

SMEs' INTERNATIONALISATION DETERMINANTS AND CAPABILITIES: EVIDENCE FROM MADHYA PRADESH, INDIA

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ABSTRACT

Internationalisation of SMEs is an important element of economic development and firm growth. The article presents result from quantitative study, conducted at Small Medium Enterprises (SMEs) in Madhya Pradesh, India. Employees working in SMEs were interviewed to study the effects of organization's international orientation, marketing mix standardisation, financial capabilities, and international performance. Responses were analysed using factor analysis. The factors were in line with the earlier studies. In particular, India is experiencing balance of payment deficits. In this connection the government has to increase the international activities of their SMEs. These results boost economic growth, cut unemployment and create potential multinational enterprise in the future. Research findings have insightful implication intended for academicians and industry people.

Keywords: Small Medium Enterprise, Internationalisation, Employees, India

INTRODUCTION

Internationalization of Indian Small and Medium Enterprises (SMEs) continues to thrive all over the globe. It is realized that competing globally provides SMEs an economic imperative option. Likewise, Yamakawa et al. (2008) consider internationalisation as the outcome of the dynamic interaction between organisations and institutions. During the last few decades internationalisation as a phenomenon has been researched by many scholars from different points of view (Korsakienė and Tvaronavičienė 2012). The small business sector has become more important as it emerges as a dominant force affecting the growth of national economies. Small-firms are becoming international and over the last decades, have felt the need for business success (Saixing et al. 2009; Rundh 2007). The process is deemed to create an extra-ordinary competitive environment for India, as they do not appear to be ready to face the challenges and opportunities that globalization currently presents. In 2007, the European commission stated that many developing countries have implemented internationalisation policies to increase international activities of SMEs and to boost the economic growth of the nation. Because of these activities, there is an increase in the average of global trade i.e. 6% since 1990, faster than the global Gross Domestic Product (GDP). Internationalisation of SME is an important element of economic development and firm growth ((Ruzzier et al. 2007).

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SMEs in India

The contribution of the SMEs to the growth and development of Indian economy has multiplied over the last decade. Today SMEs are the backbone of Indian economy, and accounts for significant part of international trade. SMEs contribute 17% to Gross Domestic Product (GDP), and account for 40% of total exports, contributing 45% to manufacturing output, and employing 40% of India's workforce [1]. It is the second largest employer of human resources, after agriculture (Javalgi et al., 2011).

Table 1: Production Growth of Micro, Small, and Medium Enterprises (MSME) Sector in India (1996-1997 to 2007-2008)

Year	%age Growth Rate of MSME Sector	%age Growth Rate of Industrial Sector
1996-97	11.32	6.08
1997-98	8.43	6.65
1998-99	7.70	4.09
1999-00	8.16	6.68
2000-01	8.23	4.97
2001-02	6.08	2.71
2002-03	8.68	5.70
2003-04	9.64	6.90
2004-05	10.88	8.40
2005-06	12.32	8.10
2006-07	12.60	11.51
2007-08 (P*)	13.00	8.00

Source: Ministry of Commerce & Industry, Govt. of India. (10334) [2]; P: Projected.*

The main goal of this paper is to study the effects of organisation's international orientation, marketing mix standardisation, financial capabilities, and international performance.

LITERATURE REVIEW

Literature on internationalisation of small- and medium-sized firms has grown quickly in the last two decades (Al-Hyari et al. 2012). D'Angelo et al. 2013; Wheeler et al. 2008; Leonidou et al. 2002; Katsikeas et al. 2000 have conducted recent studies on SMEs internationalization. For SMEs, to compete with the big world player's internationalization is considered to be among the most important motivations (Hussain et al. 2013). In 2007, Acedo and Jones defined international orientation as the manager's capabilities that describes the positive attitude of managers towards exporting, international activities and stays abroad. Earlier researchers have stated that international orientation is extremely important to global firms. It includes the international outlook of the firm. The firm international outlook demonstrated by the global focus of the management results in higher foreign sales ratios. However, marketing capabilities refer to organizations' understanding of the customers' needs, which are important to position the marketing program appropriately (Olejnik and Swoboda 2012). In particular, marketing-mix standardization is the extent to which the marketing programmes are identical across countries. Earlier researchers have stated that the level of marketing-mix standardisation depends on the operation mode of the SMEs. Similarly, Kuivalainen et al. 2010; Sapienza et al. 2006 concluded that smaller firms face more difficulties in obtaining the necessary funds for research and development, marketing, exporting and internationalisation. Because of greater financial resources, larger firms are able to accumulate larger stock of capabilities as compared to its competitors. The financial resources (i.e. monetary resources) are not available if there are no financial capabilities (i.e. connections to different types of investors) which are needed to acquire and manage the organization (Kuivalainen et al. 2010). The financial capabilities should have a positive effect on the degree of internationalisation and international performance. As per Augier and Teece (2007), organizational/managerial capabilities refer to managerial competencies related to organisational and managerial processes, knowledge, and skills of employees, and efficient organisational structure. It motivates organisational members to communicate effectively, be creative, to share, and develop ideas (Olejnik and Swoboda 2012). The organisational capabilities of SMEs are subsequent to its international performance. It

