# THE INTERNATIONALIZATION OF BRITISH AND INDIAN SMALL AND MEDIUM-SIZED ENTERPRISES: A COMPARATIVE STUDY

by

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# ABSTRACT

The objective of this research is to address the need for empirical evidence on how and why British and Indian SMEs engage in and sustain mutual business relationships, and to contribute to theory development. It focuses on their internationalization strategies, and the potential relevance of psychic distance, social capital and learning.

A mixed qualitative and quantitative methodology is employed to study the internationalization of British companies to India and vice-versa. The views of both British and Indian SME entrepreneurs were obtained for this purpose. The empirical investigation proceeded through two stages. The first stage consisted of qualitative exploratory research among the managers of 30 British companies and their partners in India. The second stage of the study involved a survey of 100 British SMEs and 100 Indian SMEs.

The findings show that SMEs entrepreneurs tend to rely heavily on network support. However, despite their personal networks and use of advanced communication technologies, some entrepreneurs could not cope with the complex institutional features of foreign markets. We also observed that national differences are of considerable relevance for SME internationalization. We conclude that a distinct theory of SME internationalization is required and offer some suggestions to that end based on the research findings.



Key words: Internationalisation, SME, UK, India, psychic distance, social capital, learning capability.

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# CHAPTER 1
# INTRODUCTION

## 1.1. Background of the study

The internationalization of companies is a subject that has dominated international business research for the past four decades (Buckley, 2002). It has explored various issues related to internationalization such as market entry, psychic distance, learning, and the role of networks. There is no single widely accepted definition of internationalization; it is in fact the background interest of researchers and the level of analysis that has influenced the interpretation of this concept (Jones, 1999). Internationalization literature can be classified into four broad categories: economic, process, network and international new venture (born global) perspectives.

The economic model, which was the starting point of internationalization research, treated internationalization as a rational decision-making exercise (e.g. Dunning 1988; Hymer, 1976; Penrose, 1959; Vernon, 1966). These models used to answer the question "why" firms internationalize. The researchers applied economic modeling and other theories to study underlying reasons such as the ownership, location, and internalization advantages of multinational firms (Dunning 1988). By comparison, the process model is more deterministic in nature. It argues that incremental firm-level learning determines the international actions of firms (Johanson and Vahlne, 1977; Andersson, 2000). The basic assumption of the process model is that international incremental expansion begins with low risk and low commitment activities such as export and then slowly moves to greater risk and commitment modes such

as joint ventures or wholly-owned subsidiaries (e.g. Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Cavusgil, 1984). They also highlighted issues of psychic distance.

The network approach is an extension of process theories, which considers that the initial network developed by the firm will be useful for its further expansion (Johanson and Mattsson, 1988; Johanson and Vahlne, 1992, 2003; Coviello and Munro, 1995, 1997; Holmlund and Kock, 1998). Business-network aspects dominated early network theories on internationalization. However, later research on the internationalization of SMEs emphasized the importance of social or personal networks as well (Ellis, 2000; Ellis and Pecotich, 2001; Chetty and Wilson, 2003; Sharma and Blomstermo, 2003). The international new-venture (INV) perspective deals with firms whose internationalization is considerably different from that of traditional firms. They eye international markets, and perhaps even the global market, right from their origin (Oviatt and McDougall, 1994; Shrader, Oviatt and McDougall, 2000; Zahra 2005). Proponents of the INV perspective pointed out the importance of entrepreneurs in internationalization and they integrated the internationalization literature with the entrepreneurship literature to form the international entrepreneurship approach towards explaining the internationalization of rapidly internationalizing firms (McDougall and Oviatt, 2000).

Studies of multinationals dominated the internationalization literature in the 1960s and the 1970s mainly because of their dominance in the global market. However, the increasing presence of small and medium enterprises (SMEs) in the global market and their importance in national wealth creation (Reynolds, 1997) has necessitated a focus on SME

internationalization as well (Bonaccorsi 1992; Erramilli and D'Souza 1993; Haahti, Hall, and Donckels, 1998).

Existing theories of internationalization are mainly based on companies from developed countries---and there is a limited focus on those from emerging economies. However, researchers have observed that theories based on developed-country firms are not sufficient for exploring the internationalization of emerging-country firms (Child and Rodrigues, 2005; Mathews, 2006; Contractor, Kumar and Kundu, 2007; Gaur and Kumar, 2009). The liberalization of economies has led to a global presence of companies from major developing countries such as Brazil, Russia, India and China (BRIC). Despite this, there is still only a limited number of studies on emerging country firms. This study contributes to the existing literature by providing a holistic illustration of the internationalization of SMEs from both a developed and an emerging country.

## 1.2. The research problem

The main focus of this research is on the process of internationalization, specifically on internationalization strategies, the issues of psychic distance, social capital, learning capability and the role of ICT in the internationalization of British and Indian SMEs. Although there has been a lot of research focusing on the process of internationalization, a holistic approach of assessing these issues in developed and emerging-country SME internationalization has not been attempted before.

A review of the literature suggests that internationalization; specifically the market entry strategies of emerging-country firms will be different from those of developed-country firms

because their objectives are different (Child and Faulkner, 1998). In order to provide an empirical test of this proposition we shall address first the considerations that influenced the UK and Indian SMEs' decisions to internationalize to each other's market. This leads to:

> *Question.1. What are the factors that influence British and Indian SMEs decisions to internationalize to each other's market?*

The nature and role of psychic distance is one of the most widely discussed topics in the internationalization of firms (Child, Ng and Wong, 2002; Dow, 2000; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Nordström and Vahlne, 1994; O'Grady and Lane, 1996; Stottinger and Schlegelmilch, 1998). At the same time, its conceptualization and measurement remain problematic (Dow and Karunaratna, 2006; Child, Rodrigues and Frynas, 2009; Prime, Obadia and Vida, 2009). Psychic distance is all about the perceived difference between a home-country business environment and a foreign one. Despite its fundamentally cognitive nature, most studies have failed to explore the perceptual aspect of psychic distance (Stottinger and Schlegelmilch 2000). The general expectation is that a greater psychic distance generates uncertainties that may discourage a firm's entry to a foreign market. However, some recent contributors have highlighted the multidimensional nature of psychic distance (Child *et al*. 2009; Dow and Karunarathana 2006; Evans and Mavondo 2002; Sousa and Bradley 2006) but there has been less investigation into whether some dimensions of psychic-distance are perceived to be more consequential for business than others. Similarly, little attention has been given to how business people cope with any difficulties associated with psychic distance. This study therefore looks to fill a gap in the literature by assessing the perception of decision-makers from the UK and India about psychic distance, its business impact on these firms and how they cope with these issues. Hence,

*Question.2. What is the role of psychic distance and its business impact on the internationalization of British and Indian SMEs and how do they cope with these issues?*

Access to networks is considered as an important factor in the internationalization of SMEs (Johanson and Mattsson, 1988), which lack resources to move internationally (Buckley 1989; Coviello and Munro, 1995). Early studies on network access were dominated by a business perspective (e.g. Johanson and Mattson, 1988; Axelsson and Johanson, 1992; Johanson and Vahlne, 1992, 2003; Coviello and Munro, 1997). Studies showed that SMEs rely on their business network for learning about new markets (Coviello and Munro, 1995, 1997; Holmlund and Kock, 1998; Loane and Bell, 2006), resources acquisition (Coviello and Munro, 1997; Chetty and Wilson, 2003) and opportunity recognition (Johanson and Vahlne, 2006, 2009).

However, later studies realized the importance of entrepreneurs in network studies (Chetty and Holm, 2000). Through their existing experience and network relationships, they facilitate entry into foreign markets by offsetting the time and resource constraints (Chetty and Holm, 2000). The relationship and network of entrepreneurs lend a social dimension to networks, a recognition of which led to the social network approach (e.g. Sharma and Blomstermo, 2003; Rutashobya and Jaensson, 2004; Loane and Bell, 2006; Ellis, 2010). In this approach, significance is given to a network because it provides resources such as information, finance, access to other networks (Chetty and Wilson, 2003; Lechner and Dowling, 2003), reduces the transaction cost (Rutashobya and Jaensson, 2004), facilitates new market entry (Loane and Bell, 2006), provides knowledge of international entrepreneurial opportunities, and reduces

risks and uncertainty (Ellis, 2000; Ellis and Pecotich, 2001; Sharma and Blomstermo, 2003; Zain and Ng, 2006; Ellis, 2010). It also helps SMEs strategic decision-making process (Harris and Wheeler, 2006), which is very important for SMEs that have limited resources and capabilities to compete and survive in the international market.

Social network forms the basis of social capital. Social capital, according to Nahapiet and Ghoshal (1998), is "the sum of the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or social unit". In line with Nahapiet and Ghoshal (1998), for the purpose of this research, we define social capital as social relationships that provide an actual or potential benefit to companies. While there are several sources indicating how social capital can trigger and foster internationalization (c.f. Chetty and Agndal, 2007), not much is known about how SMEs develop and maintain network relationships *per se*. Therefore, we shall attempt to explore this aspect as well:

*Question.3. How do SMEs manage social capital in terms of its initiation, development, and maintenance?*

The role of knowledge and learning in internationalization is acknowledged by international process theories and work on international new ventures (INVs) (c.f. Johanson and Vahlne, 1977; Oviatt and McDougall, 1994). Learning is considered as one of the main intentions of SME internationalization (Nachum and Zaheer, 2005; Petersen, Pedersen and Sharma, 2003). It provides knowledge related to market, product, R&D and internationalization activities (Zahra et al., 2000; Yli Renko et al., 2002; Petersen et al., 2003), which help enhance their capability, facilitate their internationalization and position them as global players (Zahra et al.,

2000). It is one of the key resources required for firms' internationalization (Johanson and Vahlne, 1977; Oviatt and McDougall, 1994). Autio et al (2000:911) defined an organization's knowledge "as its capacity to apprehend and use relationships among critical factors in such a way as to achieve intended ends". However, how and when these firms learn or how these firms develop absorptive capacity (learning capability), which means the ability to identify, select, and assimilate the external knowledge and transform and exploit these in their operations, still remains an area for further exploration. So our fourth research question is:

*Question.4. How do SMEs develop the learning capability required for their internationalization?*

The INV perspective dominates existing studies of SMEs. The emergence of these firms is mainly influenced by globalization and the availability of the latest information and communication technologies [ICTs] (Knight and Cavusgil, 1996). ICT facilities, specifically the Internet, have had a great impact on these firms (Bell and Loane, 2010), particularly in the initial stages because websites provide them with a global presence (Samiee, 1998). Along with factors such as network attachment; managers' international orientation and other resources, ICT is a strong influencing factor in the internationalization of the SMEs. It helps offset their limitations in resources and moderate investment (Arnott and Bridgewater, 2002).

The Internet accelerates SMEs' internationalization by reducing initial costs associated with marketing and communication activities, providing an opportunity to directly interact with partners, reducing the role of intermediaries, and enhancing fast and easy learning process (Quelch and Klein, 1996; Chattell, 1998; Petersen, Welch and Liesch, 2002; Bell and Loane, 2010). The websites also provide serendipitous international relationships in the form of

unsolicited orders (Chrysostome and Rosson, 2009) and help SMEs freely deal with foreign customers. It helps SMEs build successful international relationships. However, there have not been many studies on the role of ICT in the process of internationalization, which lead us to explore the following:

*Question.5. What is the role of information and communication technologies [ICTs] in the SMEs internationalization process?*

## 1.3. The research setting and design

India is one of the world's largest emerging economies. While it is only the 13th largest FDI recipient, it is catching up with rising inflows reaching a record $42 billion in 2008 (UNCTAD, 2009b). The world investment prospects survey 2009-2011 ranks India as the 3rd most preferred FDI location in the world after China and the USA (UNCTAD, 2009a). According to UK Trade & Investment (2008), India is the second-largest provider of FDI to the UK after the US. However, the UK is only the fourth-largest investor in India; its annual FDI value has declined from $1878 million in 2006-07 to $864 million in 2008-09 (DIPP-India, 2009). India has a relatively open FDI regime compared with many other emerging markets (UNCTAD, 2006). However, The Economist (2007) rates India only as a moderately attractive business environment. The trade statistics between the UK and India show that the UK exports of goods to India have declined from £4.13 billion in 2008 to £2.94 billion in 2009; it has increased to £4.07 billion in 2010. However, the UK import of goods from India shown a continuous growth since 2008 (£4.49 billion in 2008, £4.56 billion in 2009 and £5.77 billion in 2010). On the other hand, the trade of services (both export and import) between the UK and India has been declining continuously since 2008. The UK export of services to India declined from £1.77 billion to £1.52 billion in 2010. The UK import of services from India

declined from £2.28 billion in 2008 to £1.96 billion in 2010 (UKTI, 2011). Despite these conflicting views about India and its inconsistent trade links with the UK, there has not been any research to investigate a holistic view of internationalization between these two countries. Therefore, the UK and India represent an appropriate case for exploring the major variables associated with internationalization such as factors influencing entry mode, psychic distance, building of social capital, learning capability development, and role of ICT.

The study adopts a mixed qualitative and quantitative methodology to the internationalization of British companies to India and vice-versa. The empirical investigation proceeds through two stages. The first stage consists of qualitative exploratory research among the managers of 30 British companies and their partners in India. The second stage of the study involves a survey among 100 British SMEs and 100 Indian SMEs.

As we have mentioned, the sample of qualitative case research comprised the leading managers of 30 British SMEs and their partners in India, from 60 companies in total. Through this means, the views of both British and Indian partners were obtained. There was one respondent in each company. The respondents were selected from five sectors, which include 3 service sector companies and 2 manufacturing companies. This qualitative case research is aimed to explore inter-partner perceptions on relatively unexplored areas such as SMEs' internationalization strategies, perceived psychic distance its business impact and coping methods, building of social capital and learning capability relevant for internationalization to each other's market and the role of ICT in internationalization. Since inter-partner perceptions concerning the role of psychic distance, building of social capital, learning capability development and internationalization strategies between two countries have not been

examined much in previous studies, we believe that as a preliminary stage, qualitative analysis would provide a rich data and that would help broaden the existing literature and also provide a strong foundation for further analysis (Creswell, 1998; Marshall & Rossman, 1999). Therefore, our qualitative study is exploratory in nature.

The survey methodology forms the quantitative---the second---stage of our data collection. The sample for the survey includes 100 respondents from British and Indian SMEs. However, they are not partners, and are not restricted to particular sectors. One of the key aims of the survey is to generalize our initial qualitative findings and to simplify complex information and comparison of variables, such as internationalization strategies; psychic distance and its impact; inter partner trust; learning capability and the use of ICT between the British and Indian companies. It is also used to test the hypotheses to check the relationship between different variable and to validate our conceptual model. Therefore, we can say that our survey research is both descriptive and causal in nature.

The definitions of key variables used in this study are provided below.

**Internationalization**: "The processes by which firms increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with firms from other countries (Beamish et. al., 2000: p. 3)".

**Psychic Distance:** Psychic distance is the perceived difference between the business environment in a home country and a foreign country (derived by the author from the literature, e.g. Child et al., 2009).

**Social Capital: S**ocial relationships or personal relationships that provide an actual or potential benefit to a firm (derived by the author from the literature, e.g. Nahapiet and Ghoshal, 1998 and Tsai and Ghoshal, 1998).

**Learning Capability:** The companies' capability to acquire and assimilate knowledge external to them and transform it into their existing knowledge base and exploit it in operation whenever required (adapted from Zahra and George, 2002)

## 1.4 Structure of the thesis

This thesis has thirteen chapters, plus references and appendices. These thirteen chapters can be broadly divided into two sections---theory and research. The theory part of the thesis consists of the review of literature, which is presented in chapters 2, 3 and 4. The research sections are in chapters 5-13. These include, research design, findings, discussion, conclusion, contributions, limitations and recommendations for future research.

The review of extant literature on major international business theories such as economic perspectives, process perspectives, network perspectives and international new ventures (INV) is presented in chapter 2. Chapter 3 reviews the literature on aspects related to internationalization, which include internationalization in emerging markets, internationalization of service and manufacturing firms, internationalization of SMEs, and the role of ICT in the internationalization of firms. The review of literature related to the major variables assessed in our study (psychic distance, social capital and learning capability) to analyze the internationalization of SMEs in the UK and India are provided in chapter 4.

Chapter 5 explains the study's research design, including its research philosophy, nature of the study (exploratory, descriptive and explanatory/ causal), research orientations (deduction or induction) and research methods. The section on research methods will explain the design of different methods adopted in this study, including data collection, analysis, and evaluation methods.

