stagnation of the industry structure with low value addition products (Dassanayaka, 2009a)

### *Research Background and problem*

There is an argument among the researchers that empirical findings of SME research on internationalization reveal that they are not fully understandable by gradualist models, network models or any other theoretical framework (Schulz, Borghoff, & Kraus, 2009). Research frameworks developed are still to identify broadly generalizable predictors and moderators of SME internationalization and performance. Too small sample sizes, lack of and difficulties in obtaining accurate data, research focus on specific industries, lack of empirical data on developing countries, contradicting results all further enhance the issues and non compatibility of past research.

Substantial research is carried out on the topic in internationalization of SMEs to identify the patterns, barriers and outcomes of internationalization

and to develop more tenable models of SME internationalization, so that policy makers can get valuable feedback on how to facilitate internationalization. Due to the complex nature of SME studies, research is yet to find satisfactory and universally acceptable explanations for many issues. Unfortunately, many of the developing countries have not strengthened their SMEs to get in to the fray and therefore lagging behind in value additions to the economy yet.

SMEs in South Asia have shown some unusual characteristics. At a time where the SMEs of many developing countries are exploiting the international market and increasing their contribution to the economy, the following can be observed in South Asian context. SMEs in informal sector report low productivity and income. (Dassanayaka & Sardana, 2009) Heavy and stagnant concentration of SMEs in certain provinces/urban areas (e.g. Western and Central Provinces of Sri Lanka house over 70 per cent of all medium scale industries (Dept of statistics, 2006)) and the concentration of SMEs on industry categories (non-diversified) are also common. SMEs struggling with cheap imports from other countries and demand the government to tighten regulations ostensibly to protect from high cost arising out of lack of efficiency and proper management (Dassanayaka & Sardana, 2009) Very small number of SMEs in South Asia have entered the international market and sustained the presence. The markets of concentration have remained same irrespective of many initiatives to find new markets such as trade agreements, bi-lateral agreements etc.

## UNDERPINNING THEORIES

Gradualist or behavioral theories of internationalization originated with the seminal work of Johanson and Wiedershim (1975). In a further analysis, Johanson and Vahlne (1977), explains that firms internationalize according to a chain of establishment which became popular as the Uppsala model of internationalization (UM). Firms are assumed to enter markets with least psychic distance and gradually with experience seek to enter markets of greater psychic distance. The notion of psychic distance is defined as “factors preventing or disturbing the flow of information between firm and market, including factors such as differences in language, culture, political systems, level of education, or level of industrial development” (Johanson and Vahlne 1977, p. 24) The supposition of interrelationship between market commitment, market knowledge (named as state variables) and decision to commit resources and performance of present business activities (change variables) is the main underlying theoretical explanation of Uppsala model. Accordingly

present business activities are the sources of experience that propels the firm in the establishment chain.

Innovation model of internationalization (IM) is another gradualist school of thought explanation of internationalization attributed to work of mainly Cavusgil (1980) and Reid (1981). They consider the progress to the next stage as an innovation based on Roger's model of adoption (1962) Here the concentration is on stage approach not on learning as the UM.

Both UM and IM are behavior related models that highlight the lack of experience and uncertainty as main reasons of existence of gradual pattern. (Anderson, 1993) However the researchers have questioned the validation of above theoretical models on the basis of being too general therefore have sacrificed the precision and theories are lack of boundary condition, falsifiability criteria. However even with the shortcomings they are being widely used in empirical research as underpinning theories. (Anderson, 1993) In a modification to the original argument Johanson and Vahlne (1990) introduced network factors in to the model. The company has to be analyzed considering that it is part of a broader network. Though introduction of network models do not reverse the idea of gradual internationalization, they suggest that internationalization takes place in a less structured manner than earlier thought.

Internationalization and entrepreneurship was considered to be separate paths with no interconnection until the seminal work of Oviatt and McDougall in 1994. Entrepreneurship and internationalization were studied together by researchers in an endeavor to understand the phenomenon of International New Ventures (INV). Through the Born Global (Knight and Cavusgil, 1996) and International Entrepreneurship (McDougall and Oviatt, 2000) theories this link was further stressed and challenged the gradualist model and domestic orientation of SMEs. All these terms basically used to denote firms which are oriented toward international business right from the inception.

