

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 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.

Keywords – Entrepreneurship orientation, Brand orientation, Corporate entrepreneurship, SME, Organizational learning

1. Introduction

This conceptual paper presents a new framework for analyzing internationalization of SMEs. 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.

SMEs make up over 90 per cent of businesses worldwide and account for between 50 to 60 per cent of employment (UNIDO report, 2002). 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). In fact, 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, SMEs play a key role in social development. 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). It can be used to gain broad economic and social restructuring in which under-developed 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 added products.

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. 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. SMEs in informal sector report low productivity and income (Dassanayaka, 2008). 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, 1997)) and the concentration of SMEs on industry categories (non-diversified) are also common. SMEs are 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, 2008). 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.

2. Underpinning theories

Johanson and Vahlne (1977) explained 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. 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). Cavusgil (1980) and Reid (1981) consider the progress to the next stage as an innovation. 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). 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.

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 the link between entrepreneurship and internationalization 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). 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) 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. It implies that EO is a valid measure of international entrepreneurship.

3. Literature Review

3.1 Organizational Performance

SME performance is the main indicator of its ability to survive and sustain in business. 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 and Oviatt (1996) reported a non-significant relationship.

The definition of organization performance or effectiveness still eludes a widely accepted agreement. This little consistanncy creates issues in comparing the results of research studies. Škrinjar, Bosilj-Vukšić, and 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, the definition of Moullin (2003) is selected due to multi-faceted perspective of performance of the definition and that is one aspect that this resarch envisages to ocntribute to the body of knowledge. Different approaches to organizational performance measurement are available to contain different stakeholder perspectives. Balanced Scorecard method (Kaplan & Norton, 1992) and performance prism (Tangem, 2004) are some recent and widely used measures in past literature as explained in Škrinjar et al. (2008). Few decades back, the prime 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. 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. Hudson, Smart, & Bourne (2001) identified six dimensions of organization performance which include financial, operations (three dimensions), external perspective and organization culture.

Table 1***Critical Dimensions of Performance***

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, skills, Productivity, Quality of work

Note – From Hudson, Smart, & Bourne (2001)

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.

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 & Lu (2001)	164 Japanese SMES	IV - FDI DV – ROS and ROA	Quantitative	Depend on the level of FDI
Chiao, Yang & Yu (2006)	1419 Taiwan SMEs	IV - Export Sales/Total Sales DV – ROS	Quantitative	U- Shaped effect on performance
Chelliah, Sulaiman & Yusoff (2010)	77 SMEs in Malaysia	IV - DOI DV – Average ROI,ROS,ROA	Quantitative	Significant relationship between internationalization and performance
Zhou, Aiqi & Bradley (2012)	300 managers in China	IV - Timing of the entry DV –International	Quantitative	Early foreign market entry enhances a young venture's international

Surprisingly 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 (Zahra et al., 2000). 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. 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). Strong profitability may or may not be an important objective for a new venture, which is trying to establish a foothold in a market (Mcdougall & Oviatt, 1996).

Another 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). 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. This research intend to include non-financial dimensions such as overall employee commitment and satisfaction (Matzler et al., 2007) and social reputation (awards for the firm/entrepreneur, company reputation) Matzler & Renzl (2007) survey instrument includes five dimensions of employee satisfaction and will be used for this study.

3.2 Internationalization of SMEs

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) and 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. It creates risk that the selected measure is confounded by method bias (Nunnally, 1978). Sullivan (1994) created a Degree of Internationalization index (DOI) that includes structural, market, product characteristics of international expansion. However due to difficulties in obtaining data and as most indexed dimensions may be not relevant in majority of SMEs context, it can be opted for a simpler yet multi-dimensional approach. It is intended to use three dimensions 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.

3.3 Brand Orientation

Bridson and Evans (2004) defined brand orientation as “The degree to which the organization values brands and its practices are oriented towards building brand capabilities” (p.404) 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, 2005). Abimbola and Vallaster (2007) believe that branding, organization identity and reputation are critical ingredients of SME firm success in competitive markets. Bresciani and 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. 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 3) Brand orientation could create an improved possibility for successful internationalization especially for SMEs in South Asian region due to several factors mentioned below.

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 countries 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 and textiles. 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 and use of social media (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 the new variable, Brand Orientation is added in place of MO as a better predictor of international success in South Asian context.

H1 – Brand orientation significantly influence internationalization

3.4 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. Kuratko and Hodgetts (2007) defines entrepreneurship 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” EO is the most widely used measure to capture the entrepreneurship at firm level (Baba, 2011). But in this research it will be used in the top management 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 and 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. 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. Referring to the review article of Aspelund (2007) from 1992-2004, all studies on INVs have been conducted in developed countries except research 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, Ma & Wang (2012)	117 Chinese SMEs	EO	Quantitative	Different dimensions of EO exert different levels of influence on internationalization
Mika, Niina, Kaisu & Sami (2011)	High tech SMEs in Finland	MO	Mixed	Some aspects of MO affect SME internationalization
Baba (2011)	101 SMEs in Malaysia	EO	Quantitative	Some components of EO have impact on SME performance
Javalgi & Todd (2011)	150 High Tech SMEs	EO	Quantitative	Strong link between EO and internationalization
Natasha (2011)	Two new ventures	EO, Dynamic capability	Case Study	Dynamic capability of entrepreneurs, EO and external relationships determine the success in export activities
Johan & Svante (2011)	188 SMEs in Sweden	MO and EO	Quantitative	Both MO and EO have little effect on international performance
Melia, Perez & Dobon (2010)	105 Spanish SMEs	Innovation orientation	Quantitative	Innovation orientation accelerates the time taken to internationalize
Armario, Ruiz, & Armario (2008)	112 SMEs in Spain	MO	Quantitative	Positive influence of MO on Internationalization
Meliá et. al (2008)	Service sector	Innovation orientation	Qualitative	Innovation orientation accelerates the time taken to internationalize
Jantunen et. al (2005)	217 Finnish companies	EO,	Quantitative	No relationship between EO and international performance.

