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Factors Influencing Smes' Internationalisation And Their Effect On Performance

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Abstract

The goal of this research was to identify the factors that affect Indian SMEs' capacity to break into foreign markets. Successful internationalisation requires an awareness of the factors that encourage small and medium-sized enterprises to expand abroad, as well as how these factors relate to the internationalisation of larger corporations. This study looks into what factors affect the internationalisation of small and medium-sized enterprises in India. This research suggests that the entrepreneur's global mindset, human capital, technological prowess, and the external environment all play a role in the extent to which SMEs go global. The results indicate that Indian SMEs' internationalisation is mostly determined by their entrepreneurial mindset and their willingness to invest in their employees' human capital. Our analysis of the data shows that these associations are attenuated by technological uncertainty and market similarity, two factors that are prevalent among Indian SMEs.

Keywords- Internationalisation, SMEs, human capital, technology, external factors

Introduction

Small and medium-sized businesses (SMEs) play a crucial role since they provide the majority of new jobs in many nations and bring in the majority of their economies' revenue and export earnings. Even in South Korea, where SMEs account for 99.9% of all enterprises and 86.8% of all employees and contributed 45.8% to production and 45.1% to value added in 2015, the importance of SMEs to the national economy cannot be overstated. (IIT, 2016). Small businesses are able to thrive in today's

competitive market because their owners are risk takers and creative problem solvers, allowing them to make the most of their limited resources and develop the expertise they'll need to succeed in the future.

Due to their smaller size and lack of expertise, SMEs face greater challenges when expanding internationally. Nonetheless, SMEs are making efforts to build internationalization-specific capabilities or to find internationalization-related workarounds. The proliferation of ICT has opened up new opportunities for SMEs to expand into international markets (ICT). For their long-term success, India's SMEs must adopt an IT-centric business strategy. By allowing for rapid and low-cost cross-continental connection and data transfer, information technology has the ability to expedite processes and decrease costs all across the world (Sheth and Sharma, 2005). People who earn low wages often work in the "informal sector," which includes many home-based labourers, vendors, and service providers (Treacy, 2003).

Political and social stability in India is crucial to the country's chances of successfully modernizing and innovating in technology. Due to India's status as a developing market and the novelty of the government's initiatives, more research is needed to assess the effectiveness of the activities and their effects on the successful internationalisation of SMEs. There are a lot of ways to measure success, but two of the most common are an increase in the number and value of new, inventive ideas, as well as an increase in revenues from outside the country.

Literature Review

(Bhattacharya, S 2021) According to the research, Indian businesses become more global as their technical literacy improves. Additionally, familiarity with overseas markets and the degree of competition act as positive moderators of this correlation. In addition, familiarity with international markets and degree of rivalry serve as positive moderators of this connection. Our findings provide new insight into the relationship between institutional gaps and the motivation for businesses to internationalize their operations and thereby enrich the literature on both the global economy and the management of knowledge.

(Puthusserry, P 2020) According to the findings, peer networks, industry groups, overseas clients/partners, and connections made at trade fairs and trade missions are all examples of external sources of knowledge. It was observed that product, market, and technological know-how could be improved by introspective sources of information like self-learning,

particularly through trial-and-error and experiential efforts, which in turn aided geographic and product diversity.

SMEs are distinguished by their entrepreneurial vigour, adaptability, and high levels of motivation, while huge corporations have the advantage in breadth of operation, financial resources, and technical innovation. Since these latter enterprises already have more established resources and capacities, they are better able to deal with trade impediments when first beginning the internationalisation process (Paul et al. 2017; Zacharakis 1997).

The value of human capital to an organisation lies in its potential to serve as a source of new ideas and approaches. Subramaniam and Youndt (2005) argue that human capital is a key factor in an organization's ability to innovate. A company's human capital, intellectual capital, and market worth all increase when its employees acquire additional skills and knowledge (Vidotto et al., 2017).

There are two sorts of SME internationalisation theories. As a result of this stepwise approach, SME internationalisation is viewed as a gradual process. In this category include theories such as the stage model and the resource-based approach. Taking an active approach, the other takes a network-based approach and applies international entrepreneurship theories to it. Among internationalisation ideas, the stage model theory holds that internationalisation is an evolutionary process that progresses through several stages (Gankema et al., 2000). According to the accumulation of information gained by conducting business in foreign markets, internationalisation is a gradual process (Kamakura et al., 2012).