Oviatt and McDougall (1994, p. 49) defined an INV as "A business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" However the operationalization of this broad definition depends on the researcher (Aspelund, Madsen, & Moen, 2007) Another important point in Oviatt and McDougall (1994) is path dependence that states entrepreneurs of INVs enter the international market from the inception because of fear that resource development in domestic market would act as barriers to internationalization in latter stage. There

are however many obscure areas on the speed of INV, commodity vs niche market, market selection and impact of physics distance and entry modes, which propels the researchers to continue the quest of better understating of INV (Aspelund et al., 2007) Some researchers find that INV internationalize incrementally (Coviello & McAuley, 1999) while others argue of an accelerated incremental pattern. Many others including Oviatt and McDougall (1994) believe INVs as totally unexplainable from gradualist theories.

McDougall and Oviatt (2000, p903) defined international entrepreneurship as “combination of innovative, proactive and risk-seeking behavior that crosses national borders and is intended to create value in organizations” In this definition the stress on new ventures was dropped in contrast to their definition on INV in 1994. Therefore international entrepreneurship could origin in any firm irrespective of size and nature of the organization. International entrepreneurship can also been explained as “the process of creatively discovering and exploiting opportunities that lie outside a firm’s domestic markets in the pursuit of competitive advantage”.(George & Zahra, 2002) It implies that EO is a valid measure of international entrepreneurship.

### **Dependent variable – Organizational Performance**

SME performance is the main indicator of its ability to survive and sustain in business. Some scholars point that organization performance is the ultimate variable of interest to managers and researchers. Boyd, Gove and Hitt (2005) in a review of articles published in leading management journals from 1998-2000 revealed that 38% of the dependent variables relate to organization performance. There are abundant of cases to prove that one of the most elusive relationships in international business in on firm internationalization and performance. The same scenario can be seen in both large companies and SMEs. For example, Bloodgood et al. (1996) found a positive and marginally significant relationship between international entrepreneurship and firm income. Whereas Zahra and Garvis (2000) found no relationship between international entrepreneurship and ROA , Mcdougall & Oviatt (1996) reported a non-significant relationship.(George & Zahra, 2002)

The organization performance has been defined by many scholars in different manner. However, we can identify a classical differentiation in many of these definitions. The financial aspect and non-financial aspect of organizational performance are the most popular classification in past literature related to organizational performance. Measuring organization performance can aid the management to assess the

effectiveness of past decisions, identify areas that need to be improved and act as an input for organization decisions in future such as employee rewards, strategy and so forth. A Performance Measure is "a metric used to quantify the efficiency and/or effectiveness of an action" (Neely, Gregory & Platts, 2005) Though it is one of the most common and important variables in business research, the definition of organization performance or effectiveness still eludes a widely accepted agreement. This little consistency creates issues in comparing the results of research studies. Škrinjar, Bosilj-Vukšić, & Indihar-Štemberger (2008) defines organizational performance as "comprising of the actual output or results of an organization as measured against its intended outputs: goals and objectives" Moullin (2003) defines an organization's performance as "how well the organization is managed" and "the value the organization delivers for customers and other stakeholders." For the purpose of this study we will select the definition Moullin (2003) because in his definition he stress the multi-faceted perspective of performance and that is one aspect that this research envisages to contribute to the body of knowledge.

### *Differentiating organization performance and organization effectiveness*

Organization effectiveness is closely linked with the concept of organization performance. However effectiveness is a broader construct that includes organizational performance but takes in to consideration different performance goals. Richard & Johnson (2009) describes organization performance as consisting of three firm outcomes namely financial performance, market performance and shareholder return. Organization effectiveness is a broader measurement that is not confined to economic valuation. However, some researchers use some non-economic value measurements to organizational performance such as innovativeness and efficiency (ibid). Therefore little consistency is found in both constructs. For the purpose of this study we will stick to the use of "Organizational performance" although we shall include non-economic dimensions in to the variable. This is practiced by previous authors also and based on the argument that several non-economic measures can be "leading indicators" therefore giving a future perspective to SME performance.

While some of the measures specially the financial performance measures may be required to comply with the legal aspects, non-financial performance measurements are of critical necessity for the continued survival of today's companies. Hence different approaches to organizational performance measurement are available to contain different stakeholder perspectives. Balanced Scorecard method (Kaplan and Norton, 1992), multi-model performance framework (Weerakon,

1990) and performance prism (Tangem, 2004) are some recent and widely used measures in past literature as explained in Škrinjar et al. (2008)