As mentioned above, chapters 6, 7, 8, 9 and 10 will cover the findings of the qualitative and quantitative studies undertaken in this research. Chapter 6 discusses internationalization strategies, specifically factors that motivated and facilitated the firms' internationalization. Qualitative results are presented first, followed by quantitative findings. Chapter 7 discusses issues of psychic distance in internationalization. Qualitative findings cover issues such as psychic distance and its impact on the international business of the SMEs in India and the UK respectively. We also explore how the firms cope with the impacts. On the other hand, quantitative data covers only issues of perceived difference and its business impact on SMEs from both countries.

The process of building the social capital required for SMEs internationalization forms the qualitative part of chapter 8. It is followed by the quantitative results on inter-partner trust, cognitive social capital and quality of relationship between partners. Chapter 9 looks at the learning capability of SMEs. The first section of this chapter talks about the qualitative findings on how firms have developed their learning capability. It will be followed by the quantitative data on various learning components. Combining qualitative and quantitative methods (Mixed methodology) helps improve the validity of a research (Bryman 1992, Creswell and Plano Clark, 2007), and offers a better understanding of the subject (Newman et

al., 2003). Mixed methodology is, therefore, very important in international business research because it is a subject-specific complex area, and it covers cross-national, cultural, organizational and personal boundaries (Hurmerinta-Peltomäki and Nummela, 2006).

Chapter 10 is the analysis of a priori framework and testing hypothesis. The first section of this chapter will provide a brief illustration of development of conceptual model. We will then present the results of path analysis and modified models for British and Indian companies.

Chapter 11 is concerned with the interpretation of the results of this research in relation to the main issues raised by the earlier review of existing literature. The theoretical implications and limitations of the study, and recommendations for future research, are presented in chapter 12. The final chapter (chapter 13) discusses implications of this research for business practitioners, and national policy makers. References and appendices are presented at the end of this thesis.

# CHAPTER 2
# INTERNATIONALIZATION: CONCEPTS AND THEORIES

## 2.1 Introduction

The first part of this chapter examines the terminology of internationalization, its conceptualization and empirical analysis. The study then takes a holistic account of the major theories of internationalization. The logic behind this is to understand the underlying assumptions and to critically evaluate the traditional and contemporary approaches in international business and to analyze the process of internationalization between British and Indian SMEs.

International business theories are often classified into four broad categories---economic, process, network and the born global perspectives. This classification does not mean that the perspectives are totally distinct; rather it is a way of grouping them in a more coherent way. The first two categories, the economic and the process perspectives, are widely classified in the literature based on their central assumptions (Andersson, 2000; Benito and Gripsrud, 1992; McDougall, Shane and Oviatt, 1994). However, the late 1980s and the 1990s saw the perspectives such as network and the international new venture emerge. The distinctiveness of these different perspectives has diminished in the last ten years or so because they became more interlinked to other perspectives as well.

## 2.2. Theoretical approaches to internationalization

The term "internationalization" as such is not defined in most dictionaries. However, Webster (2010) provides a formal definition as "the act of bringing something under international control". Internationalization has been widely used in the management discipline for the past four decades. However, there have been discrepancies among researchers due to the persistent misuse and the poor understanding of the key dimensions of the concept. Therefore, the concept still remains inconclusive despite being a main area of research for decades (Buckley and Ghauri, 1999; Griffith, Cavusgil and Xu, 2008).

There is no single widely accepted definition for internationalization. The literatures in different streams interpret it in different ways. As Jones (1999) has mentioned, the interest of researchers and the level of analysis employed have influenced the interpretation of this concept. The economic model, which is the starting point of the internationalization research, treated internationalization as a rational decision (e.g. Dunning 1988; Hymer, 1960; Penrose 1959; Vernon 1966). These addressed the question "why" companies internationalize. Scholars applied economic modeling and theories to study the underlying reasons for internationalizing such as ownership, location and internalization advantages (Dunning 1988). On the other hand, the process model is more deterministic in nature. Its proponents argue that incremental firm-level learning determines its international actions (Andersson, 2000). The basic assumption of these models is that international incremental expansion begins with low risk and low-commitment activities such as exports before slowly moving to greater risk and higher commitment modes such as joint ventures or own subsidiaries (e.g. Bilkey and Tesar, 1977; Cavusgil, 1984; Johanson and Vahlne, 1977).

Welch and Luostarinen (1999) were the first to analyze the concept in a very comprehensive manner and they developed one of its most accepted definitions. They believed that the conceptualization of internationalization is very vague and observed that the term is normally used in a very broad sense to describe "the outward movement in an individual firm's or larger grouping's international operations (p 84)" Theorists such as Bilkey and Tesar (1977); Cavusgil (1984); Johanson and Vahine (1977) view internationalization as an incremental method of increasing international commitment. However, Welch and Luostarinen (1999: 84) believe that "internationalization has both inward and outward components". They perceive that the outward and inward components are always interlinked in international trade. Based on this view they gave a much broader definition for the term internationalization, as "the process of increasing involvement in international operations". Following their suggestion, we also consider that the interconnection of inward and outward involvement is an intrinsic feature of internationalization. So to analyze the internationalization of UK and Indian SMEs, this research collects the perceptions of decision makers from both countries.

Since Welch and Luostarinen (1999) came out with their definition, a number of studies have analyzed the concept in an elaborate manner. Beamish, Morrison and Rosenzweig (2000) defined it by considering both the economic and the process perspectives as:

> "The processes by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with firms from other countries (p. 3)"

In line with Welch and Luostarinen (1999), Beamish et al. (2000) also observed that internationalization is a dynamic and evolutionary process, which not only considers outward

investments but inward investments as well. This definition, as Coviello and McAuley (1999) noted, considers both economic and process perspectives by combining a firm's learning with its patterns of investment. The other key point of this definition is its network relationship aspect. Beamish *et al*. (2000) believe that the relationship built in the initial phase of internationalization will be of great help for their further international expansion. In that way, this definition covers the network perspective of the international business theories.

These definitions imply that internationalization is a sequential process of increasing international commitments. So they do not fit 'born global' firms (Mathews and Zander, 2007:9). However, Calof and Beamish's definition of internationalization---the process of adapting firms' operations (strategy, structure, resource, etc) to international environments (1995: 116)--covers the born-global phenomenon as well. This can be considered as a more advanced formulation because it does not pose any specific direction on the process of engagement with the international economy (Mathews and Zander, 2007: 395). The recent literature has analyzed various viewpoints of internationalization. Prominent among this are Hitt, Ireland and Hoskisson (2007: 251), who addressed internationalization through international diversification. According to them "international diversification is a strategy through which a firm expands the sales of its goods or services across the borders of global regions and countries into different geographic locations or markets (2007: 251)". In a slightly different way Cuervo-Cazurra, Maloney and Manrakhan (2007: 710) observed that internationalization is the transference of some resources across national borders, either indirectly through their embodiment in products (Penrose, 1959), or directly as foreign direct investment (Dunning, 1993)". However, Jones and Coviello (2005) argued that internationalization is an innovation process that entails entry into new country markets.

Despite contrasting in some aspects, almost all definitions, agree that internationalization is a process associated with the international growth and development of firms (Jones, 1999). Most researchers have also argued that internationalization is a continuous process. Jones and Coviello (2005) note that internationalization is time-based and time-dependent and focus on its "temporal" dimension. This also supports the argument by Welch and Luostarinen (1999) that a more advanced analysis is needed to analyze the process of internationalization. They developed a comprehensive six dimensional framework to address the limitation of existing analyses. The first three dimensions are more external in nature and focus more on the foreign market activity. These are **how** a firm internationalizes; **what** is the content or sales object, meaning goods, services, knowhow and so forth; and finally, the market into which the firm is internationalizing, which is **where** or context of internationalization. They talked about the importance of analyzing organizational capacity, which denotes factors internal to the firm. These factors are resources such as human and finance and the organizational structure. These factors are not only important for market entry, but are critical for the further expansion of the firm's internationalization process.

Melin (1992: 101-102) also identified four different characteristics of internationalization, namely (1) as a time-series of detached critical *events*, or *states;* (2) as relatively short *episodes;* (3) as lengthy *epochs*; and (4) as a biographic history. Furthermore, he emphasizes the importance of focusing on content when internationalization is studied as a process. He views internationalization as a change in terms of scope, business idea, action orientation, organizing principles, nature of managerial work, dominating values and converging norms" (Melin, 1992: 101).

The empirical analysis adopted by various approaches of internationalization shows that the level of analysis is always associated with the background of the researcher. The MNEs (multinational national enterprises) and its foreign direct investment (FDI) have dominated the economic perspective of internationalization. As Jones observed, economists viewed internationalization in terms of corporate and industry growth which focuses more on relocation of production activities across borders (1999:144). Their attention to small firms' internationalization is very limited (Buckley, 1988; Jones, 1999). The central assumption of economic perspectives of internationalization are: "(1) independent events, (2) taken in order to achieve the specific goal of maximizing profits, (3) put forward on the basis of a firm's distinctive advantages, and (4) rationally modelled (Junior, 2010: 53-54). This review will cover some of the major economic perspectives such as (1) MNE perspectives (Hymer, 1960, 1976); (2) product life cycle theory (Vernon, 1966); (3) internalization theory (Buckley and Casson, 1976); and (4) the eclectic paradigm (Dunning, 1981).

Process theorists argue that internationalization is a gradual and incremental process. This is mainly due to the lack of foreign market knowledge, high-risk aversion and high perceived uncertainty (Madsen and Servais, 1997). Similar to economic theories, Junior (2010) mentioned four central assumptions of process theories, too. These are path dependency; (2) goal complexity; (3) contextual contingency; and (4) weak rationality requirements. Two major strands of process theory emerged in the 1970s and the early 1980s in Europe and the US. Andersen (1993) termed these models respectively as the Uppsala Internationalization Model (U-M) (e.g Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) and the Innovation-Related Model (I-M) (e.g. Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota,

1982; Reid, 1981). Despite their differences in approach towards internationalization, these theories conceptualize internationalization as an incremental process involving a different number of stages. Small firm internationalization has dominated the process literature. At one stage, as Masango (2010) observed, there was an illusion that SMEs' internationalization is a slow and gradual incremental process. However, the recent born-global (e.g. Knight and Cavusgil, 2004; Rasmussen, Madsen, Evangelista, 2001; Rennie, 1993) or international new venture (McDougall *et al*., 1994; McDougall & Oviatt, 2000: Oviatt & McDougall, 2005a) literature has criticised this view. They argued that the internationalization behaviour of these small firm categories can be early and rapid, and that it is considerably different from that of traditional firms.

Economic and the process theories were the major traditional international business theories. As Coviello and McAuley (1999) observed, firms following these methods have some kind of centralized strategic decision-making. However, the third set of theories of internationalization, the network perspectives, is a non-hierarchical system, in which firms focus more to invest and improve their international network positions (Johanson and Mattsson, 1988, 1992). This approach is an extension of process theories. However, the main difference is that process theories focus more on export development activities whereas network perspectives look more at the network process activities that facilitate foreign market entry to a firm. As Masango (2010) noted, the concept of network goes beyond the models of incremental internationalization that the kinds of network relationships of a firm are seen to influence their internationalization behaviour. The theoretical basis of the network perspective is rooted in the social exchange and resource dependency theories (Coviello and McAuley, 1999). This perspective also looks at a firm's performance in the context of a network of

inter-organizational or interpersonal relationship. The development of relationships between firms and also the individuals within a business network helps the firm to expand to international markets. The basic assumption of the network perspective is that networks grow as knowledge is developed and firms attempt to change or develop their network positions internationally (Jones, 1999).

The most recent theory in international business concerns the emergence of new venture internationalization. This theory has focused on small firms, which are following the non-traditional behaviour of internationalization. These firms start their internationalization at the time of their origin or soon after (e.g. McDougall *et al*., 1994; Rennie, 1993). The researchers gave different names to these firms such as 'international new ventures' (McDougall et al., 1994; Oviatt & McDougall, 2005b), 'born globals' (Knight & Cavusgil, 2004; Rennie, 1993), 'technology-based start-ups' (Autio et al., 1997), 'global start-ups' (Oviatt & McDougall, 1994) and 'international entrepreneurs' (Jones & Coviello, 2005). One of the highlights of international new venture research is the role of a prior network in the speedy internationalization process (Oviatt and McDougall, 1994; Coviello and Munro, 1995; Coviello, 2006). This approach is associated with the major international business theories such as the Uppsala model, evolutionary economic model and the network approach (Madsen & Servais, 1997). However, contemporary theorists argue that the phenomenon cannot be understood and analyzed completely through existing theories and descriptions of internationalization processes in firms. This approach has enlisted various theories such as resource-based view and entrepreneurship to explain the new venture internationalization process. The cross-fertilization of international business and entrepreneurship has resulted in the emergence of a new concept called international entrepreneurship (McDougall and Oviatt,

2000; Oviatt and McDougall, 2005a), which is one of the key concepts of accelerated internationalization. The study of Oviatt and McDougall (1994) is one of the first to make a theoretical attempt to challenge the established process theory of internationalization by developing a conceptual framework to support the new venture literature. The central assumption of their model is that new venture possesses a unique knowledge based resource from which it derives its sustainable competitive advantage, which is transferable to a foreign location (Masango, 2010).

The following section offers a more detailed analysis of the theories mentioned above.

### 2.2.1. Economic approach

The theories discussed under the economic approach are categorized mainly based on some central assumptions possessed by these concepts. However, these theories are following totally different approaches. We shall review five major economic approaches documented in the literature, namely the theory of MNEs, product life cycle theory, internalization theory, and the eclectic paradigm of internationalization.

#### 2.2.1.1. The theory of MNEs

The work of Stephen Hymer is considered as the most influential contribution to, and the foundation of, the theory of multinational enterprise (MNE), and he is also considered as a pioneer of international business studies (Buckley, 2006). His PhD thesis submitted in 1960 and published in 1976, posthumously, gave him this reputation. As Pitelis (2006) noted, he was not the first to write about the MNEs and their foreign investment. However, unlike his predecessors (e.g. Dunning, 1958; Penrose, 1956), he was the first ask the question, “why

MNEs?", and also "why FDI?" compared to alternative mode of internationalization such as licensing, tacit collusion, strategic alliances and so forth (Dunning and Pitelis, 2008; Pitelis, 2006). Before Hymer, economists used capital arbitrage theory to study MNE activities, and they viewed MNEs simply as arbitrageurs of capital. They predicted that "MNEs would be headquartered in countries where the domestic marginal productivity of capital was relatively low, from which they will transfer capital to subsidiaries abroad where the marginal productivity was higher (cited in Teece, 2006: 126)". However, Hymer notice that this theory alone cannot capture the reality of MNE and its direct foreign investment (1976). He found several features of this theory inconsistent with MNEs and FDI. Some of the major features are that MNEs overwhelmingly finance their host-country operation in host-country capital markets; there are substantial cross-flows of FDI, and FDI and MNEs concentrate in certain countries/industries (Cited in Teece, 2006: 126).

The major difference Hymer observed between the earlier theories and FDI concerns the higher degree of control it provides to MNEs (Pitelis, 2006). Hymer observed three reasons - two major and one minor - for MNEs' need of control over their foreign operation. The first is that sometimes it is profitable to control firms in more than one country to reduce the competition/conflict/rivalry between them. Secondly, firms with specific advantages in particular activities might find establishing operations in foreign markets more profitable. Finally, the minor reason is diversification---which he believes is a minor reason because no control is involved (Hymer, 1976: 33). Through its control potential, FDI is a powerful means of cross-border expansion (Pitelis, 2006).

Hymer believes that eliminating conflict would put MNEs in a more advantageous position to capture value by providing for collusive oligopoly condition in both foreign and domestic markets, and through the international interpenetration of investments (cited in Pitelis, 2006). This would increase the market power of MNEs (Dunning and Pitelis, 2008). FDI would provide the head office more autonomy in their strategic decision-making because it will have a monopoly in organisation even at the lower most level of the hierarchy and overall resources (Yamin & Forsgen, 2006). Hymer mentioned the example of FDI vs. licensing to explain the reduction of conflict in the international market.

Hymer (1976) argued that all firms in an industry will have different capabilities, and that firms with particular advantages will have more chances to internationalize than others. He believed that exploiting monopolistic advantages is one of the key reasons for firms' internationalization, which always helps offset the costs associated with internationalization. Hymer draws his views from the work of the early industrial theorist Bain (1956). The advantages are associated with reduced production costs, production techniques, owning distribution facilities, differentiating products, market power possession of unique knowledge, and first-mover advantages (Teece, 2006). Despite their liability of foreignness, national firms make profits outside their home market if they possess such special advantages (Teece, 2006)

The final and the minor reason Hymer suggested is diversification of business to reduce the associated risks. However, this reason is not same as other two reasons because it does not involve control, but it has its own role and is related to reducing competition. Hymer observed that on some occasions a profit in one line of activity is inversely correlated to profit in another activity (p 40). So he thought that diversifying the business would reduce the

investment risks. However, he emphasizes the need for firm control over the enterprise to reduce the future conflict.