In the resource-based view, enterprises are defined as owning a competitive advantage because of their unique and valuable resources, which in turn serve as a foundation for internationalisation plans. (Stoian et al., 2011) (Knight and Cavusgil, 2004; Hwang, 2010). According to this theory, a company's performance can be improved by accessing and exploiting the company's most valuable and unique resources (Sousa and Bradley, 2008). This perspective places an emphasis on both real and intangible resources, such as a company's actual physical assets and its actual operational capabilities . It's possible to benefit from this perspective.

SMEs that have little but valuable resources or talents can enter international marketplaces (Leonidou, 2004). A firm's resources and skills can be gleaned from this perspective, allowing researchers to analyse the phenomenon of internationalisation in greater depth (Prange and Verdier,

2011). With this perspective, global expansion is described as a strategy to create international business networks (Ruzzier et al., 2006). The structure of a company's network can have a substantial impact on its internationalisation strategy (Antoldi et al., 2011). Some argue that organisations can better promote their internationalisation efforts by leveraging the real and intangible resources provided by their business networks (Wright et al., 2007). Accordingly, SMEs who lack the resources and knowledge to create international business networks, such as local distributors or agents, are encouraged to do so. It is a relatively new idea that aims to incorporate the so-called 'born-global' phenomenon that has been occurring since the 1980s. It is the rapid advancement of technology

Small and medium-sized businesses are now able to compete in international marketplaces because to modern technology and global logistics (Knight and Cavusgil 2004). To overcome internationalisation challenges, these companies have a fast-adapting aptitude to internationalisation, which is especially possessed by the firm's owner or entrepreneur (Prange and Verdier, 2011).

Objective

1. **To identify different factors influencing internationalization of SMEs**
2. **To determine the impact of those factors on SMEs performance**

Research Hypotheses:

H1: Entrepreneurial orientation significantly influence the international performance of SMEs in India.

H2: International market knowledge significantly influence the international performance of SMEs in India

H3: Technological capabilities significantly influence the international performance of SMEs in India

H4: External factors significantly influence the international performance of SMEs in India

3. RESEARCH METHODOLOGY:

The companies in the sample were chosen at random from the SMEs listed by the India's authoritative India websites, https://www.smechamberofindia.com and https://msme.gov.in.

This study's sample was drawn at random from each of India's four geographic regions. It should come as no surprise that we collected a representative sample with a respectable number of replies. Owners, managers, and CEOs were mostly surveyed because they are presumed to

have the most in-depth understanding of their businesses' conditions and performance.

A Google Docs-based closed-ended survey was constructed, and its URL was distributed to prospective participants. After collecting the SMEs' email addresses from their respective websites, invitation emails were sent out to all eligible individuals, outlining the purpose of the study and including a link to the survey. Online surveys provide many benefits, such as a high sample size for more reliable results. Three hundred surveys were sent out, with 242 usable responses.

To examine the study's hypotheses, researchers employed SPSS version 26. The study began by employing exploratory factor analysis to ascertain the characteristics that influence SMEs' internationalisation. The study also used correlation to look at how the variables were related, and in the end, multiple regression was used to see how much of an effect each variable had on the SMEs' global performance.

3.2. Measures

The five-point Likert scale (1 =" strongly disagree"; 5 = "strongly agree") was used. The measures for the predictors and outcome variables were selected based on exhaustive literature review on present research title. The International market knowledge factors were measured using 4 items derived from Handoyo et al., 2021. The four items related to technology capabilities were derived from the research study of Lee et al., (2001). Entrepreneurial orientation was assessed through six items, that were adapted from the study of Cui et al., (2018) and Qalati et al., (2021). The external environment factors were measured using three items using Mishra (2019) study. Finally, the international performance of the SMEs was assesses using four items adapted from Kuivalainen et al. (2010) and Qalati et al., (2021).

4. Results and Discussions:

4.1 Descriptive information:

From the total of 242 respondents, we can see in Table 1 that 192 (79.42%) were male and 50 (20.6%) were female. Most respondents (109, or 44.55 percent) were aged 26 to 35, and 94 of them (39 percent) had attained the postgraduate level of education. Conclusions can be drawn about the age and level of education of the typical decision-maker from this data.

As a percentage of the total, managers had the greatest response rate (41%; 99 managers), followed by executives (34.27%; 82 executives). With regards to firm size, 135 organizations (55.93%) had 50 or fewer employees (small businesses).