**Table 1** Critical dimensions of performance Source: Hudson, Smart, & Bourne (2001)

Dimension	Measurements
Quality	Product, Delivery reliability, Waste, Dependability, Innovation
Time	Lead time, Delivery reliability, Process time, Productivity,
Flexibility	Manufacturing effectiveness, Resource utilization, Volume flexibility, New product introduction,
Finance	Cash flow, Market share, Cost control, Sales, Profitability
Customer satisfaction	Market share, Service, Image, Integration with customers,
Human resources	Employee relationship, Employee involvement, Employee skills, Productivity, Quality of work

Few decades back, the premier attention was on financial indicators such as profit and Return on Investment (ROI). (Gomes, Yasin, & Lisboa, 2004) However focus on financial returns gives the management a short-term performance perspective. Use of diverse set of performance measures can help in reducing the managerial myopia that propels the managers to pursue short-term financial goals. (Hofmann, 2001) Johnson and Kaplan (1987) challenged the traditional financial indicators and stated that they do not emphasize the need of a comprehensive performance measurement. Several authors have criticized the only use of financial performance indicators on the grounds that there focus is on the past with no predictive use (McNair et al, 1990), not provide adequate information about productivity endeavors (Banker et al., 1989) and issues of measurability of the outcome (Noci, 1995) However according to a research done by Gomes et al. (2004) states that there is significant void in the area of research in non-financial performance measures and financial analysts consider non-financial performance as better predictors of organization well-being, but rarely use it. Studies by Ittner et al (1997), Ittner & Larcker (1998a) and Banker et al (2000) cited in Hofmann (n.d.) revealed that non-financial performance indicators are “leading indicators” which act as future signs.

Despite being criticized by a number of scholars (i.e Aaker & Jacobson, 1987) the accounting related financial measures are widely used. An



example is the use of ROA and ROS as the management efficiency ratios. Financial indicators in various forms have been used in measuring efficiency or performance of an organization and also form to be an integral part of any organization performance analysis up to date. However customer satisfaction and human resources are also considered as important measurements of organizational performance. (Kaplan & Norton (1992) Hudson, Smart, & Bourne (2001) identified six dimensions of organization performance which cover all aspects of the firms from literature. They include financial, operations (three dimensions), external perspective and organization culture.

It was argued by Geringer (1989) that Return on Sales (ROS) is a better performance measurement in international business. His argument was that since it is in terms of foreign exchange spot rate that is a better reflection of current operations.

Table 2 summarizes the performance measures adopted by the researchers in leading studies in SME internationalization after 2000. Note the absence of non-financial measures and the variety of financial measures used. Apart from prominent studies by Oviatt and McDougall (1995) and Zahra et al. (2000a) which study about market share and organizational learning, the research is devoid of such contributions.

It is surprising to observe that prior studies have highlighted only the impact to financial performance through internationalization. The extent to which the internationalization influences non-financial performance is less evident. It may be due to the fact that non-financial performance information is not easily obtainable in SMEs. However this creates a void in the SME internationalization studies as SME performance need to be analyzed in multi-faceted manner. Especially the leading nature of the non-financial indicators may give indication about the anticipated growth of SMEs. In collectivistic countries entrepreneurs are also unlikely pursue financial targets vehemently. Social reputation, identity, social service, job satisfaction, relationship building etc. play similarly important roles. Very few studies have related International Entrepreneurship on non-financial gains such as balanced scorecard. The importance of non-financial outcomes of international entrepreneurship suggests a need to apply multiple measures to further improve future research in this area. (George & Zahra, 2002) This research aims to fill this research gap by implementing non-financial gains into the study which claims a great importance in Asian social context such as employee satisfaction, corporate reputation and organizational learning. Strong profitability may or may not be an important objective for a new venture, which is trying to establish a grip in a market. (Mcdougall & Oviatt, 1996)

**Table 2** Summary of previous studies on effect of SME internationalization on firm performance

Researcher (s)	Country/Context	Variables	Nature of Study	Major Findings
Beamish P, Lu J. (2001)	164 Japanese SMES	IV - FDI DV – ROS and ROA	Quantitative	Depend on the level of FDI
Chiao Y., Yang K., Yu C. (2006)	1419 Taiwan SMEs	IV - Export Sales/Total Sales DV – Return on Sales (ROS)	Quantitative	U- Shaped effect on performance
Chelliah S., Sulaiman M., Yusoff Y.(2010)	77 SMEs in Malaysia	IV - Degree of Internationalization (DOI) DV – Average ROI,ROS,ROA	Quantitative	Significant relationship between internationalization and performance
Zhou L., Aiqi W. Bradley B. (2012)	300 managers in China	IV - Timing of the entry DV –International growth (foreign sales growth, foreign profit growth, foreign market share growth)	Quantitative	Early foreign market entry enhances a young venture’s international growth