The important contribution of Stephen Hymer's work is to bring the theory of foreign direct investment from the international trade and finance to industrial organization and the theory of firm (Teece, 2006). The apparent predictive power of this theory made it more attractive. Hymer observes that FDI offers superior advantages in the firm's profit maximisation process than other alternative models (Pitelis, 2002)

#### 2.2.1.2. Product life cycle theory

Unlike Hymer, who explained only the mode of foreign operations, Vernon's (1966) product life cycle theory of internationalization adopted a more comprehensive approach, focusing on three key components such as location, mode of operation and time given to predict the internationalization of firms (Junior , 2010). He criticized the dominating cost advantage theory mainly due to the lack of realism associated with it. To address this issue, Vernon stressed the role of product innovation, the effects of scale economies and the role of uncertainty in influencing trade patterns across national borders (Vernon, 1966:190). He linked the internationalization with the product life cycle of a firm and he perceived that each stage has different implications for the internationalization of the innovative company and the product (cited in Melin, 1992: 103).

Vernon suggested that the early or the introductory stage is more local or domestic-oriented. He noticed that in the early stages of the life cycle, a firm will incur huge product development expenses; therefore, there is need for effective communication between firm and

its stakeholders such as producers, suppliers, consumers and competitors; limitations in changing inputs; price elasticity if demand is low; lower production flexibility; un-standardized design; and the existence of monopoly. So Vernon argued that in this situation a firm will concentrate more on the market where the product was developed (Melin, 1992). The second stage in the product life cycle is the growth stage. In this, firms focus more on exporting activities, which helps them to benefit from economies of scale. This stage also marked manufacturing firms starting their own direct foreign investments in countries where their products show increasing demand (Melin, 1992: 103).

Their products will get more standardized as they reach the maturity stage, which is charecterized by market saturation---and it will cause the company relocate its production to countries with cheap labour to gain from cost advantages (Almor, Hashai and Hirsch, 2006; Melin, 1992). The final stage in the product life cycle is the decline stage at which sometimes even the demand for product in the home country of an innovative company declines, which will lead the manufacturer to leave the their home country (Melin, 1992).

#### 2.2.1.3. The internalization theory

The 1970s witnessed an emergence of MNEs and FDI, with both being major contributors to the world's economy. Researchers also started focusing more on the determinants and the existence of MNEs and their FDIs (Junior, 2010). Internalization scholars Buckley and Casson (1976) were the first to make an effort to address these issues using their comprehensive framework based on Coasian thinking. They drew attention to how internalizing knowledge-based intangible assets/advantages would provide transaction-cost economic benefits to a firm (Pitelis and Verbeke, 2007: 141). They showed how the

internalization of imperfect markets could be used to analyze the totally distinct features of multinational operations, technology transfer and international trade in semi-processed products (Buckley and Casson, 2009: 1564).

This attracted significant interest in the field of international business (e.g. Buckley, 1988; Buckley and Casson, 2003; Casson, 1982; Henisz, 2003; Hennart, 1982; Rugman, 1981; Rugman and Verbeke, 2003). Buckley and Casson (1976) is the first work in the international business literature to focus on the industry-level and firm-level determinants of international investment flows than on the country specific factors (Henisz, 2003). According to them, internalization is an approach where firms' use their own existing structure/resources to conduct business activities rather than making costly market investment options (cited in Junior, 2010).

The general principle of this theory is that (1) firms maximize their profits in the imperfect/missing external market by internalising, which means creating internal markets and bringing all market linking activities under common ownership and control, to the point where the benefits are outweighed by the cost. (2) Firms select locations for each activity that offset their overall operation costs (Buckley and Casson, 1976; Buckley, 1988; Buckley et al., 2007; Henisz, 2003).

Even though economic approaches are rational in nature, internalization model articulates a clear rationality compared with other models, where the rationality is more implied (Buckley and Casson, 2009; Junior, 2010). The internalization theorists, Buckley and Casson (1976),

highlight that internalization is a firm's ability to innovate as the vital firm-specific advantage that guides them across international boundaries (Henisz, 2003).

#### 2.2.1.4. The Eclectic Paradigm

This approach is mainly associated with Dunning's analysis of why multinational firms exist and the logics that drive their expansion and growth (Dunning, 1979, 1981, 1988, 2001). This is one of the most widely used theories explain the MNE's FDI. The Eclectic Paradigm has taken a holistic view of economic approaches. The origin of this paradigm is Dunning's (1958) initial work when he mentioned that individual economic theories alone cannot provide a comprehensive explanation for the foreign direct investment of MNEs. In that study he first made a distinction between ownership and location advantages to study the American investment in British manufacturing industries (Dunning, 2000:168).

This paradigm argues that MNEs decision to invest through FDI is mainly influenced by three important factors: (1) ownership-specific competitive advantage of the firm seeking to invest (O), (2) location advantages of particular countries or regions providing value to MNEs (L), (3) is the firms' ability to internalize their ownership and location advantages (I) (Dunning 1994). These three key interdependent factors form Dunning's OLI advantage.

The ownership advantage is company-specific. According to Dunning this sub-paradigm "asserts that, ceteris paribus, the greater the competitive advantages of the investing firms, *relative to those of other firms* — and particularly those domiciled in the country in which they are seeking to make their investments — the more they are likely to be able to engage in, or increase, their foreign production It is related to the accumulation of intangible assets,

technological capacities or product innovations" (2000:164). Dunning in his 1973 paper identified three different types of ownership advantages. However, later he classified this sub paradigm into two types, which are asset specific (Oa) and transaction (coordinating) (Ot) advantages (Dunning 1988). The former arise from the possession or privileged access to specific assets by MNEs and vice versa those possessed by other firms, and the later entails the "capacity of MNE hierarchies *vis-à-vis* external markets to capture the transactional benefits (or lessen the transaction costs) arising from the common governance of a network of these assets, located in different countries" (Dunning, 1988: 2). In other words, transaction advantage is based on the multinational's capability to organize its assets both internally and externally in the most efficient way (Masango, 2010).

The second sub paradigm is the location attraction of such countries or regions for undertaking production, which adds value to the firm (Dunning, 2000). He said "the enterprises will engage in foreign production whenever they perceive it is in their best interests to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments or other intermediate products in another country" (Dunning, 1988: 4). The location advantage refers to the institutional and productive factors present in a particular geographical area such as cost advantages, infrastructure, availability of resources, tax benefits, political stability and so on.

The third sub-paradigm, internalization, offers a framework to evaluate operation mode such as how firms utilize their core competencies (ownership advantages) to capitalize the location attractions of different countries or regions (Dunning, 2000; Junior, 2010). In other words, internalization advantages stem from a firm's capacity to manage and coordinate activities

internally in the value-added chain. Like internalization theorists Buckley and Casson (1976, 1985), Dunning also confirms that the firms' decision to take on foreign production than licensing it to other foreign firms such as technical service or franchise agreement is greatly influenced by the net benefit of internalizing the cross-border intermediate product market (2000:164). However, unlike the former, who stress market imperfections, Dunning considers that ownership advantages are the key factor influencing FDI and MNE internationalization.

In his later work on the eclectic paradigm, Dunning (1988, 1998, 2000) emphasizes two types of market imperfection, the structural and transactional (Dunning and Rugman, 1985). The firm's specific features, its products, operating markets, the way its competitive process are viewed and so on (static and dynamic perspective) would influence the relevance of both structural and transactional market imperfections in determining the ownership advantages of MNEs (Dunning, 1988: 2). The structural market imperfections arise from government interventions with regard to location advantages; whereas unified governance in different locations provides transactional benefits (Young et al., 1989).

The central assumption of any economic approach is profit maximization. The theorists illustrate that internationalization is independent of events and ignores the dynamic nature of internationalization. They also ignored the learning and knowledge acquisition aspect of internationalization (Johanson and Vahlne, 1977). The other key limitation of economic approach is its focus more on MNEs and its FDI process, which are inadequate to explain the internationalization of SMEs.

### 2.2.2. Process theories

Process theories of internationalization have emerged as an alternative to the economic approach in the 1970s (e.g. Johanson and Weidersheim-Paul, 1975; Johanson and Vahlne, 1977). However, the decision process model by Aharoni (1966) is the first to apply ideas openly from behavioral theory to conceptualize the internationalization process of a firm. He said internationalization is a complex procedure; it is influenced by several factors. According to him, the decision process is a combination of different attitudes, opinions and social relationships both inside and outside the firm and the way these dimensions change over time (cited in Buckley & Ghauri 1999)

The process approach is considered as the second stream of theories to conceptualize internationalization. As mentioned before, process theories are classified into two broad categories, "Uppsala internationalization Model" (U-model) and the "Innovation-related Model" (I-model) (Andersen, 1993). We now review these two categories in turn.

#### 2.2.2.1. Uppsala internationalization model (U-model)

The U-model of internationalization, developed by scholars at Uppsala University in the 1970s, is regarded as one of the most accepted process approaches in internationalization (e.g. Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). They criticized the central assumptions of the economic approach such as profit maximisation and rationality. Based on their study on Swedish firms', they concluded that internationalization of Swedish firms is a dynamic and incremental activity which is affected by perceived uncertainty and a lack of knowledge of foreign markets. Hence they argued that learning or acquisition of

foreign market knowledge is critical for foreign market entry, which is the underlying principle of the Uppsala (U) internationalization model.

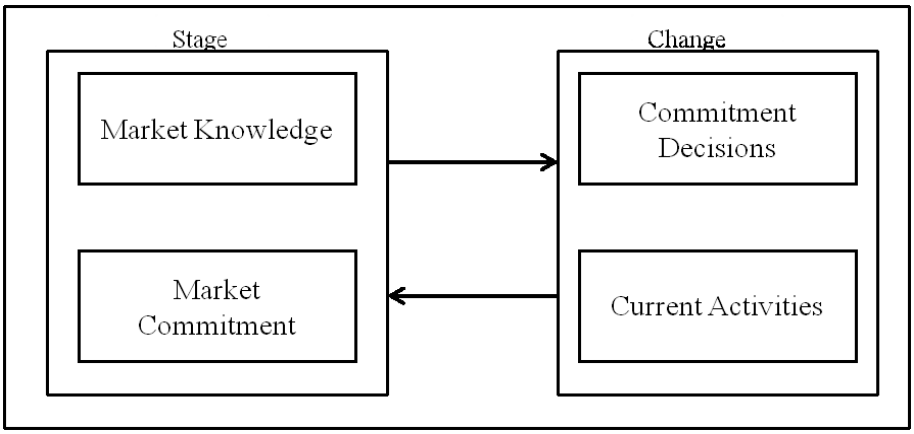
Incremental activity is a gradual and slow process, which allows managers to learn about a market through experience. The greater the knowledge of a specific market the lesser the perceived risk—and this will result in higher investment in that market (Forsgren, 2002). By supporting the Penrosian (1958) principle that knowledge is highly intrinsic to individuals who possess it and is difficult to transfer to other individuals and contexts, Johanson & Vahlne (1977) argue that people working in a specific market will provide and understand issues and opportunities related to that market much better than an outsider (Forsgren, 2002). Based on this observation, Johanson & Vahlne point out that experience not only generates business opportunities, but also work as a driving force of the internationalization process (1990: 11).

Based on the characteristics mentioned above, Johanson and Vahlne (1977) developed a framework (figure. 2.1), which shows the distinction between state and change aspects of internationalization variables. The state aspects are a firm's actual market knowledge and market commitment about foreign markets and operations at a given time. They consider experiential knowledge as the most important market knowledge. They mentioned the amount and degrees of resources committed as the aspects of market commitment. The change aspect involves decisions to commit resources and performance of current business activities (Johanson and Vahlne, 1990: 12). The framework highlight that the market knowledge and market commitment at a certain point of time are assumed to affect the commitment decisions and current activities that will also influence the market knowledge and market commitment

afterwards (Forsgren, 2002: 206). The role of knowledge is seen as fundamental in this process.

The Johanson and Vahlne (1977, 1990) model is developed on the basis of psychic distance. They observed that firms first enter into psychically close market and slowly move into the markets which are psychically distant.

Figure: 2.1. Internationalization process model (Johanson and Vahlne, 1977)




### 2.2.2.2. Innovation adoption process Model

Anderson (1993) observes that similar to the U-model of internationalization, the innovation process model (I-model) of internationalization is also based on behavioral theories. I- model theorists consider the internationalization decision as an innovation for the firm. The main idea of the innovation process model is derived from Roger's (1962) stages of the adoption process—he conceptualizes the diffusion of innovation as a five-stage process: awareness, interest, evaluation, trial, and adoption (Andersen, 1993; Gankema et al., 2000). Andersen (1993) made a comprehensive analysis of main studies by analyzing articles from 1977 to 1982 (e.g. Bilkey and Tesar, 1977; Czinkota, 1982; Cavusgil, 1980; Reid, 1981).

Andersen (1993) observes that the main intention of these four articles is to apply the innovation stages of Rogers (1962) in a stepwise manner in order to see how firms start exporting or intensifying their involvement in international markets, from a being non-exporting entities previously. These models have a number of fixed, sequential stages; however, the number of stages differs between models (Leonidou and Katsikeas, 1996). They identified three basic stages: the pre-export stage; the initial export stage and the advanced export stage. Andersen (1993) noticed some differences between the first two (Bilkey and Tesar, 1977; Czinkota, 1982) studies and the later two (Cavusgil, 1980; Reid, 1981). Bilkey and Tesar (1977) and Czinkota (1982) presume that firms are not interested in exporting in the first stage and will show partial interest in stage two. This shows that external market factors or some 'push' mechanism influences firms' decision to export. However, Cavusgil (1980) and Reid (1981) described that firms are interested and are involved in active exporting even in the early stages. This reveals that some 'pull' mechanism or internal agents influence the firms' decision to move to the next stages. Apart from these differences and the differences in some terminology these models don't show any real differences (Andersen, 1993: 212).

The literature reveals that wide varieties of variables influence or determine firms' "export behaviour". These variables are normally classified as internal- or external-related factors. Some studies have narrowed them down to key export determinants. Internal variables such as the firm and its managerial characteristics usually received greater attention than the variables related to external context—the latter variables include the role and influence of governmental legal regulations, policies and export assistance; market attractiveness, competitiveness, barriers, and hostility; industry technological intensity, turbulence and stability; socio-cultural

and so on. However, inconsistency among the studies---is their emphasis on external and internal context related factors---is the main limitation of this model (Junior, 2010).

Unlike the U-model, which is dynamic, the I-model is focused on stages. Later levels of stages show more involvement and experience than the earlier ones. Another major difference between the U and I models is that the former can be applied to any kind of firm; i.e. both MNCs and small firms, but the latter is more associated with small and medium companies.

### 2.2.3. Network perspective

The third mainstream theory of international business is the network perspective. The network approach emerged in the late 1980s when researchers realized that firms use networks to facilitate their internationalization activities (Johanson and Mattsson, 1988). The Industrial Marketing and Purchasing (IMP) research (Blois, 1972; Guillet de Monthoux, 1975; Hakansson and Ostberg, 1975; Levitt, 1983) at Uppsala University--that addressed the long-term relationship between suppliers and customers—is seen as the starting point of the network approach (cited in Johanson and Mattsson, 1988: 288). Webster (1979) also emphasized the role of relationships and viewed it as critical for the functioning of industrial markets and the market strategies of industrial firms (cited in Johanson and Mattsson, 1988: 305). However, Johanson and Mattsson's (1988) article titled 'Internationalization in Industrial Systems: A Network Approach' is the most widely recognized pioneering study.

Johanson and Mattsson (1985, 1988) argued that a network model is superior to other market models based on transaction-cost economics and process theories emphasizing experiential learning and gradual commitments in providing explanations on internationalization. They

claim that theories such as internalization models and stage models stressed the role of internal organizational aspects such as resources and knowledge as the key factors influencing internationalization. However, internationalizing firms tend to seek and rely on resources controlled by other firms to perform their internationalization strategy (Johanson and Mattsson, 1988). Therefore, we believe that the focus of network approach was an important move within the behavioral perspective because the network approach offers a model that considers both the market and firms' relations to that market.

The network model also addresses one of the most ignored areas of the internationalization process, inward internationalization. As mentioned earlier, the early internationalization literatures focused mainly on outward internationalization activities (Welch and Luostarinen, 1988). However, Welch and Luostarinen (1988) view that both outward and inward components are always interlinked in the international trade. They also emphasized the point that inward internationalization influences outward internationalization. Inward internationalization provides network relationship to firms that facilitate their outward internationalization (Masango, 2010: 38).