helps the firm to understand international activities and to translate its experiential knowledge into figures and numbers.

RESEARCH METHODOLOGY

This study employed a quantitative research design using a survey method. The survey instrument for this research was a structured survey questionnaire. We conducted fieldwork as well as questionnaires sent via electronic means to gather basic information and develop a broad and representative database in line with our empirical research needs. The context for the research was to gather personal information from employees working in the small medium enterprises operating in various geographic location of Madhya Pradesh, India.

The software used for the statistical analysis was SPSS version 19. Before using data for analysis, the normality condition of data was checked. The standard range for normality is skewness and kurtosis lying between -1 and 1 (Chan 2003). In 2009, Hair et al. claim that for sample size < 30, significant departures from normality can have large impact on results. Based on reviewed literature, the data fulfills normality and other assumptions and could be used for analysis.

Demographic Profile

The characteristics of the sample have been summarized in Table 2. Total 110 questionnaires returned from 250 sent, 89 of which were useable. This translates into an overall response rate of 44 per cent, and a usable response rate of 35.6 per cent.

Table-2: Demographic Characteristics of Sample Respondents

Profile of the Respondents	Freq.	Percent (%)	Mean	Standard Deviation
Respondents Gender				
Male	55	61.8%	1.38	0.48
Female	34	38.2%		
Respondents Age				
Below 25	12	13.5%	2.64	1.08
25 - 35	33	37.1%		
36 - 45	24	27.0%		
46 - 55	15	16.8%		
56 and above	5	5.6%		
Respondents Marital Status				
Unmarried	37	41.6%	1.58	0.49
Married	52	58.4%		
Respondents Academic Qualification				
Graduate	24	27.0%	2.29	0.99
Post-Graduate	25	38.1%		
Professional Degree	30	33.7%		
Others	10	11.2%		

Respondents Work Experience (Years)				
1 - 5 yrs.	20	22.5%	3.75	1.97
6 - 10 yrs.	30	33.7%		
11 - 15 yrs.	14	15.7%		
16 - 20 yrs.	12	13.5%		
21 - 25 yrs.	6	6.8%		
More than 26 yrs.	7	7.9%		

RELIABILITY

To establish internal consistency, Cronbach's α value for reliability were calculated. The scales were reliable, with the composite reliabilities ranging from 0.832 to 0.938, greater than the benchmark of 0.70. The generally applied acceptability limit for Cronbach's alpha has the value 0.70 (Hair et al. 1998). Table 3 shows the reliability level for each scale and factor loadings for each item in a scale.

Exploratory Factor Analysis

Before conducting the analysis, tests of sampling adequacy were conducted. The Kaiser-Meyer-Olkin (KMO) statistic is 0.779, appropriately greater than the recommended cut off 0.60. Furthermore, the Bartlett test of sphericity was significant, at the 1% level of significance.

Items "MFC4" is dropped from the Management (organisational) and financial capabilities scale, because of low communality value.

Table-3: Factor Loadings and Composite Reliability (CR).

Factor items and composite reliability (CR)		Factor Loading			
		IOR	MMX	MFC	IPR
International orientation (IOR)S; (CR=0.832)					
IOR1	We encourage our employees' international orientation	0.795			
IOR2	We believe that the future of the firm lies in international markets	0.814			
IOR3	We travel abroad to learn about cultures	0.696			
IOR4	We do not perceive different mentalities to be strange	0.756			
IOR5	We believe that geographic distance to overseas markets is not problematic at all	0.785			
Source: Olejnik and Swoboda (2012)					
Marketing mix standardisation (MMX); (CR=0.925)					
MMX1	Our marketing program is standardised globally		0.853		
MMX2	We try to reach a similar positioning of our product		0.838		