## INSTRUMENTS AND MEASUREMENTS

According to the stakeholder theory the organizations have an obligation towards all stakeholders and thereby their perspectives need to be acknowledged in the organization performance measure. (Baba, 2011) There are number of instruments developed and validated by past researchers to measure organizational performance. Many of the recent instruments have the both financial and non-financial aspects included in the instrument taking the multi-stakeholder perspective. They include inclusion of stakeholders (customers, employees and supply chain) in assessment of non-financial performance in addition to financial performance. McCormack & Johnson (2001) operationalized organizational performance in two dimensions, which was later widely used in measuring the effectiveness of process-oriented initiatives. (e.g. Škrinjar et al., 2008).

The considerable difference in large organizations and SMEs in aspects such as entrepreneur influence, lack of resources, informal strategy, lack of reliable and accurate data, flexibility etc. necessitates an instrument to measure different organizational performance indicators or the same indicator in different technique. Interesting fact in SME organization performance measures related to internationalization is the use of subjective measures instead of objective figures. It may be because of issues of accuracy. (Beal, 2000) Instruments developed by Caloghirou et al. (2004) to measure profitability, McGee and Peterson (2000) on financial performance are some examples from the past SME studies using subjective scales.

The SME performance in this research will be measured through an adapted self-administrated questionnaire. For this study, SME performance will be evaluated based on Erikson (2002) using sales growth, customer satisfaction, market share, profitability and the scales will be anchored on a five point Likert scale. However all these measures are financial related. We intend to include non-financial dimensions such as:

1. Overall employee commitment and satisfaction (Matzler,et.al., 2007)
2. Social reputation (awards for the firm/entrepreneur, company reputation) (Researcher developed items)

Matzler & Renzl (2007) survey instrument includes five dimensions of employee satisfaction and is recommended for this study.

## **Internationalization of SMEs**

The research study focuses on internationalization as an intervening variable between independent variables and firm performance. Internationalization is a multi-dimensional concept. (Lu & Beamish, 2001) Majority of past studies measured internationalization based on percentage of sales generated from foreign markets (FS/TS). Multi-dimensional nature includes scale (FS/TS), scope (e.g –number of markets entered, time – time to enter international market from inception) However due to several limitations in receiving data, FS/TS is the sole indicator of internationalization in past studies.

However, use of single indicator for this very important variable in our study is not recommended for several reasons. Firstly it creates risk that the selected measure is confounded by method bias. (Nunnally, 1978) Also it artificially increase the association observed in dependent and independent variables. Sullivan (1994) created a Degree of Internationalization index (DOI) that include structural, market, product characteristics of international expansion which included an index of FS/TS, R&D intensity, advertising intensity, Export sales/Total sales and Foreign assets/Total assets. However due to difficulties in obtaining data and as most indexed dimensions may be not relevant in majority of SMEs context, we opt for a simpler yet multi-dimensional approach. We recommend to use three dimension used by (Sapienza, De Clercq, & Sandberg, 2005) which include FS/TS, the percentage of employees that spend a significant time in international activities and the geographical scope of foreign sales calculated as a single weighted score. Information of these three dimensions is easily obtainable and comprehensive enough for the study of SME internationalization.

### **First independent variable – Brand Orientation**

Though linked, Brand Orientation and Market Orientation (MO) resemble two distinct concepts. Narver and Slater (1990) described MO as consisting of three aspects namely; customer orientation, competitor orientation and inter-functional coordination. It stresses a focus on external environment. Bridson and Evans (2004), defines brand orientation as “The degree to which the organization values brands and its practices are oriented towards building brand capabilities.” In recognizing the need to use brands as a basis for competitive advantage, organizations are reaching beyond the traditional MO framework and are developing a brand orientation. (Reid M., 2005)

Reid et al. (2005) states that brand orientation places brand as the competitive strategy, thereby an advance of market orientation. Since identifying customer is a key to any brand development, market orientation actually facilitates brand orientation. (Laukkanen, Hirvonen, Reijonen, & Tuominen, 2011) Abimbola & Vallaster (2007) believe that branding, organization identity and reputation are critical ingredients of SME firm success in competitive markets. Bresciani & Eppler (2010) identify branding as crucial activity for survival of new ventures. Although branding and entrepreneurship are have been studied by many, the intersection has not been studied to a considerable extent. Confined with little time and resources, the entrepreneurs are more concentrated on production and financial issues than brand creation. (ibid)

Past researchers have given their attention to MO as a predictor of SME internationalization. (i.e. Armario, Ruiz, & Armario, 2008) The results of the past studies can be explained as contradictory and inconsistent. (See table 03) While recognizing the rationale of selecting the MO as a predictor variable in internationalization of SMEs, the researchers are of the view that in the contemporary business environment and the characteristics of SMEs, Brand orientation could create an improved possibility for successful internationalization especially for SMEs in South Asian region due to several factors.