Early network researchers also pointed out that network model is not a gradual incremental process, which is one of the main distinguishing features of this model from the Uppsala model (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977). The model emphasizes that firms' internationalization is related to its network relationships (Johanson and Vahlne, 2003) rather than the psychic distance between the countries. Coviello and Munro (1997: 381) also emphasized that the network perspective goes beyond the models of incremental internationalization by suggesting that a firm's strategy emerges as a pattern of

behaviour influenced by a variety of network relationships. Unlike international process theories that focused on overcoming barriers through experiential learning and incrementally expanding into a foreign market, the distinction between market-entry and expansion is less relevant in network approach because networks are borderless (Johanson and Vahlne, 2009). The existing business relationships influence a firm's market selection and entry- mode decisions because it helps them identify and exploit opportunities in foreign markets (Johanson and Vahlne, 2009). They also believe that developing opportunities are more important than overcoming barriers in the internationalization of firms (p. 1423).

The evolution of network theories in international business shows that the early researchers were mainly focusing on inter-firm business networks (Johanson and Mattsson, 1988; Axelsson and Johanson, 1992; Blankenburg, 1995; Håkansson and Snehota, 1995; Chetty and Holm, 2000; Johanson and Vahlne, 2003). The business network was even considered a synonym of network approach (Axelsson and Johanson, 1992). However, recently, researchers have started focusing on the role of social network in international business specifically in international entrepreneurship (Ellis, 2000; Ellis and Pecotich, 2001; Sharma and Blomstermo, 2003; Crick and Spence, 2005; Harris and Wheeler, 2005; Komulainen et al., 2006; Loane and Bell, 2006; Ellis, 2010).

According to Anderson, Håkansson and Johanson (1994: 2), a business network is a set of two or more connected business relationships, in which each exchange relation is between collective actors such as business firms. The main components of business networks are actors, activities, and resources (Håkansson and Johanson, 1992). All of these components can act as sub networks, which means network of actors, a network of activities and a network of

resources. As mentioned earlier, the networks are classified as business networks if the actors are collective units such as firms, departments and groups (Bjorkman and Kock, 1995). However, it can be classified as social networks if the actors are individuals and is characterized by social exchange along with information and business exchanges (Bjorkman and Kock, 1995: 521). In this sense, we can argue that social network is a sub network of business network.

The origins of social network research can be found in the studies on interpersonal and inter-group relationships in sociology (e.g. Granovetter, 1973). Ellis (2010) distinguished social networks from business networks mainly on the basis of level of analysis. Citing Burt (1992), he defined social network as the sum of relationships linking one person with other people whereas as Johanson and Mattsson (1988) observed that business network is a set of relationships linking one firm with others (p. 102). Social networks show high level of interpersonal bonding between individual members.

#### 2.2.3.1. Business Network

**Network Approach to Internationalization (Johanson and Mattsson, 1988)**

Johanson and Mattsson (1988) were the first to make an attempt to develop a theory on business network perspectives. In their pioneer work, they defined networks as the relationships a firm has with its customers, distributors, suppliers, competitors and government and consider them as the actors of a business network. They argued that the number and strength of the relationships between different parts of business network increases as the firm internationalize. They explained how and why firms internationalize their operations through the network approach (pp. 296-306). They found three categories through

which firms could achieve internationalization. First, through forming relationships with counterparts in countries that are new to these firms (international extension), the second method is by developing commitment in already-established overseas networks (penetration), and finally, through connecting their positions in networks in various countries (international integration) (p. 296). They analysed these three-internationalization process in four different situations that include the early starter, the lonely international, the late starter and the international among others (table 2.1).

Table: 2.1. Network Approach to Internationalization (Johanson and Mattsson, 1988)

| | | Degree of internationalization of the market (The production net) | |
|---|---|---|---|
| | | Low | High |
| Degree of Internationalization of the firm | Low | Early starter | Late starter |
| | High | The Lonely International | The International Amongst Others |

The early-starter category shows an environment in which both the firm and its counterparts are characterised with little or limited international network relationships. Johanson and Mattsson (1988) observe that firms in this category tend to follow the internal resource development aspect of the stage models because of their limited international experience and a lack of ability to develop foreign market knowledge through their business networks in the domestic market. Companies also use the support of agents in foreign markets, which not only cuts costs and uncertainties, but also provides an access to an international market through their previous experience. These firms change from early starter to lonely international when they become more international.

The lonely international situation is reflected in highly internationalized firms with the less internationalized market environment. These firms possess experience of relationships in foreign countries, which provide them more knowledge about foreign market and facilitate their internationalization. These firms will have an advantage over their domestic competitors, customers and suppliers because they already have international business network. However, the authors point out that in order to exploit the lonely international advantage firms have to follow the international integration process, which means coordinating activities in the different national network.

Similar to early-starter firms, the third category—late-starter firms---have limited international experience and network attachments. However, unlike the former, late-starter firms are in a highly internationalized market where they get support from their domestic customers, suppliers, and competitors for their internationalization. Authors also emphasize that since other firms are highly specialized, late-starter firms need greater capacity to influence the needs and wants of customers in this situation. It is a major disadvantage of late-starter firms because breaking into an existing network is always very difficult (Chetty and Holm, 2000). The limited business networks of these firms might force or convince them to go for internationalization (Masango, 2010). The fourth and final category, international among others, is a situation in which both the firm and its environment are highly internationalized. Johanson and Mattsson (1988) mentioned that only international integration can bring radical changes to this situation, which can provide greater international presence. An international presence provides greater opportunities for acquiring external knowledge.

Anderson, Håkansson and Johanson (1994) and Johanson and Vahlne (2003) developed a

more comprehensive definition of business network by combining the definition of exchange networks (Cook and Emerson, 1978; Emerson, 1981) and IMP group's and empirical studies on business markets (Hakansson, 1982; Ford 2002). They defined "business network as a set of two or more inter-connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors (Anderson et al., 1994:2; and Johanson and Vahlne, 2003: 92)". Therefore business network is characterized by exchange of goods, service or information (Johanson and Vahlne, 2003, 2006).

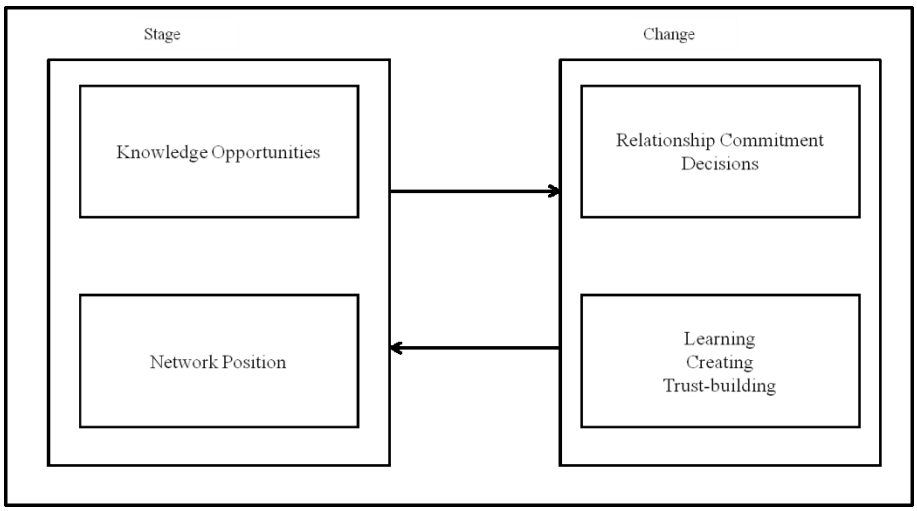
Johanson and Vahlne (2003) argued that traditional internationalization issues are irrelevant to the network approach. On the other hand, they believe that managerial issues--those associated with establishment and development of relationships---are the main issues of network approach. Interaction between firms provides them an opportunity to learn about each other's needs, strategies and business contexts and that increases their mutual commitment, which is one of the basic characteristics of business relationships (Blankenburg, Eriksson and Johanson, 1999; Johanson and Vahlne, 2003, 2006). Another important aspect of business relationships is the common interest in the future development of resources (Håkansson and Snehota, 1989). This will ensure a greater level of support from partners and their wider network relationships (cited in Johanson and Vahlne, 2003).

In view of the emerging importance of business networks in international business, Johanson and Vahlne (2009) revised their original 1977 model, incorporating business network aspects (Figure. 2.2). They have amended in both the "state" and "change" aspects of the model. They have replaced the market knowledge aspect with recognition of opportunities. They believe that as an important subset of knowledge, opportunities drive the whole process. They

assumed that internationalization process is pursued within a network, which is characterized by level of knowledge, trust and commitment between the parties. They believe that this could be uneven and depend on how the firms promote their internationalization. Nonetheless, they perceive that the firms will build partnerships and have better network position if the outcome of the three above mentioned subsets are rewarding. So they replace commitment with network position.

In the change variables, they replaced current activities with learning, creating, and trust-building to make the outcome more explicit. They observe that "the speed, intensity, and efficiency of the processes of learning, creating knowledge, and building trust depend on the existing body of knowledge, trust, and commitment and particularly on the extent to which the partners find given opportunities appealing (p. 1424)". They mentioned that the effective internationalization process is characterised by high levels of knowledge, trust, and commitment in a relationship. The other aspect of the change variable--commitment decisions--is supplemented with relationship, and then named as "relationship commitment decisions", which is to clarify that commitment means commitment to relationship or network of relationships.

Figure: 2.2. Johanson and Vahlne's business network internationalization process model (2009 version)




Network researchers have highlighted the influence of business network on the entry-mode decisions of SMEs (Johanson and Vahlne, 1992, 2003; Coviello and Munro, 1995, 1997; Holmlundand Kock, 1998; Chetty and Holm, 2000). They said partner networks even influence strategic decisions regarding the entry mode. It is chiefly because relationship-building is time-consuming and resource demanding, a major limitation for SMEs. However, business network research ignores situations in which firms try to enter into a new market where they do not have any business relationship. The researchers mentioned that firms enter into a foreign market only if their domestic customer is highly internationalized or if they are a subsidiary of a multinational company (e.g., Axelsson and Johanson, 1992; Coviello and Munro, 1997).

The studies also highlight other benefits business networks can bring to firms. Studies show that SMEs rely on their business network for learning about new markets (Coviello and Munro, 1995, 1997; Holmlundand Kock, 1998; Loane and Bell, 2006), resources acquisition

(Coviello and Munro, 1997; Chetty and Wilson, 2003) and opportunity recognition (Johanson and Vahlne, 2006, 2009).

However, some of the recent studies have criticised the business network literature for not including the role of entrepreneurs. They can help firms enter a new market where they have no previous relationship---by creating personal relationships. In SMEs, the decision-maker or the entrepreneur plays an important role in identifying the stimuli for internationalization (Chetty and Holm, 2000). As we know, it is the managers who identify opportunities and make decisions about internationalization. As Chetty and Holm (2000) observed, managers can inhibit a firm's internationalization even if their network partner motivates them. Johanson and Vahlne (2003) have talked about the role of entrepreneurs in internationalization. They said entrepreneurs use their existing experience and network for their foreign market entry, which would help offset time and resource constraints. The relationship between entrepreneurs in partner firms will give a social dimension to the network, a recently emerged area in the network approach. Ellis (2010) cited some recent studies, which highlighted the need to include the social network of entrepreneurs in the business network perspective (e.g. Loane and Bell, 2006; Rutashobya and Jaensson, 2004; Sharma and Blomstermo, 2003).

#### 2.2.3.2. Social network

Studies reveal that social networks are more important than business networks for SMEs because social network not only provides resources such as information, finance, access to other networks (Chetty and Wilson, 2003; Lechner and Dowling, 2003), but it also reduces transaction costs (Rutashobya and Jaensson, 2004), facilitates new market entry (Loane and

Bell, 2006), provides knowledge of international entrepreneurial opportunities and cuts risks and uncertainty (Ellis, 2000; Ellis and Pecotich, 2001; Sharma and Blomstermo, 2003; Zain and Ng, 2006; Ellis, 2010; Prashantham and Young, 2011). It also helps in strategic decision-making of firms as well (Harris and Wheeler, 2006) ---which is very important for SMEs that have limited resources and capabilities to compete and survive in the international market. Studies that analysed the role of social network in international opportunity recognition revealed that firms which identified opportunities through their social networks have better exchanges than those which identified through non network resources (Ellis and Pecotich, 2001; Sharma and Blomstermo, 2003; Crick and Spence, 2005; Ellis, 2010). So we can argue that entrepreneurs' social relationships are the most important asset of a firm (e.g. Harris and Wheeler, 2006). Social network researchers also believe that it is an important prerequisite for business exchanges between firms (Björkman and Kock, 1995) because an entrepreneur, who plays a critical role in the business network, is embedded in the social network (Aldrich and Zimmer, 1986; Burt, 1992). So we can consider social network as a facilitator of business network.

However, reliance on a social network is also not free from limitations. Ellis (2010) mentioned that the issues of geographic, psychic and linguistic distances could constrain entrepreneurs' communications in a foreign market. The entrepreneurs tend to depend too much on their networks and relationships and ignore the more lucrative opportunities present outside the boundaries of their relationship. So they argue that social network relations could inhibit entrepreneurial initiatives, which in turn can lead to suboptimal internationalization route. On the other hand, Child et al. (2009) observes that decision-makers of small firms not only help cope with the issues of psychic distance but they also provide opportunities.

However, this issue is not greatly explored. Ojala (2008) also highlighted that the previous studies focused mainly on the role of network in entry mode choice. They also perceive that firms first enter into psychically close market and then move to distant market when they develop more network relationships (e.g. Coviello and Munro, 1995, 1997; Coviello and Martin, 1999; Crick and Spence, 2005; Sharma and Blomstermo, 2003; Coviello, 2006; Loane and Bell, 2006; Zain and Ng, 2006). However, Ojala (2009) reveals that knowledge-intensive SMEs select the target market and entry mode choice without the support of their network relationship, mainly when they enter psychically distant market. They use their existing network to reach to that market or they develop new relationship afterwards. He observes that knowledge-intensive SME's entry mode decision to psychically distant market is a strategic decision. Nonetheless, the role of network in coping with the psychic distance and entry mode decisions still remain an unexplored area and is a gap requiring further research.

Despite being a key area in international business and entrepreneurship, evidence on how networks are created and developed afterwards remains limited (Harris and Wheeler, 2006; Loane and Bell, 2006). Business network studies revealed that networks are created through customers, suppliers or distributors whereas the social network research criticized this view and pointed out that relationship rarely originate from these sources but can come from anywhere in a work or social set up (Harris and Wheeler, 2006). Building and maintaining relationships are very important for the development of firms' international knowledge capability (Loane and Bell, 2006). However, a high level of social interaction is required to build a mature and stable interpersonal relationship with great level of trust (Harris and Wheeler, 2006). This area has not been much explored by the previous studies. So it remains a potential field for further exploration.

### 2.2.4. International new venture

The fourth and the recent theoretical approach in international business deal with the firms whose internationalization is considerably different to traditional firms. In contrast to traditional firms, which internationalise gradually and incrementally, these firms aim at international markets or maybe even the global market right from their birth or very early in their lives. The concept was first identified by Uppsala researchers (e.g. Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Luostarinen, 1979) in the late 1970s, as deviations from the mainstream stage pattern of internationalization but remained unexplored in the 1970s and 1980s mainly because only limited number of companies showed this characteristics during that time (Masango, 2010). However, studies show that these firms a have huge presence in the current global economy (Shrader, Oviatt and McDougal, 2000; Zahra 2005; Mudambi and Zahra, 2007).

These companies have been named as "Born Globals" (Rennie, 1993; Knight and Cavusgil, 1996; Autio, Sapienza, and Almeida, 2000), “High Technology Start-ups” (Alahuhta, 1990; Jolly, Alahuhta, and Jeannet, 1991), “global start-ups/ international new ventures” (McDougall, Shane, and Oviatt, 1994; Oviatt and McDougall, 1994) and “new, technology-based firms” (Luostarinen et al., 1994; Autio, 1995). We use the term international new venture (INV) to specify the companies that fall under this category.

Previous studies reveal that these firms are seen among high technology and knowledge-intensive industries (Jones, 1999; Yli Renko et al., 2002; McDougall et al., 2003; Luostarinen and Gabrielsson, 2006). Luostarinen and Gabrielsson (2006) provided a more specific

depiction of industries. They observe that new venture firms are mainly seen among five business categories such as (1) high-tech (advanced innovative technologies), (2) high-design (unique design), (3) high- (quality) services, (4) high-know-how (unique, patented, trade mark protected and licensable) (5) high-system businesses (sophisticated systems). However, Rennie (1993) focused on a range of high value added manufacturing industries argued that these firms are not just limited to particular sectors but could be from any sectors. Similarly, Andersson (2000) drew samples from the rubber industries whereas Wickramasekera and Bamberry (2001) focused on Australian wine industries.

