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Entrepreneurial orientation, management commitment, and human capital: The internationalization of SMEs in India

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ABSTRACT

Small- and medium-sized enterprises (SMEs) make sizeable contributions to the economic success of nations. Research concerning the internationalization of SMEs is available in the context of developed economies but less is can be found dealing specifically with the entrepreneurial behavior and international expansion of SMEs in emerging markets such as India. This research extends the literature addressing the relationships surrounding the internationalization of SMEs in India as related to entrepreneurial behavior, firm resources, and commitment to internationalization. Entrepreneurial orientation, a commitment to internationalization, and the ability to leverage human capital influence the international success of Indian SMEs, based on the analysis of data collected from 150 Indian SMEs.

1. Introduction

In developing and emerging economies, small and medium-sized enterprises (SMEs) play an important role as they represent a major source of employment and generate significant revenue and export earnings. SMEs now have access to new technology and their ability to embrace risk and uncertainty allows them to take advantage of their entrepreneurial and human capabilities, improving their ability to enter challenging new business environments. Existing empirical studies suggest that entrepreneurship influences superior firm performance in the developed economies (Luo et al., 2005). Much research exists focusing on understanding the practice of entrepreneurship in advanced economies (Luo et al., 2005; McDougall and Oviatt, 2000). There is less research addressing the increasing role of entrepreneurial firms in emerging markets (Bruton et al., 2008; Luo et al., 2005; Todd and Javalgi, 2007). This study focuses on filling this gap in response to the recommendation made by Zahra and George (2002), who propose the impact of entrepreneurial orientation, firm's resources (e.g., human capital) and commitment to internationalization on the international expansion firms should be extended beyond advanced economies.

When examining the entrepreneurship literature dealing with emerging markets, India has been the focus of only one study in the last past 15 years (e.g., Bruton et al., 2008). The purpose of this research is to extend the literature addressing the relationships surrounding the internationalization of SMEs in emerging markets such as India. The key research questions addressed in this study are follows: How does entrepreneurial orientation and management commitment affect the degree of internationalization of Indian SMEs? Does human capital matter? What is the impact of market turbulence on international activities? Addressing these questions is increasingly important as small and medium-sized businesses, particularly in an emerging market as found in India, develop competitive strategies for operating in a global environment. This article focuses on factors influencing the success of Indian SMEs as they attempt to expand internationally.

India is the focal country for this study for the following reasons: India's economy has experienced tremendous growth since liberalization efforts, beginning in the 1980s. In India, SMEs contribute 7 percent to gross domestic product (GDP), make up 34% of national exports, and account for 40% in the manufacturing sector (Venkataramany, 2008). While most countries put small entrepreneurial firms with less than 500 employees in the category of SMEs, in India these firms are small-scale industries (SSI).

2. Related literature review on internationalization

The term internationalization broadly encompasses a number of issues (Benito et al., 2009; Buckley and Casson, 2009; Leonidou et al.,

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1998). Calof and Beamish (1995) define internationalization as "the process of adapting a firm's operations (strategy, structure, and resource, etc.) to environments" (p. 116). According to Buckley and Casson (2009), internationalization is a general principle that explicates the boundaries of organization. These authors further define the internationalization concept by combining it with trade theory, explaining the location of the firm's operations, with organization theory explaining international joint ventures, and with the international entrepreneurship theory explaining international expansion activities. Buckley and Casson (1976) suggest that firms seek to develop and deploy their resources across international boundaries to take advantage of asymmetries in knowledge and capabilities.

The following categories represent internationalization models/theories built with different underlying assumptions and structures: The Uppsala/stage Model; The network model; the resource-based view; the OLI framework.

The Uppsala/stage model assumes interplay between the gradual acquisition of knowledge and commitment of resources to international operations (e.g., Johanson and Vahlne (1990). It is experiential knowledge that aids in reducing the firm's perception of market uncertainty, which affects the firm's commitment to internationalization. Therefore, cumulative market knowledge leads the firm to take small, incremental steps to international expansion.

In the network model, the activities in the network allow the firm to form relationships, which help to gain access to resources and markets. Johanson and Mattsson (1988) consider business networks as the relationships a firm establishes with various actors, such as customers, suppliers, and competitors. These authors argue that as the firm's internationalization efforts increase, the number and strength of relationships between different business actors increase, creating access to resources and markets.