Hence 2nd hypothesis of this research is 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.

H1 – Entrepreneurial Orientation significantly influence internationalization

3.5 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 impact of EO on internationalization decision is tested on mostly in 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. 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) The scale developed by Covin and Slein (1986) is a product of past studies of Khandwalla (1977) and Miller and Friesen (1982). Lu and Beamish, (2001) expanded the study of inquiry on EO to top managers from founder. This research takes a further step to include middle managers in the framework. Also it is assumed the in collective cultures it will be a valid predictor of internationalization as EO. Therefore 3rd hypothesis is formed as follows.

H1 - Middle managers’ perception of corporate entrepreneurship significantly influences the internationalization

3.6 Industry context

Researchers debate on precedents of SME internationalization. One school of thought argues that it is a phenomenon associated and explainable with entrepreneurship theories. Accordingly, the higher the entrepreneurial characteristics of the firm, the 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”. Bell (1995) points that gradualist models are especially challenged in high technology and service intensive industries. Andersson (2004) analyzed two industries in different stages of the Product Life Cycle. He found that organizations in mature industry follow an incremental path. Reliance on firm’s internal resources and personal characteristics of the entrepreneur in high growth industry is better explained by the international entrepreneurship theories. 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. In a review table presented by Aspelund et al. (2007) on all INV research from 1992 to 2004 in core journals indicates that many 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 extent, 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 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. Furthermore, little research has tried to compare the effect of predictors in different industry contexts. That could be the reason

Rygl and 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.

H1a – Industry context has a moderating effect on the relationship between EO and internationalization significantly

H1b – Industry context has a moderating effect on the relationship between Brand Orientation and internationalization significantly

H1c – Industry context has a moderating effect on the relationship between Middle managers' perception of corporate entrepreneurship and internationalization significantly

3.7 Organizational Learning

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) and Zahra (2005) argue that INV 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. 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, and Thomas (2010) For this research, instrument of Flores, Zheng, Rau, and Thomas (2010) can be used as it clearly prove that interpretation and integration are different dimensions of orgnizatioal learning whereas early measures do not identify them separetly.

H1 – Organizational learning has a moderating effect on the relationship between internationalization and firm performance of SMEs.

Since non-homegenity of SMEs can effetc the reliabilty of the final result, it is proposed to control firm age and size as control variables.

4. 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.

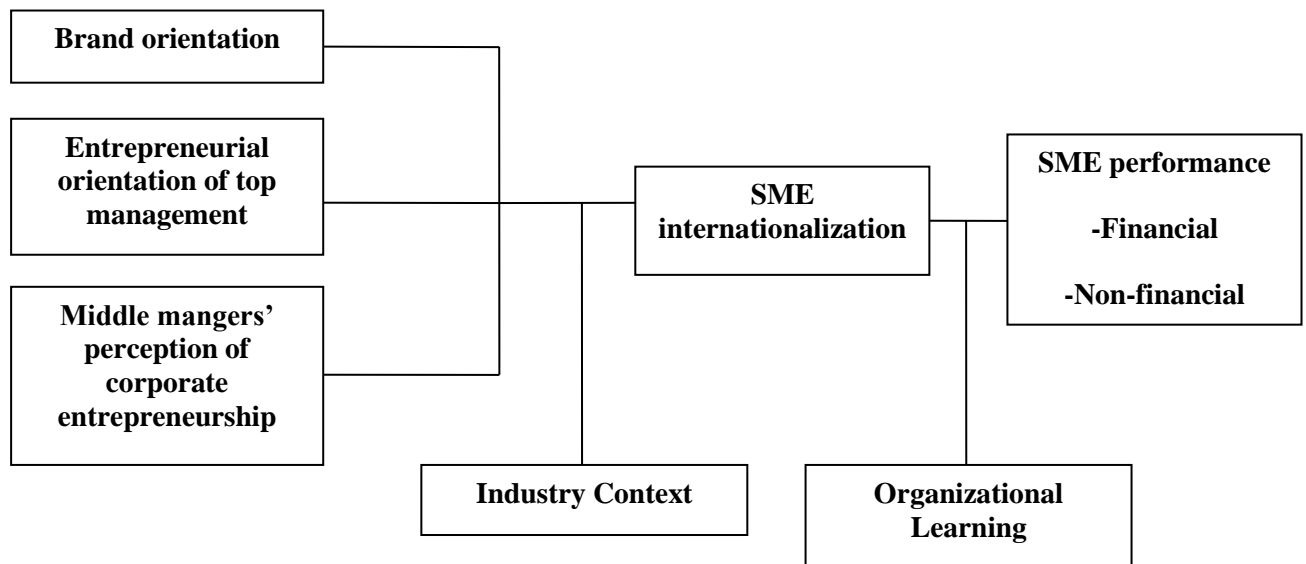


Figure 1- Proposed conceptual framework

5. 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. 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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