SMEs in particular must rely on their knowledge of specialized, relatively narrow product niches in order to succeed. (Schulz et al., 2009) Most of the SMEs that have internationalized in developing counties developed a niche market segment by highlighting unique attributes of the product. High cost of labor and energy precludes the SME sector of South Asia from gaining any cost advantage in industries such as tea, rubber, textiles (Dassanayaka, 2011). Therefore in this context where firms advantage is derived through branding (differentiation) more SMEs are becoming internationalized through brand building and positioning the organization/product as quality, flexibility, green, adopter of fair trade policy, etc. In contemporary international business where a great number of SME suppliers are in the fray with low cost products, it is the SMEs who have built the brand name domestically and/or internationally has the greater advantage to enter and capture the international niche markets.

SMEs are increasingly using low budget powerful brand building techniques such as PR, networking, on-line branding, use of social media etc. (Bresciani & Eppler, 2010) which can aid in SME internationalization process also. Brand orientation can be measured through scales developed by Wong and Merrilees (2008)

Hence we include the new variable Brand Orientation in place of MO as a better predictor of international success in South Asian context. Hence the 1<sup>st</sup> hypothesis is on brand orientation of the organization which we assume to be an important predictor of SME internationalization but is not studied in this context:

*Ho – Brand orientation influence internationalization significantly*

### **Second independent variable – Individual Entrepreneurial Orientation**

EO of the founder has been a focal point in studies of internationalization of SMEs probably attributed to the conviction supported by empirical evidence that in a firm with less number of employees, idea of internationalization is made by the entrepreneur facilitated by his strong position. On the same note, Abimbola & Vallaster, (2007) explain that corporate identity including the culture and corporate behavior is developed around the entrepreneur. While the magnitude of founder EO impact on SME is clear in individualistic cultures, it is doubtful whether the same outcome can be applicable in all (especially collectivistic) countries.

Although entrepreneurship is widely discussed in the context of business and management, it is not confined to creation of business organizations. The entrepreneurship was first discussed in the context of economics by Cantillon (1755), who stated that, “an entrepreneur is the expert in taking risk” (See Baba, 2011) Different definitions have been offered for entrepreneurship, which resemble risk taking, opportunity grabbing and change orientation. Baba (2011) cited Schumpeter’s (1934) definition of entrepreneurs, as innovators who create new industries, thus playing the role of changing the structure of the economy. Stokes and Wilson (2006) defines entrepreneurship as “A process of change, whereby the outcome of change is not known until the entire change process has been completed” Kuratko & Hodgetts (2007) defines it as “A process which is partly creation of business, which encompasses characteristics of seeking opportunity, taking risk beyond the safety netting and having the determination to push an idea through to reality” (Baba, 2011)

EO is the most widely used measure to capture the entrepreneurship at firm level. (Baba, 2011) But here our intention is to use it at the individual level to measure the EO of the SME top management. Khandwalla (1977) introduced the EO construct but it is Miller (1983) who introduced three dimensions of EO namely pro-activeness, risk taking and innovation.

Two more dimensions were added by Lumpkin & Dess (1996) namely autonomy and competitive aggressiveness. A considerable number of EO studies on SME suggest that a positive relationship between EO and performance. (e.g. Fouda (2007) and Wiklund and Shepherd (2005)) Research studies that involve dimensions of EO are also abundant but disjointed. Innovativeness in products or in international approach is a critical predictor of success in SME internationalization. (Achtenhagen, 2011) The competency to recognize international business opportunities is has been widely ignored in previous theoretical frameworks and empirical studies but it is a pre-condition for successful SME internationalization (Chandra, Styles, & Wilkinson, 2006).