Table 1: Demographic profile of the respondents and SMEs

Measures	Items	Frequency	Percentage
Gender	Male	192	79.4
	Female	50	20.6
Age	Below 25	27	11
	26-35	94	39
	36-45	58	24
	Over 46	63	26
Education	Basic/secondary	10	4.2
	Undergraduates	47	19.5
	Master's	109	44.5
	Other	76	31.5
Position	Owner	61	25
	Executive	82	34.2
	Manager	99	41
No. of employees	Below 10	44	18
	11-50	135	56
	51-250	63	26

Source: Primary Survey

4.2 Reliability:

To evaluate the reliability of the proposed scale items, Cronbach's alpha was calculated. The results of the study's variables are listed in Table 2. From the data in the table, we can deduce that the alpha values are greater than or equal to 0.70 and lie between 0.787 and 0.880. Hair et al. (2010).

4.3 Exploratory Factor analysis:

Exploratory factor analysis was used to identify the various contributors influencing SMEs' decisions to expand their operations abroad (EFA). Kaiser-Meyer-Olkin (KMO) tests were performed to guarantee an adequate sample size before the analysis, and the KMO statistic is 0.782, which is much higher than the minimum acceptable value of 0.60. This number proved that the data set was large enough to conduct the factor analysis. The adequacy is further supported by the fact that the Bartlett test of sphericity was statistically significant at the 1% level.

The present study run the EFA using Principal component analysis with varimax rotation. After using the factor selection criteria based on Eigen value above 1, the five factors were extracted explaining the total variance of 76.5%, which indicated a good fit. The study selects those items which are having factor loadings above 0.7. The one item from Entrepreneurial orientation was deleted due to low factor loading under item purification process.

Table 2: Factor loadings and Cronbach's alpha values of Scale items:

	Scale Items	**Factor Loadings**	**Cronbach's alpha**
	Entrepreneurial orientation		
EO1	The human resources of our company are always ready to take risk.	.918	0.861
EO2	People want to be stand first in the markets	.897	
EO3	We introduced many new lines of products/service	.8867	
EO5	We are frequently the first to market with novel solutions and methods.	.814	
EO6	Instead of blindly sticking to tried-and-true brands, we place a high value on research-and-development spending, technological superiority, and creative thinking.	.802	

	International market knowledge		
IMK1	Product knowledge based on export destinations	0.830	0.856
IMK2	Knowledge of foreign market opportunities,	0.827	
IMK3	Technical knowledge of exporting	0.756	
IMK4	Having a firm grasp on the rules governing international trade.	0.814	
	Technological capabilities		
TC1	Modern production machines and equipment	.904	0.787
TC2	The most cutting-edge manufacturing methods are applied.	.889	
TC3	Able to design new products or adapt existing ones to the demands of international clients	.835	
TC4	We invest more on R&D compare to competitors for developing unique products	.824	
	External Factors		
E1	Government policies for expansion of SMEs in Export markets	0.827	0.874
E2	Better opportunities to grow and expand further with large customer base	0.801	
E3	Benefit due to transactions in Foreign Currency	0.784	
	International Performance		
IP1	The international market share objectives have been met	.877	0.880
IP2	We were successful in reaching our international sales goals.	.859	
IP3	We have increased company/brand visibility and reputation	.761	
IP4	We are satisfied with our success and positive firm's profitability	.745	

Factor 1. Entrepreneurial orientation:

The exploratory factor analysis extracted Entrepreneurial orientation as the first factor of the study. For the present study the items that were

explaining EO are SMEs people readiness for risk, to be first in market, producing new lines of products/services, believing in advanced methods for unique production compare to traditional one.

Factor 2 International market knowledge

The second component, known as Factor 2, is built on four principal ideas from the Knowledge Based View (KBV) paradigm. Factor 1 includes the following elements: familiarity with international trade legislation; familiarity with international market prospects; familiarity with exporting technology; familiarity with products wanted by export destination countries; and familiarity with exporting technology.

Factor 3: Technological capabilities

Technology Capabilities (TC) is the third derived factor. High loadings by components led to the factor's naming: the presence of modern production machines and equipment in sample SMEs, the use of cutting-edge technology throughout the production process, the presence of technological competence sufficient to meet the needs of foreign customers or create an entirely new product, and the fact that SMEs are spending more on research and development than their rivals in order to create these novel offerings.