In their ground-breaking work, Oviatt and McDougall (1994) defined an international new venture "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 (p 49)". They observe it as a combination of the internalisation theory (Buckley & Casson, 1976; Rugman, 1982); the concept of alternative governance structures (Williamson, 1991; Vesper, 1990); sources of foreign location advantage (Dunning 1988); and ideas about sustaining competitive advantage (Barney, 1991; Schoemaker, 1990) (cited in Oviatt and McDougall, 1994: 49, Masango, 2010:63). Following Oviatt and McDougall (1994), different researchers have offered different definitions of the international new venture mainly differentiating it on the basis of percentage of export sales and the time taken for internationalization after inception.

Researchers have seen it as the case where management views the world as its marketplace from the outset (Rennie, 1993 and Knight and Cavusgil, 1996) or global vision and/or at a global growth path (Luostarinen and Gabrielsson, 2006). Some researchers have seen it as the

case where firms start their exports within the first two years after inception (e.g. Knight and Cavusgil, 1996, Chetty and Campbell-Hunt, 2004). But the percentage of export sales in each case was different. Knight and Cavusgil (1996) and Servais, Madsen and Rasmussen (2007) mentioned that at least 25% foreign sales whereas Luostarinen and Gabrielsson (2006) and Chetty and Campbell-Hunt (2004) considered it as 50% and 80%, respectively. On the other hand, Rennie (1993) highlighted the case where firms began exporting after two years of inception and achieved 76% of total sales from it in 14 years. The classification based on these criteria are criticised for not considering the influence of several other macro factors, such as size of domestic market and its economy, neighbouring markets or type of industry, on these aspects (Gabrielsson et al., 2008). They perceive that internationalisation of INVs are mainly influenced by entrepreneurs, their global vision, firms' innovation, product strategies, finance, network, operation and production strategies and organisational learning.

In their original work, Oviatt and McDougall (1994) point out one of the key aspects of entrepreneurship theories (e.g. Stevenson and Gumpert, 1985), as the main characteristics of international new ventures—firms' use the resources of other firms. In line with Hamel and Prahalad's (1994), they also regard resourcefulness as crucial for the new ventures but the concept was not well explored in their study. However, Oviatt and McDougall (1995) and McDougall and Oviatt (2000) further explored the concept and mentioned that the major sources of INV's competitive advantages are their own activities. Nonetheless, all these views highlight the importance of entrepreneurship in the international new venture (Zahra, 2005). This also lead McDougall and Oviatt (2000: 903) to come up with a new broad definition for international entrepreneurship, which they defined as ''a combination of innovative, proactive, and risk-seeking behaviour that crosses national boundaries and is intended to

create value in organisations''. This definition gives more importance to entrepreneurial qualities than to a firm's age.

Morrow (1988) first used the term international entrepreneurship; he mentioned that technological developments and cultural awareness reduced the internationalisation barriers of INVs (cited in Zahra and George, 2002 and Oviatt and McDougall, 2005a). McDougall's (1989) study further verified its importance. However, Oviatt and McDougall (1994) provided a strong theoretical foundation for this new area. Some of the earlier studies even challenged the basic rationale of economic theories, mainly monopolistic advantage theory for not acknowledging the role of the entrepreneurs in identifying the opportunity of using their monopolistic advantage in the early stages of their internationalisation. They also criticised the theory for the view that firms internationalise only after achieving monopolistic advantage in the domestic market.

Nonetheless, considering the multidisciplinary nature of entrepreneurship and IB, Oviatt & McDougall (2005a) highlighted the need to strengthen the theories and revising the definition by giving more focus on entrepreneurial activities. In line with Shane and Venkitaraman's (2000) definition of entrepreneurship, which focuses on opportunity and the individual, they defined international entrepreneurship "as the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services (p. 540)". This focuses how the actors (individuals, groups or organisation) discover, enact, evaluate, and exploit opportunities to create future goods and services. They developed a model showing the factors that influencing the speed of entrepreneurial internationalisation. They highlight three vital aspects of speed; "First, the time between the discovery or

enactment of an opportunity and its first foreign market entry. Second, is the speed with which country scope is increased? That is, how rapidly do entries into foreign markets accumulate and how rapidly are countries entered that are psychically distant from the entrepreneur's home country? Third, what is the speed of international commitment? That is, how quickly does the percentage of foreign revenue increase?" (Oviatt and McDougall, 2005a: 541).

Oviatt and McDougall (2005a) observe that enabling, motivating, mediating and moderating are the forces determining the speed of entrepreneurial internationalisation. Like Knight and Cavusgil (1996), Oviatt and McDougall (1999) highlighted the advances in transportation, communication, and digital technologies, which *enable* the rapid internationalization of entrepreneurial opportunities. The presence of competitor or potential competitors *motivates* the firms' rapid internationalization. The entrepreneurs act as mediators because they help interpret or *mediate* the opportunities, the enabling and motivating forces through their personal attributes. They find two types of *moderating* factors, the knowledge intensity of opportunities and the entrepreneurs' already existing know-how, and the international network of entrepreneurs. The type of knowledge influences the speed of entrepreneurial opportunity recognition (Bell, McNaughton, Young, and Crick, 2003) whereas Oviatt and McDougall (2005a) argue that the influence of knowledge happens after an opportunity is perceived and interpreted by an entrepreneurial actor. As already mentioned, the network relationships of a firm assist learning, provide more resources and increase SMEs commitments in foreign market (Johanson and Vahlne, 2003). Furthermore, they also help entrepreneurial opportunity recognition (Johanson and Vahlne, 2006).

Gabrielson et al, (2008) also offered a comprehensive analysis of the evolution of 'born global' firms (international new ventures) by categorizing this into three different stages; phase 1 is the introduction stage; growth and resource accumulation constitute phase 2, the third and final stage is break out, which means maturing as an MNE They provided a strong empirical evidence for the reasons for the progression from one phase to another. They analysed issues of financing, network selection and learning at each steps.

As Johanson and Vahlne (2003) pointed out, INV research also reveals the importance of learning (e.g. Oviatt and McDougall, 1994, 2005a; Autio et al., 2000; McDougall and Oviatt, 2000; Zahra et al., 2000; Zahra, 2005) and network (e.g. Coviello and Munro, 1995, 1997; Sharma and Blomstermo, 2003; Autio, 2005) in international new ventures. Unlike the process model where firms learn through their experience and increase their foreign commitments, Oviatt and McDougall (1994) observe that INVs skip these stages and enter foreign markets through high-level entry modes using entrepreneurial attributes. They increase their future profitability and further growth by learning about technological trends and competences from the foreign market (Zahra et al. 2000). They think that managers should have the capability and drive to integrate the knowledge acquired from foreign market. Entrepreneurial knowledge and vision are the main sources of aggressive international opportunity-seeking (Autio et al., 2000). They also believe that earlier initiation and higher knowledge intensity stimulate entrepreneurial behaviour and ensure faster international growth.

Despite highlighting the importance of learning in their studies, Oviatt and McDougall (1994) and McDougall and Oviatt (2000), have not linked learning with entrepreneurial activities.

Zahra (2005) notes that linking INV international entrepreneurial activities and learning would help identify one the competitive advantages of international new ventures. They also observe that although previous studies highlighted the importance of learning in INV internationalisation, the process and sources of that learning are still not well explored. Similarly, how the new ventures develop their absorptive capacity, which how they acquire and assimilate knowledge from the external environment, and then transform and exploit it into their operations (Cohen and Levinthal, 1990; Zahra and George, 2002b), also remains unexplored (Zahra, 2005).

Networks facilitate the rapid internationalization of international new ventures, one of their key distinguishing features (Oviatt and McDougall, 1994; Coviello and Munro, 1995; McDougall and Oviatt, 2003; Coviello, 2006). The INV literature, which applied the network approach, has mainly focused on how it supports on rapid internationalisation (Coviello, 2006). They also observed that these studies have been restricted mainly to market entry and post entry activities (e.g. Bell, 1995; Coviello and Munro, 1995, 1997). Coviello and Munro's (1997) study was one of the first study to provide a comprehensive illustration about the role of network in market entry, market development and firm characteristics. They explained INV internationalization by integrating time into the analysis. Nonetheless, they stressed that the entrepreneurial nature of these firms ensures evolution of network as the firms grow from its domestic market to international market. It means that an INV with incredibly high entrepreneurial traits leverages its initial network not only to expand its network relationships but also to enhance its market knowledge as well (Prashantham and Dhanraj, 2010). But the literature on this area still remains scanty.

The study of the role of networks in international new-venture is relatively recent (e.g. Coviello, 2006; Coviello and Cox, 2006; Prashantham and Dhanraj, 2010). Coviello (2006) analysed the network dynamics of early-stage international new ventures and argued that network theory and analysis are important in international entrepreneurship. She also observed that structural characteristics of INV networks could be static but based on the dynamic nature of process based relationship**,** she argues that INVs might perform differently in different stages of their life cycle. Coviello (2006) also mentioned that the relationships required for internationalization is developed at the early stages of a life cycle. So she argues that the network analysis at every stage of firms' life cycle is important. Prashantham and Dhanraj (2010) analysed the dynamic influence of social capital on new venture internationalization through a longitudinal study. They looked at the origin, evolution and appropriation of the social capital, which is the sum of potential resources embedded within and available through the relationships possessed by an organization (Nahapiet and Ghoshal, 1998). Coviello and Cox (2006) observe that acquired and mobilised resources generate social capital. Arenius (2002) argued that the major benefits of increased social capital for the new venture includes better access to resources and international opportunities, and a means by which they overcome the liabilities of newness and foreignness. The new ventures' ability to understand the latent contribution of social capital to international growth is mainly influenced by network learning (Prashantham and Dhanraj, 2010). Nevertheless, INV studies concerning these topics are still in their nascent stage and there is a strong demand for further exploration (McDougall and Oviatt, 2003; Zahra, 2005; Prashantham and Dhanraj, 2010).

## 2.3. Summary

The chapter discussed four main theoretical perspectives in international business scholarship, which are economic, process, network and international new venture perspectives. Large and multinational firms dominated the economic approach which assumes that internationalization is a rational decision, which is goal-specific and mainly takes account of firms' unique advantages. The central assumption of the economic approach is profit maximization. Economic approach is inadequate to explain the internationalization of small and medium enterprises (SMEs) because they have focused mainly on large multinational companies. On the other hand, process theories are path and context specific. They regard internationalization as a step-by-step incremental process, in which SME decision makers use their experiential knowledge to overcome the challenge of psychic distance. Unlike economic models that focus on large firms, process theories focus on small and medium firms as well.

The third main approach to SME internationalization, focusing on the role of network attachment, is an extension of the Uppsala process models. This model considers relationship to be the core and critical aspect of firm internationalization and addresses some of the major limitations of the process model. Unlike the other approaches, the network model addresses the issues of both outward and inward internationalization. Nevertheless, despite its importance in SME internationalization, the ways in which firms develop and maintain network attachment remain unexplored. The fourth and the final perspective in international business research focuses on international new ventures (INV). Unlike traditional firms, these firms start their internationalization very soon after their inception. INV studies emphasized the role of entrepreneurs and combined the entrepreneurship literature to explain the

internationalization characteristics of these firms. Table 2.2 summarizes the theories and previous literature, and their contributions to the present study.

Table: 2.2. Summary of the theories and previous literature and their contributions to the present study

| Approach | Author (Date) | Focus, analytical framework and contributions | Contribution to the present study |
|---|---|---|---|
| **The theory of MNEs** | Hymer (1976) | The study explained the questions, "Why MNEs?" and "Why FDI?" over alternative modes of internationalization.<br><br>The major difference he observed between the earlier theories and FDI is over the degree of control the latter provides MNEs.<br><br>First, he argued that sometimes it is profitable to control firms in more than one country to reduce competition/conflict/rivalry between them.<br><br>Second, firms with specific advantages in particular activities might find establishing operations in foreign markets more profitable.<br><br>Third, Diversification.<br><br>The study argued that all firms in an industry will have different capabilities, and that firms with particular advantages will have more chances to internationalize than others.<br>The important contribution of this work is to bring the theory of foreign direct investment from international trade and finance to industrial organization and the theory of firm.<br>The apparent predictive power of this theory made it more attractive. | **Theoretical**:<br>(1) Motives for OFDI<br>(2) Firm-specific advantages |

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| **The internalization theory** | Buckley and Casson (1976) | They drew attention to how internalizing knowledge-based intangible assets/advantages would provide transaction-cost economic benefits to a firm.<br><br>This is the first work in the international business literature to focus more on industry-level and firm-level determinants of international investment flows than country-specific factors.<br><br>According to them, internalization is an approach where firms use their own existing structure/resources to conduct business activities rather than make costly market investment options.<br><br>The general principle of the theory is<br><br>(1) Firms maximize their profits in the imperfect/missing external market by internalising, which means creating internal markets and bringing all market linking activities under common ownership and control, to the point where the benefits are outweighed by the cost.<br><br>(2) Firms select locations for each activity that offset their overall operation costs.<br><br>They highlighted that internalization is a firm's ability to innovate as the vital firm-specific advantage that guides them across international boundaries. | **Theoretical**:<br>(1) Firm- level and industry- level focus.<br>(2) Firm-specific advantages. |

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|---|---|---|---|
| **The Eclectic Paradigm** | Dunning (1979, 1981, 1988, 2001) | Has taken a holistic view of economic approaches.<br><br>Dunning argues that MNEs' decision to invest through FDI is mainly influenced by three important factors:<br>(1) ownership-specific competitive advantage of the firm seeking to invest (O)<br>(2) location advantages of particular countries or regions providing value to MNEs (L)<br>(3) the firms' ability to internalize their ownership and location advantages (I)<br><br>The ownership advantage is company-specific. And it is classified into two types, which are asset specific (Oa) and transaction (coordinating) (Ot) advantages.<br><br>The location sub-paradigm is the location attraction of such countries or regions for undertaking production which adds value to the firm. It refers to the institutional and productive factors present in a particular geographical area such as cost advantages, infrastructure, availability of resources, tax benefits, political stability and so on.<br><br>The internalization sub-paradigm offers a framework to evaluate operation mode such as how firms utilize their core competencies (ownership advantages) to capitalize the location attractions of different countries or regions. | **Theoretical**:<br>(1) The role of ownership and location advantages in the internationalisation of SMEs. |

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| Uppsala internationalization Model" | Johanson and Wiedersheim-Paul (1975) | Identified 4 successive stages of international involvement.<br><br>They observed that firms move from the lower level of involvement to higher degree of involvement.<br>The stages are:<br>Stage 1: No regular export activities.<br>Stage 2: Export via independent representatives (agents).<br>Stage 3: Establishment of an overseas sales subsidiary.<br>Stage 4: Overseas production/manufacturing units (Andersen, 1993).<br><br>Highlighted the role of psychic distance in the internationalization of firms. | **Theoretical**:<br>(1) Issues of psychic distance.<br>**Methodological:**<br>(1) Case study method. |
| Uppsala internationalization Model" | Johanson and Vahlne (1977) | The internationalization of firms is a dynamic and incremental activity which is affected by perceived uncertainty and a lack of knowledge of foreign markets. Hence, they argued that learning or acquisition of foreign market knowledge is critical for foreign market entry, which is the underlying principle of the Uppsala (U) internationalization model.<br><br>According to them, internationalization is a gradual and slow process, which allows managers to learn about a market through experience. The greater the knowledge of a specific market the lesser the perceived risk—and this will result in higher investment in that market. | **Theoretical**:<br>(1) Dynamic aspects of firms' internationalisation<br><br>(2) Role of experience<br><br>(3) Psychic distance<br><br>(4) Learning<br><br>**Methodological**:<br>(1) Case study method |

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|---|---|---|---|
| | | They argue that people working in a specific market will provide and understand issues and opportunities related to that market much better than an outsider. They point out that experience not only generates business opportunities, but also work as a driving force of the internationalization process<br><br>Their framework shows a distinction between state and change aspects of internationalization variables. The state aspects are a firm's actual market knowledge and market commitment about foreign markets and operations at a given time. They consider experiential knowledge as the most important market knowledge. They mentioned the amount and degrees of resources committed as the aspects of market commitment. The change aspect involves decisions to commit resources and performance of current business activities.<br><br>The framework highlights that the market knowledge and market commitment at a certain point of time are assumed to affect the commitment decisions and current activities that will also influence the market knowledge and market commitment afterwards.<br><br>This model is developed on the basis of psychic distance. They observed that firms first enter into psychically close market and slowly move into the markets which are psychically distant. | |