However according to table 3 some studies do not present a positive relationship or some studies state that only certain components of EO affect the internationalization-performance relationship. (e.g Jantunen A. et al (2005), Johan F., Svante A. (2011)) Moreover other findings (Slater and Narver, 2000, Lee et al., 2005) were also unable to identify a significant relationship between EO and firm performance. (Kusumawardhani, Mccarthy, & Perera, 2009) But note that some researchers have used internationalization performance (not firm performance) whereas some have used other dimensions of internationalization (e.g. time to entry)

Referring to table 03, only Javalgi & Todd (2011) examined the relationship between EO and SME internationalization in South Asian region. His sample was based on a 150 SMEs in auto parts manufacturing cluster. Therefore it is evident that the EO is understudied in the South Asian region in both traditional and non-traditional industries. With exclusion of Xiao, Ma, & Wang (2012), Javalgi & Todd (2011) and R. Baba (2011), all studies in table 03 were in Non-Asian context. Referring to the review article of Aspelund (2007) from 1992-2004, all studies on INVs have been conducted in developed countries except on research on Indian INV by Kundu and Kartz (2000) and Kuemmerle (2002)

**Table 3** Recent past research findings involving EO or MO as independent variables

Researcher(s)	Country/ Context	Variables	Nature of Study	Major Findings
Zhang X., Ma X., & Wang Y. (2012)	117 Chinese SMEs	EO	Quantitative	Different dimensions of EO exert different levels of influence on internationalization
Mika R., Niina N., Kaisu P., & Sami S. (2011)	High tech SMEs in Finland	MO	Mixed	Some aspects of MO affect SME internationalization
R. Baba (2011)	101 SMEs in Malaysia	EO	Quantitative	Some components of EO have impact on SME performance
Raj G. Javalgi A, Patricia R. & Todd B (2011)	150 Indian High Tech SMEs	EO	Quantitative	Strong link between EO and internationalization
Natasha E. (2011)	Two new ventures	EO, Dynamic capability	Case Study	Dynamic capability of entrepreneurs, EO and external relationships determine the success in export activities

(Continued)



Researcher(s)	Country/ Context	Variables	Nature of Study	Major Findings
Johan F., & Svante A. (2011)	188 SMEs in Sweden	MO and EO	Quantitative	Both MO and EO have little effect on international performance
Melia M., Perez A., & Dobon S. (2010)	105 Spanish SMEs	Innovation orientation of entrepreneur	Quantitative	Innovation orientation accelerates the time taken to internationalize
Armario J., Ruiz D., & Armario E. (2008)	112 SMEs in Spain, Majority of SMEs in traditional sector	MO	Quantitative	Positive influence of MO on Internationalization
Meliá R. et al (2008)	Service sector	Innovation orientation	Qualitative	Innovation orientation accelerates the time these companies take to internationalize
Jantunen A. et al (2005)	217 Finnish Established companies	EO, Dynamic capabilities,	Quantitative	No relationship between EO and international performance.

Hence we decide our 2<sup>nd</sup> hypothesis on EO of the owner and top managers because of its effect on SME internationalization has not been agreed upon by scholars and warrants further research with appropriate moderators. Also it is an important contribution to theoretical debate of gradual vs. non-gradual internationalization as a positive relationship supports the applicability of International Entrepreneurship theories to explain internationalization of SMEs.

*H0 – Entrepreneurial Orientation influence internationalization significantly*

### **Third Independent variable – Middle managers’ perception of corporate entrepreneurship**

Past researchers have concentrated on the characteristics of the top management of the firm as they were considered as instrumental in firm success, failure or strategic choices such as internationalization. The main reason was the premise that INV are acts of individual entrepreneurs who act independently. This lacks the view of entrepreneurial as an ongoing process. (George & Zahra, 2002) Another limitation of prior research is ignoring the notion of corporate entrepreneurship or venturing by established firms, in international markets.

The impact of EO on internationalization decision is tested on mostly developed country context which are high on individualistic dimension of culture (Hofstede cultural dimensions) and in high tech/knowledge based industries where the rapid technology changes necessitate quick decision making. In such countries or industries, where individual decision making, individual goals and reputation are held in high esteem, such outcome can be expected. But in South Asian context where a collectivist culture prevails, the business decisions are taken collectively. In traditional industry SMEs, the decision to go international is based on a collective decision mainly involving managers, family members affiliated to the firm and other stakeholders. The effect of industry and company characteristics in internationalization process were investigated by scholars and evidence can be found on the above argument. Many studies revealed that traditional firms used stable circle of family and friends in decision making whereas INV decision making was concentrated on mostly an educated or experienced individual. Furthermore the idea of internationalization frequently emanate from an individual other than entrepreneur. (Holmquist, 1996) Therefore to test the EO of the top management only would be neglecting an important variable in the model to be tested in South Asian context. Therefore the researcher introduces a new variable “perceived entrepreneurship

culture in the organization from the judgments of middle managers” to test the internationalization success.