Factor 4: External Factors

The fourth factor extracted is labelled as "External factors ". The components
of this factor are mainly explaining external environmental conditions such as policies of government supporting SMEs expansion in international markets, benefits expected or generated from marketing products in foreign markets, earning in foreign currency and wider customer base.

Factor 5: International Performance (Dependent variable)

The SMEs performance is considered as dependent (outcome) variable of the study. This factor is consisting of components related to SMEs growth in terms of market share, turnover, increased brand presence, customer satisfaction and overall success of the company with positive profitability.

4.3 MULTIPLE REGRESSION:

In order to test the proposed hypotheses, the study used multiple regression as statistical tool. Some assumption related to multiple regression were tested before running the final analysis.

4.3.1: **Normality assumption** of the collected was checked by plotting histogram. As mentioned in figure 1 the data of the present study are normally distributed.

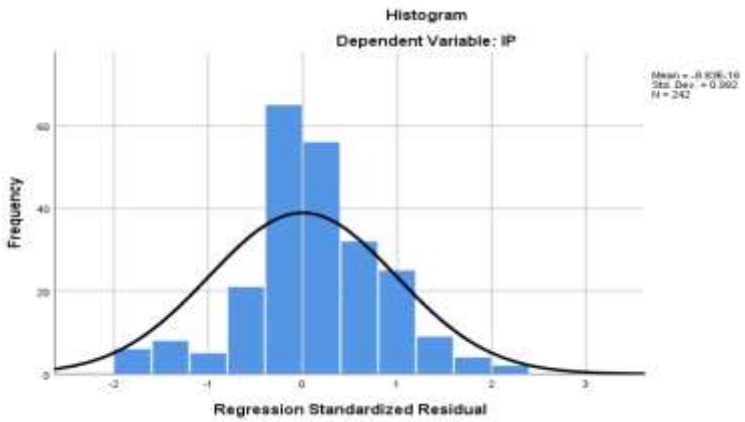

Figure 1: Histogram of International Performance (Dependent variable)

4.3.2 Multicollinearity assumption: The multicollinearity condition exists the presence of strong correlation between three or more independent variables it means when the value of correlation coefficient above 0.8. The study used the variance inflation factor (VIF) values, Tolerance value along with correlation analysis. The findings of the table 3, revealed that VIF value are withing the criteria of 4 and Tolerance values are above 0.2 for all the predictor variables confirmed that no multicollinearity issue exist for the current data.

Table 3: Multi-collinearity Tests for Internationalization of SMEs

Independent Variables	Tolerance	VIF
Entrepreneurial orientation	.652	1.533
International market knowledge	.742	1.347
Technological capabilities	.566	1.767
External Factors	.570	1.753

Source: Primary Survey
Note: VIF = variance inflation factor

4.3.3 Correlation analysis: Further, the correlation values mentioned in table 4, also confirmed the above findings. The correlation coefficients for all the variables related with international performance is positive and significant as the p value is less than 0.05.

Table 4: Correlation of all variables (N=242)

		IP	EO	IMK	TC	EF
IP	Pearson Correlation	1	.583**	.531**	.585**	.549**
	Sig. (2-tailed)		.000	.000	.000	.000
EO	Correlation	.583**	1	.411**	.544**	.521**
	Sig. (2-tailed)	.000		.000	.000	.000
IMK	Correlation	.531**	.411**	1	.558**	.521**
	Sig. (2-tailed)	.000	.000		.000	.000
TC	Correlation	.585**	.544**	.558**	1	.586**
	Sig. (2-tailed)	.000	.000	.000		.000
EF	Correlation	.549**	.521**	.521**	.586**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

Source: Primary survey

4.3.4 Multiple Regression Findings

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	68.146	2	17.037	61.192	**.000**
	Residual	69.046	238	.278		
	Total	137.192	242			

(Source: Primary Survey)

The result of the ANOVA table 5 indicates F-test value =61.19 with a significance level of $p<0.05$ ($p=0.000$) indicate the regression model is statistically significant in predicting the SMEs performance (dependent variable).