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|---|---|---|---|
| **Innovation adoption process Model (I model)** | Bilkey and Tesar (1977)<br>Czinkota (1982)<br>Cavusgil (1980)<br>Reid (1981) | I-model theorists consider the internationalization decision as an innovation for the firm.<br><br>The main intention of these studies is to apply the innovation stages of Rogers (1962) in a stepwise manner in order to see how firms start exporting or intensifying their involvement in international markets, from a being non-exporting entities previously.<br><br>These models have a number of fixed, sequential stages; however, the number of stages differs between models.<br>Bilkey and Tesar (1977) and Czinkota (1982) presume that firms are not interested in exporting in the first stage and will show partial interest in stage two. This shows that external market factors or some 'push' mechanism influences the firms' decision to export.<br><br>Cavusgil (1980) and Reid (1981) described that firms are interested and are involved in active exporting even in the early stages. This reveals that some 'pull' mechanism or internal agents influence the firms' decision to move to the next stages. | **Theoretical**:<br>(1) The factors (external or internal) influencing or determining a firm's export / internationalisation decision.<br>(2) The internal factors are firm and its managerial characteristics.<br>(3) The external factors include the role and influence of governmental legal regulations, policies and export assistance; market attractiveness, competitiveness, barriers, and hostility; industry technological intensity, turbulence and stability; socio-cultural and so on.<br>**Methodological**:<br>(1) Case study method |
| Business network approach | **Johanson and Mattsson (1988)** | They defined networks as the relationships a firm has with its customers, distributors, suppliers, competitors and government and consider them as the actors of a business network.<br><br>They explained how and why firms internationalize their operations through the network approach. | **Theoretical:**<br>(1) The role of networks in the internationalisation of firms.<br><br>(2) The types of network and its benefits.<br>**Methodological**:<br>(1) Case study method |

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| | | The three categories through which firms could achieve internationalization are (1) through forming relationships with counterparts in countries that are new to these firms (international extension), (2) by developing commitment in already-established overseas networks (penetration), and (3) through connecting their positions in networks in various countries (international integration). | |
| | Johanson and Vahlne (2003, 2006) | Defined business network as a set of two or more inter-connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors. Therefore, business network is characterized by exchange of goods, service or information.<br><br>They believe that managerial issues--those associated with establishment and development of relationships---are the main issues of network approach.<br><br>Interaction between firms provides them an opportunity to learn about each other's needs, strategies and business contexts and that increases their mutual commitment, which is one of the basic characteristics of business relationships.<br><br>They said partner networks even influence strategic decisions regarding the entry mode. | **Theoretical**:<br>(1) Business network, international opportunity recognition and entry mode<br>(2) The business network research ignores situations in which firms try to enter into a new market where they do not have any business relationship.<br><br>**Methodological**:<br>(1) Case study method |

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| | Welch and Luostarinen (1988) | The network model addresses one of the most ignored areas of the internationalization process, inward internationalization.<br>They emphasized the point that inward internationalization influences outward internationalization by providing networks. | Theoretical:<br>(1) Network approach<br>(2) Inward and outward internationalisation |
| | Coviello and Munro (1995, 1997) | Combined the stage concept from process theories and industrial network theories.<br><br>Examined the influence of network relationship on the internationalization of small software firms | **Theoretical:**<br>(1) Combining existing theories to explore the internationalisation of firms.<br>**Methodological**:<br>(1) Case study |
| Social network approach | Chetty and Wilson (2003)<br>Lechner and Dowling (2003) | Social networks provide resources such as information, finance, access to other networks | **Theoretical:**<br>(1) Network relationship in the internationalisation of SMEs.<br>**Methodological:**<br>(1) Mixed methodology |
| Social network approach | Rutashobya and Jaensson (2004) | Inter-personal relationships reduce transaction costs | **Theoretical**:<br>(1) Role of network relationships in the entry mode decisions of SMEs<br>**Methodological**:<br>(1) Mixed methods |
| | Loane and Bell (2006) | Social network facilitates new market entry.<br><br>Building and maintaining relationships are very important for the development of the firms' international knowledge capability | **Theoretical:**<br>(1) Cross national study of internationalising entrepreneurial firms<br>(2) How firms build new networks for their internationalisation<br>**Methodological:**<br>(1) Mixed methodology |

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| | Ellis (2000) | Interpersonal relationships provide knowledge of international entrepreneurial opportunities and cuts risks and uncertainty. | **Theoretical:**<br>(1) How personal networks facilitate international opportunity recognition.<br>**Methodological**:<br>(1) Case study. |
| | Ellis (2010) | International entrepreneurship and opportunity recognition. | **Theoretical**:<br>(1) Entrepreneurial network and opportunity recognition.<br>**Methodological:**<br>(1) Case study. |
| | Sharma and Blomstermo (2003) | The theoretical development of the internationalisation process of INV firms emphasizing on knowledge and networks. | **Theoretical:**<br>(1) Knowledge, network and INV firms. |
| | Ellis & Pecotich (2001) | They explore the influence of social ties on export behaviour. | **Theoretical**:<br>(1) The role of entrepreneurs in the internationalization of SMEs.<br>**Methodological:**<br>(1) Case study |
| | Zain & Ng (2006) | The role of network relationships in the internationalisation of Malaysian small and medium companies | **Theoretical:**<br>(1) The role of network relationships in the internationalisation of SMEs<br>**Methodological:**<br>(1) Case study |
| | Harris & Wheeler (2006) | The main aim was to explore how entrepreneurs resource, use and value their relationships.<br>Entrepreneurs' social relationships are the most important asset of a firm. They help in strategic decision-making of firms. | **Theoretical:**<br>(1) The origins and functions of inter-personal relationships<br>**Methodological:**<br>(1) Case study |

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| | | A high level of social interaction is required to build a mature and stable interpersonal relationship with great level of trust. | |
| | Björkman and Kock (1995) | They analysed the role played by social relationships when penetrating a foreign business network.<br><br>Social network researchers believe that entrepreneurs' personal relationships are an important prerequisite for business exchanges between firms because an entrepreneur, who plays a critical role in the business network, is embedded in the social network | **Theoretical:**<br>(1) social network as a facilitator of business network<br><br>**Methodological:**<br>(1) Case study |
| | Child et al. (2009) | Observe that entrepreneurs' network relationships help cope with the issues of psychic distance | **Theoretical:**<br>**(1)** Social network as a psychic distance coping mechanism<br>**Methodological**<br>(1) Case study |
| **INV perspective** | Oviatt and McDougall (1994) | Developed a framework for INV firms' internationalization.<br>They observed it as a combination of the internalization theory, the concept of alternative governance structures, sources of foreign location advantage, and ideas about sustaining competitive advantage. | **Theoretical:**<br>(1) The factors determining the existence of INV firms. |
| | Oviatt and McDougall (1995) | Mentioned that the major sources of INVs' competitive advantages are their own activities<br><br>Highlighted the importance of entrepreneurship | **Theoretical:**<br>(1) Entrepreneurship<br><br>**Methodological:**<br>(1) Case study |

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| | McDougall and Oviatt (2000) | International entrepreneurship —"a combination of innovative, proactive, and risk-seeking behaviour that crosses national boundaries and is intended to create value in organisations'' | **Theoretical:**<br>(1) international entrepreneurship |
| | Gabrielsson et al. (2008) | Observed that internationalization of INVs are mainly influenced by entrepreneurs, their global vision, firms' innovation, product strategies, finance, network, operation and production strategies and organisational learning.<br><br>Offered a comprehensive analysis of the evolution of 'born global' firms (international new ventures). They analysed issues of financing, network selection and learning at each steps. | **Theoretical:**<br>(1) Entrepreneurs and their network<br>(2) Evolution of born-global firms |
| | Oviatt & McDougall (2005a) | International entrepreneurship—<br>Developed a model showing the factors that influencing the speed of entrepreneurial internationalization.<br>Observed that enabling, motivating, mediating and moderating are the forces determining the speed of entrepreneurial internationalization.<br>Highlighted the importance of learning.. | **Theoretical:**<br>(1) International entrepreneurship<br>(2) Learning |
| | Knight and Cavusgil (1996), Oviatt and McDougall (1999); Oviatt & McDougall (2005a) | The forces determining the speed of entrepreneurial internationalization:<br>*Enabling*: the advances in transportation, communication, and digital technologies<br>*Motivating*: the presence of competitor or potential competitors<br>*Mediating*: the entrepreneurs through their personal attributes | **Theoretical:**<br>(1) The enabling, motivating, mediating and moderating forces determining the speed of entrepreneurial internationalization<br>**Methodological:**<br>(1) Mixed methodology |

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| | | *Moderating:* the knowledge intensity of opportunities and the entrepreneurs' already existing know-how, and the international network of entrepreneurs. | |
| | Autio et al. (2000) | Entrepreneurial knowledge and vision are the main sources of aggressive international opportunity-seeking.<br><br>Highlighted that earlier initiation and higher knowledge intensity stimulate entrepreneurial behaviour and ensure faster international growth. | **Theoretical:**<br>(1) International entrepreneurship<br>(2) Learning |
| | Zahra et al. (2000) | INV firms increase their future profitability and further growth by learning about technological trends and competences from the foreign market. They think that managers (entrepreneurs) should have the capability and drive to integrate the knowledge acquired from foreign market. | **Theoretical:**<br>**(1)** Entrepreneurial capability and learning |
| | Zahra (2005) | Noted that linking international entrepreneurial activities and learning would help identify one the competitive advantages of international new ventures.<br>Mentioned that how the new ventures develop their absorptive capacity is not explored well. | **Theoretical:**<br>(1) International entrepreneurship<br>(2) Learning capability |
| | Coviello and Munro's (1997) | One of the first studies to provide a comprehensive picture of the role of network in market entry, market development and firm characteristics.<br>They emphasized that the entrepreneurial nature of these firms ensures evolution of network as the firms grow from its domestic market to international market. | **Theoretical:**<br>(1) Role of network.<br>(2) Entrepreneurial internationalization.<br>**Methodological:**<br>(1) Case study among small software firms. |

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| | Coviello (2006) | Analysed the network dynamics of early-stage international new ventures and argued that network theory and analysis are important in international entrepreneurship.<br>Mentioned that the relationships required for internationalization are developed in the early stages of a company's life cycle. So she argues that the network analysis at every stage of firms' life cycle is important. | **Theoretical:**<br>(1) International entrepreneurship.<br>(2) Network dynamics.<br><br>**Methodological:**<br>Multi-site case research |
| | Prashantham and Dhanraj (2010) | Analysed the social capital dynamics in new-venture internationalization through a longitudinal study.<br>They looked at the origin, evolution and appropriation of the social capital.<br><br>Highlighted the importance of network learning | **Theoretical:**<br>(1) New venture internationalization.<br>(2) Origin, initiation and appropriation of social capital.<br>(3) Network learning.<br>**Methodological:**<br>(1) Case studies. |
| | Arenius (2002) | The major benefits of increased social capital for the new venture are:<br>(1) Better access to resources and international opportunities<br>(2) Overcome the liabilities of newness and foreignness. | **Theoretical:**<br>(1) Role of social capital in new venture internationalization.<br>(2) Social capital as psychic distance coping mechanism. |

# CHAPTER 3
# INTERNATIONALIZATION: ALTERNATIVE PERSPECTIVES

## 3.1. Introduction

This chapter presents a review of literature on the alternative perspectives of internationalization such as internationalization of emerging-economy firms, service-sector companies, and small and medium enterprises (SMEs). The final section will discuss the role of information and communication technology in the internationalization of firms.

## 3.2. Internationalization from emerging economies

Liberalization of economies and reduction of trade barriers have simplified the internationalization process and necessitated firms to expand to overseas markets. This has increased the presence of companies from emerging economies in the international market (Khanna and Palepu, 2007). The UNCTAD (2004) report shows that the annual outward foreign direct investment (FDI) from developing countries has grown faster than that from developed countries since the 1990s. The developing countries constitute around 10% of the world's total FDI outflow (UNCTAD, 2004). Various studies also show that the economic size of four large emerging economies in the BRIC (Brazil, Russia, India and China) bloc could be larger than G6 countries in less than 40 years (Wilson and Purushothaman, 2003). Despite having an important position in the current international strategy research (Cavusgil and Zou, 2002), studies on international expansion of firms from emerging economies remain insufficient (Child and Rodrigues, 2005; Mathews, 2006; Gaur and Kumar, 2009).

Studies on erstwhile developing-country multinationals (MNCs from the developing world) in the 1980s were the first stream of studies on these firms (e.g. Kumar and McLeod, 1981; Wells 1983; Lall, 1983). They noted that these firms internationalized based on their advantages in production and process and to countries that have similar conditions. These studies stressed mainly on economic factors such as low-cost and labour-intensive production than product differentiation and flexible technologies. However, some of these studies mentioned that these firms suffer a number of disadvantages as well, such as a lack of foreign market knowledge, outdated technologies and high reliance on foreign expatriates because of managers' limited international experience compared to MNCs from developed countries. Moreover, these countries are geographically far from North America and Europe. Nonetheless, emerging-market companies, even from large emerging markets such as India, China, and Brazil are small and young compared with developed-country firms (Contractor, Kumar and Kundu, 2007). So as Lyles and Baird (1994) said one could conclude that the management capabilities and decision-making processes of these firms are not fully developed.

However, these views contradict traditional internationalization literature that has focused mainly on developed-country firms (e.g. Hymer, 1974; Buckley and Casson, 1976; Dunning, 1981, 2001). This literature assumes that firms internationalize to exploit their competitive advantage, which has focused mainly on opportunities in the foreign market for asset exploitation. So researchers argue that there is a need for theoretical modification to analyze the internationalization of emerging-economy firms (e.g. Child and Rodrigues, 2005; Mathews, 2006; Gaur and Kumar, 2009). Considering these concerns, Child and Rodrigues

(2005) suggest that the developing-country MNCs need to follow the catching-up strategy to survive in the global market.

However, the liberalisation in the 1990s witnessed quite a different phenomenon among emerging-market companies. Their main focus changed from cost-to-market search and technological innovation to compete in the highly complex global market (Yeung, 1999). These firms utilize the pull factors and their relationships to accelerate their internationalization (Mathews, 2006). The observation by Child and Rodrigues (2005) and Boisot (2004) about Chinese multinationals that they internationalize not to exploit the domestic advantage, but to seek resources, opportunities and to overcome the disadvantages they face in operating in a single market is consistent with this argument. This condition can be applied to both traditional large firms and to internationalizing small and medium firms (Acs, Morck, Shaver, & Yeung, 1997).

These firms utilized their late arrival in the global business scene to their advantage, which Mathews (2006) mentioned as classic Gerschenkronian "latecomers". They have noted that as Gerschenkron (1962) highlighted, the catch-up approach using advanced technologies, dedicated industrial institution and rapid internationalization can be applied to developing-country firms as well. It is consistent with the international new ventures concept (Oviatt and McDougall, 1994), which used the latecomer aspects and catching up strategy. Studies reveal that INVs dominated the second stream of emerging market internationalization (e.g. Zhou, Wu and Luo, 2007; Prashantham, 2008; Prashantham and Dhanraj, 2010; Prashantham and Young, 2011).

Developing strength in overseas markets helps latecomer firms to attain the essential assets much faster, and also contribute to higher bargaining power in the local market to increase profitability (Boisot, 2004). International presence helps them compete against other multinationals in their home market (Child and Rodrigues, 2005). Bonaglia, Goldstein and Mathews (2007), who support this view, observe that since latecomer multinationals from emerging markets lack OLI advantage and have high competition in domestic markets following liberalization, it is necessary for them to enter a foreign market with multiple goals in mind: to build resources and also to survive local competition. In fact, it is the reversal of traditional perspective (Bonaglia et al., 2007). Exporting is the most common mode of internationalization among the latecomers which is facilitated by low-cost and modern production technologies (Child and Rodrigues, 2005). However, they noted that the main aim of outward internationalization is to get raw materials and intangible assets such as brand reputation, technical knowledge and learn about managing a global company.

The competitive disadvantage can be the factor influencing the internationalization decision for latecomer emerging economy firms (Wesson, 1999). Wesson (1999) believes that strategic-asset-seeking occurs among latecomers or companies with few technological capabilities—who try to bridge the gap by acquiring innovative firms. So it is argued that the internationalization of firms from developing countries use their arrival as latecomers on the global stage to capture advantages associated with being late such as the new possibilities for linkage and leverage of knowledge and market access available through globalization (Mathews, 2002,2006; Child and Rodrigues, 2005; Bonaglia et al., 2007).

Another important aspect of emerging economies is its institutional context, which tends to

contrast markedly from that of the developed countries (Khanna and Palepu, 2006). Weak institutions, poor home-country advantages and political instability are common characteristics of emerging economies (Auklah et al., 2000; Brouthers et al., 2005; Erdogmus, Bodur and Yilmaz, 2010). However, issues such as market conditions, institutions and firms' embeddedness in it are neglected in existing studies, which focus mainly on economic aspects rather than socio-political views (Child and Rodrigues, 2005). They mentioned that the latecomer disadvantage could be overcome through support from governments and other institutional agencies. This highlights the need for a theoretical development by including more social and political factors activated through home-country institutions. However, Child and Rodrigues (2005) and Witt and Lewin (2007) observe that too much institutional and government influences hinder international expansion---through complicated administrative approval and institutional dependence.