There are several well validated and reliable tests to measure Middle managers’ perception of corporate entrepreneurship in current literature. Barringer & Bluedorn (1999) used a scale developed by Covin and Slein (1986) which in turn is a product of studies of Khandwalla (1977) and Miller and Friesen (1982).

Lu & Beamish, (2001) expanded the study of inquiry to top managers from founder. This research takes a further step to include middle managers in the framework. The only significant study carried out by Shankar C., Mohamed S., Jayaraman M. (2011) in Malaysia concluded that corporate entrepreneurship has a positive influence on internationalization. Also it is assumed the in collective cultures it will be a better predictor of internationalization than EO. Therefore we form the 3<sup>rd</sup> hypothesis as follows.

*H0 - Middle managers’ perception of corporate entrepreneurship influences the internationalization significantly*

### **First moderating variable – Industry context**

Researchers have a long debate on precedents of SME internationalization. One school of thought argues that it is a phenomenon associated and explainable with entrepreneurship theories. Accordingly, higher the entrepreneurial characteristics of the firm, higher the degree of internationalization and speed of entry should be. Gradualist school of thought consider it to be an incremental and slow process based on the “experience and learning”. The mixed results obtained in past studies on internationalization and EO further complicates the understanding of this phenomenon.

Bell (1995) points that gradualist models are especially challenged in high technology and service intensive industries. In order to understand the effect of industry on international development, Andersson (2004) analyzed two industries in different stages of the Product Life Cycle. He found that organizations in mature industry follow an incremental path in line with psychic distance concept. Reliance on firm’s internal resources and personal characteristics of the entrepreneur in high growth industry is better explained by the international entrepreneurship theories. This research and many other research in the area brings forth the fact that depending on the industry context, individual EO may

or may not play a significant role in internationalization decision. Bell et al.'s (2004) study in UK suggests that 'traditional' firms followed an incremental approach and 'knowledge intensive' firms reported an international orientation from inception. The inability of the gradualist and international entrepreneurship models to explain the internationalization compels us to search whether the above models are able to explain the internationalization of organizations in a particular industry. Then we are in a position to generalize gradualist or non-gradualist models to a certain industry of identified characteristics to a satisfactory level. Research on this issue is not explored to a satisfactory extent. In an era where industry characteristics manifest a great variety than the time that these theories were presented (i.e 1977, 1994) such an exploration is reasonable. (Aspelund et al., 2007)

In a review table presented by Aspelund et al. (2007) on all INV research from 1992 to 2004 in core journals indicates that many highly cited prior studies concerned with impact of Internationalization of INV were on high-tech, knowledge intensive (e.g. Jones 1999, Hashai & Almor, 2004) or service industries. The nature of their industries such as targeting new markets, rapid technology development (i.e short window of opportunity), insufficient domestic market, and capabilities of the founder warrants a tendency to internationalize in a rapid manner than traditional industries (George & Zahra, 2002). Although high tech industries have been researched to a great extend, there is no evidence to decide that INV are confined to this sector. (Crick et al., 2001) The traditional industries have attracted little research attention and the effect of EO to their internationalization pattern is little known. Moreover, majority of the studies that have been conducted used small samples of high technology firms and yielded inconsistent results (George & Zahra, n.d.: Chiao, Yang, & Yu, 2006). Hence, they are limited in terms of statistical conclusion validity and generalization in the findings. Also little research has tried to compare the effect of predictors in different industry contexts. That could be the reason Rygl & Fillis (2013) mentioned that future research contributing to underexplored in SME research includes the less researched industries (e.g., craft, art, trade) and studies from different contextual perspectives.

For the purpose of this research conducted in South Asia, the differentiation of industries based on traditional and knowledge intensive can be adopted. As cited in Bell, Crick, & Young (2004) Coviello (1994) defined knowledge-intensive firms as "having a high value added value of scientific knowledge embedded in both products and process" and covers ICT and high technology manufacturing industry..