Table 6: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.344	.269		1.278	.202
	EO	.318	.060	.298	5.281	.000
	IMK	.216	.060	.204	3.586	.000
	TC	.239	.069	.216	3.455	.001
	EF	.171	.064	.161	2.667	.008
a. Dependent Variable: International Performance						

(Source: Primary Survey)

The effect of different factors on SMEs' worldwide expansion was broken down by the coefficients of a multiple regression model. Table 6 shows that the link between the international performance of SMEs (Dependent variable) and the four independent factors may be explained by the Unstandardized coefficients B value (IVs). If the IVs are changed by one unit, the DV will go up by one B, and if the IVs are changed by zero, the DV will go down by one B. As an illustration, an improvement of 0.318 on the international performance scale results from a one-unit shift in entrepreneurial orientation (EO).

Another important finding of regression coefficients is β values those are named as standardized coefficients. These β values indicate the impact of independent variable on dependent variable, which means higher the β value higher the impact of that particular predictor variable. For the current study the β value of 0.298 ($p<0.005$) is highest for Entrepreneurial orientation, revealed that from the four factors that affect internationalization of SMEs, EO is the most important determinant of SMEs performance in international market.

The other factors that influence SMEs international performance are Technological capabilities (β=0.216, p=0.001), followed by International market knowledge (β=0.204, p=0.000) and external environmental factors with β=0.161, p=0.008.

The t value is larger than the tabular value of 1.96 and the p-value is less than **α = .05** for all the predictor variables. These numerical findings support the study's hypotheses concerning the importance of a company's entrepreneurial spirit (H1), familiarity with foreign markets (H2),

technological prowess (H3), and external circumstances (H4) in influencing a company's success on the global stage.

The regression equation for international performance:

International performance = 0.344+ 0.318 (EO)+ 0.216 (IMK) + 0.239 (TC)

+ 0.171 (EF)

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721	.520	.512	.52196
a. Predictors: (Constant), EO, IMK, TC, EF				

The R value of 0.721 in Table 7 represents the simple correlation and indicates a very high degree of connection. R^2 = 0.520, which means that the independent variables, explains 52% of the variability of the dependent variable, international performance of SMEs.

5. Discussion and Implications:

The present study's empirical findings confirm the existence of various factors that influence the internationalisation of SMEs. Exploratory factor analysis is used to help researchers like us zero in on four key considerations for expanding into international markets. All of the issues that could affect retention in overseas markets should be carefully considered by business executives and those teaching the next generation of managers to direct Indian SMEs.

Indicating the significance of predictors in determining the outcome variable, the study found that the aforementioned four factors together explain 52% of the total variance in international performance. Multiple regression analysis showed that an organization's entrepreneurial culture significantly predicted its performance in export markets. In order to succeed in a global market, a company must invest heavily in its human resources and in the creative and preventative initiatives of its leadership.

The results of this study have significant implications for current and future managers efforts to keep their human resource well-trained and up-to-date with technological developments. In order to achieve success in global marketplaces, it is essential that the organization's goals and objectives be communicated effectively to all of its employees.

The ability of a SME to use and adapt new technologies is another crucial aspect in determining whether or not it will participate in global markets. This confirms the conclusion of Puthusserry et al. (2020), who found that SMEs that invest in technology for product innovation, product quality improvement through R&D experiments, and advanced machinery for product diversification enjoy greater success in international markets and higher financial returns.

Managers need information about the target market before deciding whether or not to enter it. A SME will have a leg up on the competition if it is equipped with the data it needs to break into a foreign market effectively. This data includes market knowledge, trade rules, export procedure, foreign buyers, and rivals. SMEs that have already established a foothold in international markets have an edge in the early phases of internationalisation, and those same markets can be extended later on.

In addition to internal variables, the presence of a positive external environment is crucial to the success of SMEs. The Indian government's efforts to encourage SMEs' expansion into export markets are quite helpful. Other external variables that play a role in SMEs' decisions to enter international markets are the perceived benefits SMEs intend to reap from international expansion, such as earnings in a foreign currency and a larger client base from which to diversify products and services. Finally, the money made can be put back into the domestic market.

According to the findings, all of these considerations are crucial when it comes to determining the success of SMEs on the global stage.

6. Limitations and Future Research:

The Indian economy is expected to rise to $5 trillion by 2025, with SMEs playing an increasingly important role, thanks to revolutionary economic shifts. Paying extra attention to B2B e-commerce, food production, pharmaceuticals, and national security and military is essential. This research did not look into whether or not there is a link between a company's strategic outlook and its use of social media. In light of this, it would be instructive to investigate the factors, such as strategy and leadership, that affect the widespread use of social media among small and medium-sized enterprises.

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