Business systems in developing countries have often been influenced by institutional and political involvement (Dunning and Narula, 1996). However, after undergoing institutional transition in recent years, most emerging economies are characterized by inadequate institutional support for market-based transactions (Choi, Lee and Kim, 1999). In most emerging countries, government, institutional legislations and regulations affect their inward FDI (Child and Rodrigues, 2005).

Uncertainty associated with home institutional environment necessitates companies to operate in foreign markets and diversify their risks (Rugman, 1979). However, emerging-country firms not only rely on geographic expansion, but also go for product diversification to reduce the risks and to make use of the inefficient home institutional environment (Gaur and Kumar,

2009). Some companies develop their own internal organizational mechanisms such as business groups to avoid the institutional void (Khanna and Palepu, 2006; Yiu et al., 2005; Gaur and Kumar, 2009). It is "a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties, and are accustomed to taking coordinated action (Khanna and Rivkin, 2001: 47-48)". The business group affiliation reduces the risks (Khanna and Yafeh, 2005) and increases the profitability (Khanna and Palepu, 1997, 1999) of emerging-economy firms in a weaker institutional environment. Business groups comprise a large part of economic activities in many emerging economies (Gaur and Kumar, 2009).

In their study on internationalization of Chinese firms, Child and Rodrigues (2005) discuss the role of entrepreneurs in coping with the issues of institutional risks. Despite its importance, only little is known about entrepreneurship in emerging economies that are increasingly moving to market orientation and seeking to rapidly advance economically (Burton et al., 2008). Child and Rodrigues (2005) perceive that Chinese entrepreneurs who have successfully steered their companies into internationalization have found ways of accommodating the institutional embeddedness that remains in China. Rather than escaping from these institutional issues, these firms found ways to seek political support that will give them the freedom to pursue internationalization strategies of their own. Internationalization strategies that entrepreneurs pursue are influenced by the interaction between institutional legacies of a home-country and the capabilities of their corporate entrepreneurs (Child and Rodrigues, 2005).

Recent international business theories, which focus on rapid internationalization, have

discussed international entrepreneurship in international new ventures (e.g. McDougall and Oviatt, 2000; Zahra and George, 2002; Oviatt and McDougall, 2005a; Zahra, 2005). Nevertheless, how decision-makers deal with institutional issues and negotiate strategic choice need further exploration to provide a strong theoretical foundation (Child and Rodrigues, 2005). They also talk about how the phenomena such as relational framework (Meyer and Scott, 1983) between firms and institutions and the degree of networking between firms and the external bodies affect internationalization. They think that co-evolution perspective would provide an analytical framework for theoretical extension.

As mentioned above, uncertain structural changes make emerging economies relatively higher-risk countries (Nachum, 2004) for doing business. It is higher level of country risk---along with a volatile home market---that triggers internationalization among emerging markets firms (Gaur and Kumar, 2009). They perceive that emerging economy firms that enter into developed economies face a much better institutional setting than what they are used to be in their home markets. The better institutional environment provides emerging-economy firms the opportunity to develop capabilities and resources, which is otherwise not possible in the domestic environment. Moreover, the attractions of large developed-country markets may help offset the problems of psychic distance, because these companies are pursuing long-term, globally oriented strategies (Child and Rodrigues, 2005). However, issues of psychic distance will be higher for inward internationalization if the institutional and political issues in an emerging market are not supportive to business. . In their study on British companies' internationalization to Brazil, Child et al. (2009) observe that institutional-related dimensions of psychic distance such as regulation, legal systems, logistics and political systems have higher business impact compared with dimensions such as culture and

geographic distance. Higher psychic distance is associated with higher expenses for foreign firms to adapt to the local environment, which will increase the liability of foreignness. Zaheer (1995: 342) defined liability of foreignness "as the costs of doing business abroad that result in a competitive disadvantage for a multinational enterprise (MNE) subunit". Liability of foreignness is also an issue when an emerging-market firm is moving to a developed country, which has a totally different institutional set up.

Child and Rodrigues (2005) suggest that Chinese firms operating in foreign markets prefer to follow acquisition or organic growth -- rather than making joint ventures with non-Chinese firms-- to avoid the liability of foreignness. Surveys point to foreign acquisition of whole or part ownership as the favoured route for Chinese FDI. This indicates that Chinese firms want to preserve their administrative legacy. Consistent with this argument, Gaur and Kumar (2009) note that the presence of a vast Diaspora in developed countries helps emerging-economy firms reduce the costs of internationalization in its early as well as late growth stages. Emerging-economy firms benefit from the Diaspora especially in the early stages of their internationalization, even if they have weak institutional environment in the home market and a reasonably poor resource base (Hitt et al., 2000). In their study, Kapur and Ramamurti, (2001) observe that the Indian Diaspora in Europe and the US helped the Indian ICT firms' internationalization by providing them technical know-how, market access, capital and so on.

As in traditional literature, multinational firms dominate the emerging-economy literature, too (e.g. Child and Tsai, 2005; Khanna and Pelepu, 2006; Bonoglia, Goldstein and Mathews, 2007; Buckley et al., 2007; Chittoor, Sarkar, Ray and Aulakh, 2009; Bhaumik, Driffield and

Pal, 2010; Gubbi, Aulakh, Ray, Sarkar and Chittoor, 2010). However, recently the literature on international new venture and international entrepreneurship has focused on the issues of small and medium firms in emerging nations (e.g. Zhou, Wu and Luo, 2007; Prashantham, 2008; Child and Rodrigues, 2008; Javalgi and Todd, 2010; Prashantham and Dhanraj, 2010; Prashantham and Young, 2011). Studies show that developed and emerging economies differ mainly in firm-specific factors such as size, resources, macro environment, specifically government intervention and institutional systems, and in psychic distance. So the main opportunity is to explore the latecomer perspective and catching-up strategies of emerging-economy firms. Linking the network and entrepreneurship perspectives to issues of institutional and political instability and the liability of foreignness can be another potential path for theoretical development.

## 3.3. Internationalization: manufacturing/service

The Uruguay Round negotiations, which vowed to reduce national restrictions on international service marketing, have triggered a sharp growth in the globalization of companies (Fieleke, 1995 and Javalgi et al., 2003). Data show a steady growth in service trade, which accounted for more than 50% of global FDI in the 1990s (Wirjanto, 1997). The value of international services also began to overtake that for manufactured goods (Dunning, 1993; UNCTAD, 1994). Service industry is the largest element of developed nations (Aharoni, 1993; Javalgi et al., 2003). International services have a great influence on economic development and social welfare of countries (Clark, Rajarathnam and Smith, 1996). Moreover, service industries play a fundamental role in the growing interdependence of markets and production activities across nations by building links between geographically dispersed economic activities (Braga, 1996).

Despite its increasing importance in the world economy, most of the early research on the internationalization process of firms primarily focused on manufacturing firms producing tangible goods (Boddewyn et al., 1986; Buckley, Pass, and Prescott, 1992; Aharoni, 1996; Clark and Rajaratnam, 1999). However, studies on service industries received more attention in the 1990s (e.g. Sharma and Johanson 1987; Erramilli 1989, 1991; Buckley, Pass, and Prescott 1992; Edvardsson, Edvinsson, and Nystrom, 1993; Erramilli and Rao 1993; Li 1994; Dunning and Kundu, 1995). After reviewing international marketing articles from 30 academic journals during the period of 1980 to 1998, Knight (1999) concluded that more research is needed in this area highlighting theories, constructs and models.

Cloninger and Oviatt (2007:234) defined service "as deeds, performances, and efforts that provide benefits to customers". Studies show that service firms exhibit certain characteristics such as intangibility, simultaneity or inseparability of production and consumption, heterogeneity, and perishability (Buckley, Pass, and Prescott, 1992; Aharoni, 1993; Berthon et al., 1999). These factors are found to be associated with whether or not the firms are internationalized (Cloninger and Oviatt, 2007). However, in the case of international services these factors are influenced by additional set of factors that are unique to a particular foreign location such as physical, economic, technological, socio-cultural, political and legal distance between the countries (Patterson and Cicic, 1995; Clark et al., 1996; Berthon et al., 1999). It is consistent with the issues of psychic distance mentioned in the stage theories of internationalization (Johanson and Vahlne, 1977).

Manufacturers link the products with services to compete in the current global market

(Ansberry, 2003). So the delivery of services is increasingly linked to accompanying products (Cloninger and Oviatt, 2007). Because of these reasons, Dunning (1989), Hirsch (1994) Giarini (1994), Gronroos (1999) and Daniels (2000) observed that today firms produce few "pure" goods or services. The degree of separability of production and consumption has been highlighted as a key difference between a service and a good and an essential determinant of how services can be delivered to customers in domestic and overseas markets (Erramilli and Rao, 1993; Lovelock and Yip, 1996; Roberts, 1999).

Established theories on manufacturing firms form the foundations for both the service and manufacturing firms' internationalization (Boddewyn, Halbrich and Perry, 1986; Capar and Kotabe, 2003; Cloninger and Oviatt, 2007). However, empirical studies fail to differentiate between service and manufacturing activities (Chattopadhyay, Glick and Huber, 2001). Studies by Boddewyn et al. (1986) was one of the first to make an effort to differentiate service firms from manufacturing ones by looking at initial expansion abroad. They observed that service firms may need considerably higher investments which may affect their performance in the foreign market. Katrishen and Scordis (1998) also supports this view in their study on insurance companies---that service firms suffered from diseconomy of scale and it may grow further with higher level of multinationality. But Ghoshal (1987) argues that these firms may benefit from the economies of scope and economies of scale in the long run through knowledge gained worldwide; firms learn the ways to lower its costs (cited in Capar and Kotabe, 2003). Contrary to Boddewyn et al., (1986) and Katrishen and Scordis (1998), Javalgi et al., (2003) observe that the service sector involves low capital investment.

Clark and Rajaratnam (1999) said that developing a valid theory for service firms is difficult because the international service domain is so complex and diverse. However, it is argued that existing theories could be modified to explain the internationalization of service sectors (e.g. Clark and Rajaratnam, 1999; Dunning and Kundu, 1995; Coviello and Martin, 1999; Javalgi et al., 2003; Cloninger and Oviatt, 2007). The applicability of Dunning's OLI perspective on service-sector firms is widely accepted (e.g. Agarwal and Ramaswami, 1992; Buckley, Pass, and Prescott, 1992 Dunning and Kundu, 1995; Cloninger, 2004; Cloninger and Oviatt, 2007). On the other hand, Coviello and Martin (1999) and Javalgi et al. (2003) highlighted the importance of integrating more than one perspective to explore the internationalization behaviour of service firms.

Cloninger and Oviatt (2007), after applying Dunning's eclectic paradigm, highlighted that as that of established manufacturing firms, service firms should have an ownership advantage (e.g. unusual technological skills) in order to survive and grow. Also, they should have the capability to transfer these advantages to favourable foreign locations (e.g. countries where those technological skills are unknown to indigenous firms). They can maintain internal control of the foreign transfer by embedding these advantages into the operations (e.g. through complex and tacit training provided only to venture employees who travel internationally). They also observe that tangibility and simultaneity and, to some extent, perishability are found to be associated with location, where they are internationalized.

Javalgi et al. (2003) examined whether antecedent factors of manufacturing firms' internationalization could be applied to the service firms. They used a number of theories to explain the internationalization of service firms. Along with Dunning's eclectic paradigm,

they extended some studies on manufacturing companies (e.g. Cavusgil and Naor, 1987; Axinn, 1988; Katsikeas, 1994) and service companies (O'Farrell and Wood, 1994; Katrishen and Scordis, 1998). As mentioned earlier, they believe that manufacturing-based research can form a foundation for the internationalization of service sectors. However, in line with O'Farrell and Wood (1998) they suggest that to determine its appropriateness, the literature should be theoretically and empirically examined before applying it directly in service industry research.

Coviello and Martin (1999) integrated three major theories - FDI theory, the stage models, and the network perspective -- to study the internationalization of knowledge-based service SMEs. They observed that internationalization is influenced by four key organizational characteristics such as 1) a product embodied in skilled personnel (2) a relatively high degree of client involvement, (3) relatively low capital intensity and (4) project-based nature of the business. However, they observe that none of the theories help explain these characteristics completely. So they argue that internationalization of service firms is not exactly the same as the model developed for manufacturing firms. At the same time they observe that some characteristics are similar in both -- such as influence of network relationship. Based on these findings they argue that regardless of the sector, internationalization of smaller firms reflect the structural, managerial, and resource characteristics of such organizations. As observed by other researchers, who focused on MNCs, Coviello and Martin (1999) also conclude that internationalisation of a service SME is also very complex because it considers several perspectives. For example, as in network approach, both business and socially related networks are crucial for service companies as well in the initial stages, especially in market entry decisions. Network relationships also help firms offset issues of psychic distance, one

of the key aspects of the stage model. This also provides location specific advantages – one of the core aspects of economic theories. This is consistent with the views of Buckley, Pass and Prescott (1992) that personal resources and their learning and experience are one of the critical sources of firm specific advantage in service firms.

The study of Cloninger and Oviatt (2007) presents a strong theoretical support for the view that service content allow more opportunities for firms to create and leverage competitive advantages (Ramaswamy et al. 1996; Javalgi et al., 2003). Javalgi et al. (2003) checked the relationship between firm-specific competitive advantage and managerial attitude towards internationalization, and they concluded that managerial attitude does not have great influence in the internationalization of service firms as that in manufacturing firms because of its lower capital investment. As Boddewyn et al. (1986) and Katrishen and Scordis (1998) mentioned, Javalgi et al. (2003) highlight that a firm's size and location-specific market characteristics will have a significant influence on the management attitudes towards decision-making. However, contrary to Boddewyn et al. (1986), Katrishen and Scordis (1998) and Javalgi et al. (2003) highlight that since the service sector involves low capital investment, managers will have exclusive chance to expand internationally. Therefore, Javalgi et al. (2003) argue that managers' attitude towards internationalization and actual internationalization is positively related. They suggest that apart from foreign direct investment (FDI), service firms can internationalize through new methods such as franchising and management contract. Cloninger and Oviatt (2007) perceive that increasing growth of international service firms, fewer trade barriers and strong theoretical support diminish the question raised by the traditional view that service firms find it more difficult to internationalize because it provides more opportunities to firms and ways of reducing entry costs.

## 3.4. Internationalization of small- and medium-sized Enterprises (SMEs)

Globalization and increased integration of world markets have necessitated small and medium enterprises (SMEs) to seek to expand into international markets, either proactively or passively (Gankema et al., 2000). Small- and medium-sized enterprises account for more than 95% of all firms in many countries (OECD, 2008). Many SMEs have successfully set up activities beyond their home markets in the past two decades and their role is increasingly crucial in contributing to future economic growth (Reynolds, 1997). So as Welch and Luostarinen (1993: 156) defined, internationalization of SMEs is "the process of increasing involvement in international operations".

Despite the increasing growth of SMEs in global markets (Bonaccorsi, 1992; Erramilli and D'Souza, 1993; Haahti et al., 1998), multinational companies as the unit of analysis have dominated the international business research (Coviello and McAuley, 1999). However, researchers emphasize that the theories developed on larger firms cannot be applied to small firms because they differ in several aspects (Buckley 1989; Chen and Hambrick, 1995; Ahokangas, 1998; Coviello and McAuley, 1999; Child and Rodrigues, 2008). Unlike large multinationals, SMEs lack resources such as financial, management, human, and information (Buckley, 1989; Erramilli and D'Souza, 1993; Coviello and McAuley, 1999), and have different ownership and management styles (O'Farrell and Hitchins, 1988; Coviello and McAuley, 1999). The limitations of existing research together with SMEs' increasing presence in the global market have attracted greater attention from researchers in the recent past (Child and Rodrigues, 2008).

Similar to traditional theories on multinationals, theories on internationalization of SMEs are classified into different categories (e.g. Ahokangas, 1998; Harris and Li, 2005). Ahokangas (1998) have classified the theories on the basis of the market, firm and entrepreneurship perspectives. The market perspective is mainly based on the strategic viewpoint, which is more embedded in economic-based theories (Dunning, 1988; Mahoney and Pandian, 1997). On the other hand, the firm perspective, which is based on the stage theories of incremental internationalization that deal with psychic distance and experiential learning (Johanson and Vahlne, 1977), dominated the SME internationalization literature until recently. The entrepreneur perspective (international entrepreneurship) dominates the current internationalization literature that characterize rapid internationalization of firms (e.g. Oviatt and McDougall, 1994, 2005a; McDougall, Shane, and Oviatt, 1994; Rennie, 1993; Knight and Cavusgil, 1996; Autio et al., 2000; McDougall and Oviatt, 2000; Zahra et al., 2000; Zahra, 2005).