**Table 4** Traditional and knowledge-intensive industries

Traditional	Knowledge-intensive
Agricultural products, livestock, Ayurvedic products, ceramics, foundry, coir products, jewellery and gems, rubber, traditional art and craft ornaments, tea, textiles, leather	IT, ICT services, BPO, entertainment, electronics, engineering machinery and parts, pharmaceutical,

*H0a – Industry context has a moderating effect on the relationship between EO and internationalization significantly*

*H0b – Industry context has a moderating effect on the relationship between Brand Orientation and internationalization significantly*

*H0c – Industry context has a moderating effect on the relationship between Middle managers' perception of corporate entrepreneurship and internationalization significantly*

### **Second moderating variable – Organizational Learning**

Organizational learning is an important variable in capacity to change and therefore it has resulted in improved firm performance and innovation according to several past studies. (Baker & Sinkula, 1999) In addition to individual learning it entails that organizations could learn through workers' knowledge and sharing that knowledge. Direct relationship that conceives organizational learning as a facilitator to internationalization is rare (Basly, 2007). Erickson (2000) explained internationalization as “a process of learning and accumulation of knowledge” depicting a close link between two variables. Internationalization is acknowledged by many scholars as discovery, exploitation of an international business opportunity and learning from the market. Although learning is of key importance in internationalization gradualist theories which states that experimental knowledge is a key input to decision on internationalization, surprisingly few studies have linked organizational learning with SME internationalization. (Kauppinen & Juho, 2012) Few researchers have examined how a firm's overall learning orientation affects its willingness to further internationalize (Clercq, n.d.) Autio et al. (2000) argue that INVs have a dynamic and flexible structure to rapidly assimilate and react to information that is a key ingredient of organizational learning. Past studies have revealed positive relationship between international and domestic learning and the propensity to internationalize further.

Miller's (1996) work on organizational learning was modified and adopted for measuring organizational learning. (Khandekar & Sharma, 2006) Several researchers have come up with improved and validated measures. A measure that identify five sub-processes of organization learning namely in information acquisition, distribution, interpretation, integration, and organizational memory is developed by Flores, Zheng, Rau, & Thomas (2010) For this research their improved version can be used as they clearly prove that interpretation and integration are different dimensions of organizational learning whereas early measures do not identify them separately.

*H0 – Organizational learning has a moderating effect on the relationship between internationalization and firm performance of SMEs.*

### **Control variables**

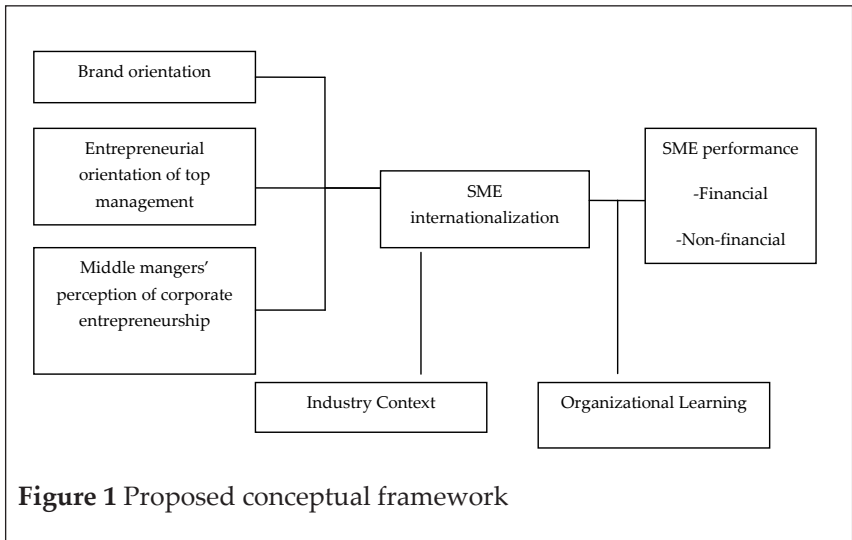
Since non-homogeneity of SMEs can affect the reliability of the final result, we propose to control firm age and size as control variables.

## **METHODOLOGY**

Data can be collected in self-reported questionnaire which can be either posted, sent through an e-mail or can be filled in a personal interview with the employees/employer. Due to the very low response rate encountered in previous studies involving SMEs (Chen, Zou, & Wang, 2009; Dimitratos, Lioukas, & Carter, 2004) personal interview may be the best option. The results need to be validated through non-response bias, inter-rater reliability and common method variance using Harman's one-factor test when necessary, as suggested by Podsakoff and Organ (1986). Cronbach's coefficient alpha should be the appropriate measure of reliability for the variables. Regression analysis is widely used to test the causality (Bloodgood et al., 1996) which can be used in this framework also.

## **CONCLUSION**

The discussion and the stated hypotheses which result in the conceptual model (Figure 1) fulfill an identified research gap in current literature and extend the previous research. This paper has provided a basic conceptual framework that could be useful in fostering SMEs performance. Such a research will also benefit the policy making process of South Asian countries which struggles to provide adequate and correct incentives to develop SMEs for global market.



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