The resource-based view (RBV) of the firm has emerged as an important explanation of firm behavior. The firm internationalizes for reasons related to the bundle of resources that managers use to create value. Resources that are valuable, difficult to imitate, and have no substitutes contribute to the firm's unique or core competencies and resulting in a lasting competitive advantage (e.g., Prahalad and Hamel, 1990). A firm's resources consist of all assets tangible and intangible, human and nonhuman, that the firm possesses and that permit the firm to create and apply value-enhancing strategies (e.g., Wernerfelt, 1995). Specifically, intangible firm-specific resources such as human capital and experience permit firms to increase value related to incoming factors of production and create competitive advantage for a firm (e.g., Prahalad and Hamel, 1990).

Dunning (1980) provides an eclectic model (also known as the OLI framework) to explain foreign investment activities by ownership specific advantages (O), location-specific advantages (L), and internalization advantages (I). Ownership advantages are firm-specific resources or capabilities (e.g., international experience), while location specific advantages (e/g., market potential) refer to the institutional and productive factors present in a particular country/market. The internalization advantages depend on the foreign firm's capacity to manage and coordinate activities internally (Dunning, 1981).

Market entry decisions may depend on offshore outsourcing (e.g., Javalgi et al., 2009). The phenomenon of offshore outsourcing would seem to both reaffirm and challenge the OLI framework (e.g., Doh, 2005). For instance, location is an important variable for market-seeking, resource-seeking, and cost-minimization objectives. These are also motivations for offshore outsourcing (Doh, 2005; Javalgi et al., 2009). Offshore outsourcing enhances international competitiveness by enabling SMEs to reduce costs, increase relational ties, and serve customers more effectively (Gregorio et al., 2008). Both as internal process and business strategy, offshore outsourcing could be an outcome of successful management of resources, and may itself represent a direct application of firm-level capabilities as envisioned by RBV (e.g., Doh, 2005).

3. Hypothesis development

3.1. Hypothesis related to human capital and internationalization

Human capital is critical to economic growth and entrepreneurial opportunities. In relation to internationalization, human capital consists of knowledge, skills, talent and experience used to provide value to the firm (Fletcher, 2004). Recent examination of human capital in strategy literature focuses on human capital as resources of the firm (e.g., Hitt et al., 1997), yet fails to examine a direct causal link between human capital and firm internationalization. The resource based viewpoint (RBV) states that firm specific resources result in a sustainable competitive advantage, creating resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Resources encompass three general capital resource categories: physical, human, and organizational. Physical capital resources encompass physical technology, property, plant, equipment, and access to raw materials.

Human capital resources include the "training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in a firm" (Barney, 1991, p. 101). Organizational capital resources involve the firm's reporting structure, planning processes, control and coordination systems, and information relations among workers within the firm, between firms, and within the business environment.

Human capital theory suggests that firms with a higher degree of human capital developed through access to employees with higher education and expansive personal experience achieve higher performance (Barney, 1991). Human capital is an important source of competitive advantage (Coleman, 1998). Loscocco et al. (1991) suggests that a major determinant of small business success is industry-specific experience. Bosma et al. (2004) notes that in the Netherlands prior experience in an industry substantially improved SMEs' success, growth, and survival. Brush and Chaganti (1998) find that education and industry experience affected firm performance.

Researchers confirm the positive effect of education and international experience on firm internationalization (e.g., Athanassiou and Nigh, 2002; Herrmann and Datta, 2005). Export research also provides support that the prior international experience of export managers is a driver of SME internationalization by influencing the firm's involvement in international export activities (Ibeh and Young, 2001).

In brief, human resources are likely to be more critical and several studies, mostly conducted in the Western economies, provide empirical support for the positive effect of human capital on SMEs internationalization (Patterson and Cicic, 1995; Ruzzier et al., 2007). However, less research has focused on the impact of human capital on the internationalization of SMEs in emerging economies such as India.

H1. Human capital relates positively to the degree of internationalization of Indian SMEs.

3.2. Hypothesis related to management commitment and internationalization

International commitment is the extent to which a firm's management has favorable attitude toward, and is willing to deploy necessary resources to internationalization efforts (Cadogan et al., 2005; Leonidou et al., 1998). Top management is the primary force driving the creation of values and beliefs that members of that firm adhere to (Jaworski and Kohli, 1993; McDougall et al., 1994). Therefore, top managers play a key role in shaping an organization's values and orientation. Calof and Beamish (1995) further support this view. In addition, Winsted and Patterson (1998) specifically point out that management commitment is an important motive to expand internationally.