MMX3	We standardise the price as compared to competitors		0.864		
MMX4	We have the same advertisement across countries		0.820		
MMX5	Our distribution systems are similar worldwide		0.912		
MMX6	Customer needs in our industry are similar worldwide		0.825		

Source: Olejnik and Swoboda (2012)

Management (organisational) and financial capabilities (MFC); (CR=0.938)

MFC1	Our staff is skilful			0.792	
MFC2	Our organisational structure functions well			0.788	
MFC3	Our different functions are well coordinated with one another			0.751	
MFC5	We have succeeded in our recruitment			0.900	
MFC6	We enjoy an encouraging atmosphere			0.774	
MFC7	Our resource management has become more efficient through experience			0.777	
MFC8	We have a learning organisation			0.720	
MFC9	We can utilise the expertise of our staff in different tasks			0.788	
MFC10	We have excellent investment expertise			0.799	
MFC11	We have good connections to different investors			0.731	
MFC12	We constantly follow the company's financial condition			0.790	

Source: Kuivalainen et al. (2010)

International performance (IPR); (CR=0.781)

IPR1	We have met our international market share objectives				0.689
IPR2	We have achieved the turnover objectives we set for internationalisation				0.881
IPR3	In general, we are satisfied with our success in the international markets				0.724
IPR4	Internationalisation has had a positive effect on our firm's profitability				0.782

Source: Kuivalainen et al. (2010)

Eigenvalue	7.12	4.52	3.01	2.43
Percent of variance explained	26.39	16.73	11.17	9.03
Total Variance explained	63.32			

RESULT AND DISCUSSION

International Orientation (Factor1)

The factors measure the managers' capabilities and their attitude towards export related activities and international operations. It explained 26.39% of its underlying variables and its Eigen value is 7.12. It is a composite index of five variables with reliability coefficient (0.832) and the factor loading ranging from 0.696 to 0.814. The variable IOR1 (0.795), IOR2 (0.814), IOR4 (0.756), and IOR5 (0.785) are contributing more weight to factor International Orientation, followed by IOR3 (0.696). The factor is in line with the earlier study (Olejnik and Swoboda 2012).

Marketing-mix Standardisation (Factor 2)

The factor measures the degree to which the marketing programs are operating across the country. It explained 16.739% of its underlying variables and its Eigen value is 4.520. It is a composite index of six variables with reliability coefficient of (0.925) and the factor loading ranging from 0.820 to 0.912. All the variables are contributing significant weight to the factor so called marketing mix standardisation. The factor is in line with the earlier studies (Olejnik and Swoboda 2012).

Management (organisational) and Financial Capabilities (Factor 3)

The factor measures the managerial competencies related to organisational and managerial process and its structure. This factor management (organisational) and financial capabilities consist of 11.178% of its total variance of its underlying variables with Eigen value 3.01. It is a composite index of eleven variables with reliability coefficient (0.938) and the factor loading ranging from 0.720 to 0.900. Almost all the variables are contributing significant weight to the dimension. The factor is in line with the earlier studies (Kuivalainen et al. 2010).

International Performance (Factor 4)

The factor International Performance consists of 9.032% of its total variance of its underlying variables with Eigen value 2.439. It is a composite index of four variables with reliability coefficient (0.781) and the factor loading ranging from 0.689 to 0.881. The variable IPR2 (0.881) is contributing maximum weight to the factor followed by IPR4 (0.782), IPR3 (0.724) and IPR1 (0.689). The factor is in line with the earlier studies (Kuivalainen et al. 2010).

CONCLUSION AND IMPLICATIONS

The paper has found out the factors, which may result in internationalization of Indian SMEs. The empirical study of our research shows that Indian SMEs are affected by the observed four factors for internationalization. Internationalization of SMEs is of great importance as it strengthens the economy and provides more business and employment, significantly in rural India. The observations from results draw an implication, which enumerates the challenges for business leaders and grooming young managers to lead the Indian SMEs in international markets by meticulously taking care of different factors that may affect the retention in international market. Out of the discussed factors, orientation is a vital aspect as it depends on managers' attitude and capabilities. The further research in this field can be a study of the foreign countries, acceptance of Indian SMEs, cultural adaptability, and marketing positioning factors for Indian SMEs. In particular, India is experiencing balance of payment deficits. In this connection the government has to increase the international activities of their SMEs in order to boost economic growth, cut unemployment and create potential multinational enterprise in the future. The limitation of the research can be its observed geographical area as the research was limited to Madhya Pradesh. The future study may be done in others part of India.

Notes:

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