By contrast, Harris and Li (2005) classified the literature into traditional and alternative approaches to internationalization. The traditional perspective, according to them, is the firm perspective of Havnes (1994) and Ahokangas (1998), and the stage models of Johanson and Vahlne's (1977), where firms follow incremental internationalization through experiential learning and overcome the issues of psychic distance from traditional internationalization. However, the second perspective or the above-mentioned alternative perspective, which is more suited for SMEs' internationalization (Child and Rodrigues, 2008) is developed from the resource-based view of the firm (Harris and Li, 2005). Grant (1991) observed that firm-specific inimitable and intangible resources provide competitive advantages for the firms.

Although previous studies on SMEs have emphasised their lack of resources (e.g. D'Amboise and Muldowney, 1988; Eden et al., 1997), recent studies highlight that resources embedded within the firms such as decision-makers' personal attributes provide competitive advantages for SMEs (Yu, 2001). This could be the managers' experience, network, managerial know-how, industry- or country-specific knowledge and so forth (Westhead et al., 2001). This would enhance SMEs' overall business performance and facilitate early and rapid internationalization (Coviello and McAuley, 1999), especially where innovative entrepreneurs are involved.

The resource-based view focuses on both ownership of resources and the firms' ability and vigour to learn about how to develop the resources (Ruzzier et al., 2006). Since SMEs have limited human resources, the entrepreneurs' personal characteristics are crucial for the development of their resources and further growth. Their personal relationships provide them new market opportunities (Conner and Prahlad, 1996), links with government and other institutional agencies (Child and Rodrigues, 2005), and membership of scientific communities (Masango, 2010). Their heterogeneity and external environment pose fundamental difficulties for SMEs to search and identify the critical resources needed for internationalization (Ruzzier et al., 2006). However, the SMEs' flexibility to create and manage external relationships (Chen and Hambrick, 1995; Yu, 2001) always helps create a strong trust-based relationship, which often helps overcome issues related to their external market (Child and Rodrigues, 2008, 2011).

Previous studies emphasize the need to integrate different perspectives in international business to explain the internationalization of SMEs (O'Farrell et al., 1998; Coviello and

McAuley, 1999; Child and Rodrigues, 2008). However, the two theoretical approaches, which received considerable support in this field, are the “network theory” (Johanson and Mattsson, 1988; Coviello and Munro, 1997; Ellis, 2000; Johanson and Vahlne, 2003, 2006) and international new venture, which characterizes international entrepreneurship (e.g. Oviatt and McDougall, 1994; McDougall and Oviatt, 2000; Johanson and Vahlne, 2003; Zahra, 2005; Covellio, 2006; Ellis, 2010).

A wide range of studies has applied network approach to analyze internationalization of SMEs (Welch and Welch, 1993, 1995; Björkman and Kock, 1995; Coviello and Munro, 1997; Chetty and Holm, 2000; Agndal and Axelsson, 2002; Blomstermo, Eriksson and Sharma, 2002; Welch, Benito, Silseth and Karlsen, 2002). As mentioned in the network approach, network includes both business-related networks and social networks, which form personal relationships. Early studies have been increasingly connected with the study of business networks. The pioneering work of researchers such as Ford (1980), Håkansson (1982), Hallén, Johanson and Seyed-Mohamed (1987) and Turnbull (1987), who incorporated international issues with interaction approach, was the starting point of this approach. However, recent researchers have renamed it as business networks perspective (Håkansson and Johanson, 1988; Johanson and Mattsson, 1988; Axelsson and Easton, 1992).

The other important characteristic of recent network approach is the increasing attention in social element: personal/social ties. This is particularly obvious in the case of the SMEs, where the border between the “business” and “personal” is often indistinct (Johanson and Vahlne, 2003). Network development is the driving force of Johanson and Vahlne’s (2009: 92) revised “business network model of the internationalization process", which is aimed at

addressing the evolving complexities in a global environment. The development of relationships in the context of the firm's business network forms the main endeavour of internationalization. They argue that psychic distance between countries loses meaning in this perspective, which should be assessed in the context of business relationships. They perceive that psychic distance is an attribute of the relationship, which could change as a result of experiential learning and trust-building. Business relationships form the foundation for personal ties, which crucial for building inter-organisational trust (Zaheer, Lofström and George, 2002).

SMEs often start their internationalization process by exporting---which involves lower risk and resource commitment. However, a firm needs to be aware of viable business opportunities abroad to initiate export activities (Ellis and Pecotich, 2001). In most cases, this is not easy, since the network horizon of SMEs' is often limited to local markets (Komulainen, Mainela and Tahtinen, 2004) or within their business network (Ellis and Pecotich, 2001). In this line of thought, social ties, developed inside or outside business relationships, are an important source of information to figure out business opportunities (Ellis, 2000). So we can conclude that the perception of opportunities abroad is influenced by particular social and business ties to a particular foreign market (Ellis, 2000).

Johanson and Vahlne (2006) have dwelt at a length on the connections between business networks, social ties and relationship commitments among SMEs. They equated the relationship commitment to social capital (Nahapiet and Ghoshal, 1998) because it has a positive impact on learning and cooperative behaviour of small and medium enterprises. An important consequence of relationship commitment is the development of shared languages,

routines and systems of meaning which foster knowledge creation and opportunity development for firms (Johanson and Vahlne, 2006). Social intimacy among members of involved organizations turns out to be a key asset for SMEs' international value-creation. So as Cook and Brown (1999) and Amin and Cohendet (2004) mentioned, we argue that for SMEs, learning is a social and relational practice.

SMEs, especially those operating in high technology (Jones, 1999), high value-added manufacturing (Rennie, 1993) and knowledge-intensive segments (Yli Renko et al., 2002), would not be able to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competition (Ruzzier et al., 2006). These firms seek international business from or near its inception. As mentioned earlier, these firms are named as "international new ventures" (Oviatt and McDougall, 1994), which characterize international entrepreneurship (McDougall and Oviatt, 2000; Young, Dimitratos, and Dana, 2003; Oviatt and McDougall, 2005a). Through early and rapid internationalization, these firms seek superior internationalization (Sapienza, Autio, George, and Zahra, 2006). The existing incremental stage models are inconsistent with this model (Rialp et al., 2005).

The INV researchers combined international business perspectives with entrepreneurship theories to explain the internationalization of these firms (McDougall and Oviatt, 2000) and developed a new concept international entrepreneurship (Madsen and Servais, 1997; Rasmussen et al., 2001; Oviatt and McDougall, 2005a). International entrepreneurship involves the identification and exploitation of opportunities for international exchange (Ellis, 2010: 1). The entrepreneurs' personal relationships and networks help overcome the issues of psychic distance (Child et al., 2009; Ellis, 2010).

Crick and Spence (2005) argue that various theoretical aspects such as network perspective, resource-based view and contingency perspective are relevant for understanding INV internationalization. Existing relationships and contacts inform the network perspective, whereas firms managerial and financial resources are related to the resource based view and the serendipitous encounters of SMEs fit the contingency perspective.

Similar to process theory, knowledge is the central theme of INV theories (Prashantham and Young, 2011). The process of assimilating new knowledge into their existing knowledge base is called learning (Autio et al., 2000: 911). The ability to learn is the most crucial aspect of international new ventures because it enhances the speed of internationalization (Sapienza et al., 2006). Prashantham and Young (2011) observe that the firms' learning capability, which involves identification and utilization of knowledge that help sustainable competitive advantage (Zahra and George, 2002), is critical for INV internationalization.

Despite its importance, internationalization of SMEs got due attention only in the past two decades. Unlike large firms, SMEs lack resources and its relationship with external environment is different from that of large firms. So researchers argue that the theories on large firms cannot be able to explain the complexities of SME internationalization. However, that can form a basis; integration of two or more theories could provide the details of issues associated with internationalisation of SMEs. Studies show that literature on SMEs are classified into traditional SMEs, consistent with stage theories that follow incremental internationalization. On the other hand, firms, which fall under international new venture category, follow rapid and early internationalization. Studies show that personal

characteristics of entrepreneurs play a very important role in the internationalization of SMEs.

## 3.5. Role of ICT in internationalization of SMEs

As we observed earlier, rapidly internationalizing SMEs – international new ventures ---now dominate the SME internationalization literature. The emergence of these firms is mainly influenced by globalization and the availability of latest information and communication technologies (ICT) (Knight and Cavusgil, 1996). Specifically, Internet had a great impact on these firms (Bell and Loane, 2010) because websites provided them a global presence (Samiee, 1998). It has a great influence in firms' internationalization process, particularly in their initial stages. Studies show that along with factors such as network, managers' international orientation and other resources (Coviello and McAuley, 1999; Knight and Cavusgil, 2004; Rialp et al., 2005), ICT also acts as a strong influencing factor of SME internationalization. Despite the limited resources and moderate investment by SMEs, Internet has enabled their internationalization (Arnott and Bridgewater, 2002).

Internet and web access accelerates SMEs' internationalization by reducing initial costs associated with marketing and communication activities, providing an opportunity to directly interact with partners, reducing the role of intermediaries and enhancing fast and easy learning process (Quelch and Klein, 1996; Chattell, 1998; Petersen, Welch and Liesch, 2002; Bell and Loane, 2010). Websites also provide serendipitous international relationships in the form of unsolicited orders (Chrysostome and Rosson, 2004) and help SMEs deal freely with foreign customers. They also help SMEs build successful international relationships.

As mentioned earlier, networks help learn and understand a market and reduce uncertainty and risk in doing business in a foreign market. Studies show that the latest communication technologies facilitated SMEs to make direct communication with their partners, customers, distributors, suppliers and agents in foreign market, which not only helped them develop and maintain their network relationship (Soliman and Janz, 2003; Aalst, 1999; Coltman, Devinney, Latukefu and Midgley, 2001), but also enhanced their learning capability (Hamill and Gregory, 1997; Bell and Loane, 2010). This emphasizes the point that ICT provides rich contribution to the network process approach (Mathews and Healy, 2008).

Apart from market entry, firms use more advanced methods of Internet, such as e-business, electronic financial transactions and other transaction-related activities with their international suppliers (Bell and Loane, 2010). Internet is also used as an international sales channel (Arenius, Sasi and Gabrielsson, 2006). Researchers highlight that these technologies are especially useful in exchanging commodities such as know-how or technological skills where value is hard to measure, or to market information-intensive cultural offerings (Bell and Loane, 2010). Arenius et al. (2005) point out that Internet as sales channel helps moderate SMEs' main limitations in trading in foreign markets, resource scarcity and liability of foreignness. They believe that Internet sales channel increase the speed of internationalization. Internet enhances coordination of SMEs activities with their international partners and ensures better efficiency (Katz and Murray, 2002; Fletcher, Bell, and McNaughton, 2004).

However, Petersen et al. (2002) observe that these firms will give up a lot of its sales potential if they are solely dependent on Internet as the trading medium. They also perceive that the

local presence or direct, personal face-to-face relationship is always very important because it helps better understand the complexities of the host market environment and the market demand compared with doing business only through ICT. On the other hand, this medium is suitable if the products are generic or are consumed electronically. Nonetheless, ICT helps boost the transactional and communicational capabilities of SMEs and facilitate their international expansion (Mathews and Healey, 2008).

## 3.6. Summary

The review in this chapter reveals that existing studies have focused mainly on large manufacturing companies from developed countries which are not enough to provide a comprehensive explanation of internationalization of SMEs from emerging economies and from services sectors. However, researchers claim that existing studies provide a foundation for theoretical development. Since our study will include companies from both developed (the UK) and emerging (India) economies and also firms from both manufacturing and service sectors, we believe it may demonstrate the scope for a more comprehensive and integrative perspective of analysis of internationalization of SMEs from across countries and sectors.

Table: 3.1. Summary of the theories and previous literature and their contributions to the present study

| **Approach** | **Author(Date)** | **Focus, analytical framework and contributions** | **Contribution to the present study** |
|---|---|---|---|
| Internationalization from emerging economies | Kumar and McLeod (1981), Wells (1983), Lall (1983) | They noted that developing country firms internationalized based on their advantages in production and process and to countries that have similar conditions.<br><br>Stressed mainly on economic factors such as low-cost and labour-intensive production than product differentiation and flexible technologies.<br><br>Mentioned that these firms suffer a number of disadvantages as well, such as a lack of knowledge of foreign markets, outdated technologies and high reliance on foreign expatriates because of entrepreneurs' limited international experience when compared to developed-country MNCs. | **Theoretical:**<br>(1) Economic factors such as low cost and labour intensive production<br><br>(2) Disadvantages of emerging-country firms compared with developed-country firms. |
| | Lyles and Baird (1994) | The management capabilities and decision-making processes of these firms are not fully developed. | **Theoretical**:<br>(1) Entrepreneurial capabilities |
| | Child and Rodrigues (2005) | Mentioned that these firms use late-comer advantages.<br>Due to the availability of low-cost labour and modern production technologies, exporting is the most common mode of internationalization among these late-comer firms.<br>Suggested that the developing-country firms need to follow the catching-up strategy to survive in the global market. | **Theoretical**:<br>(1) Latecomer advantages.<br>(2) Catching-up strategy.<br>(3) Socio-political views such as market conditions, institutions and firms' embeddedness in it.<br>(4) Network relationships.<br>(5) Entrepreneurship. |

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| | | They noted that the main aim of outward internationalization is to get raw materials and intangible assets such as brand reputation, technical knowledge and learn about managing global company.<br><br>Observed that issues such as market conditions, institutions and firms' embeddedness in it are neglected in existing literature, which focused mainly on economic aspects rather than the socio-political views.<br><br>The internationalization strategies that the entrepreneurs pursue will be influenced by the interaction between institutional legacies of a home-country and the capabilities of their corporate entrepreneurs.<br><br>They observed that relational framework between firms and institutions and degree of networking between firms and external bodies affect the internationalization process.<br><br>The attractions of large developed-country markets may help offset the problems of psychic distance, because these companies are pursuing long-term globally oriented strategies. | (6) Foreign market attractions motivate firms' internationalization.<br>(7) The need for a theoretical development.<br>**Methodological**:<br>(1) Case study method |
| | Mathews (2006) | Latecomer advantages such as the new possibilities for linkage and leverage of knowledge and market access available through globalization.<br><br>These firms utilize their relationships to accelerate their internationalization. | **Theoretical**:<br>(1) Latecomer advantages<br>(2) Network relationship<br>(3) Catch-up strategy<br>(4) Need for theoretical modification |

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| | | The firms follow catch-up approach using advanced technologies, dedicated industrial institution and rapid internationalization.<br><br>Mentioned about the need for theoretical modification to analyse the internationalization of emerging economy firms. | |
| | Boisot (2004) | Observed that developing strength in the overseas market help latecomer firms to attain the essential assets much faster and also help in increasing the bargaining power in the local market to increase the profitability. | **Theoretical**:<br>(1) Reputation in home country market |
| | Gaur and Kumar (2009). | Emerging- country firms not only rely on geographic expansion, but also go for product diversification to reduce the risks and to make use of the inefficient home institutional environment.<br><br>High level of country risk and a volatile home market motivate emerging market firms' internationalization.<br><br>Better institutional environment in the host country provided emerging-economy firms the opportunity to develop capabilities and resources.<br><br>Noted that the presence of a vast Diaspora in developed countries helps emerging-economy firms reduce the costs of internationalization in its early as well as late growth stages. They provided technical know-how, market access, capital and so on. | **Theoretical**:<br>(1) Factors motivating emerging-market firms' internationalization<br><br>(2) Role of Diaspora in the internationalization of emerging-market firms.<br><br>**Methodological:**<br>(1) Survey method |

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| | Bonaglia, Goldstein and Mathews (2007) | Observed that since the latecomer multinationals from emerging markets lack OLI advantage and have high competition in their domestic market following liberalization, it is necessary for them to enter into a foreign market not only to build their resources, but also to survive local competition. | **Theoretical:**<br>(1) Latecomer perspective<br><br>**Methodological:**<br>(1) Case study method |
| | Burton et al., 2008 | Despite its importance only little is known about entrepreneurship in emerging economies that are increasingly moving to market orientation and seeking to rapidly advance economically. | **Theoretical:**<br>(1) Entrepreneurship in emerging economies |
| Internationalization: Manufacturing/service | Javalgi et al. (2003) | Used a number of theories to explain the internationalization of service-sector firms. Along with Dunning's eclectic paradigm, they extended some studies on manufacturing companies (e.g. Cavusgil and Naor, 1987; Axinn, 1988; Katsikeas, 1994) and service companies (O'Farrell and Wood, 1994; Katrishen and Scordis, 1998).<br><br>Observed that entrepreneurs' attitude towards internationalization and actual internationalization is positively related. | **Theoretical:**<br>(1) Theoretical extension--Dunning's eclectic paradigm, some studies on manufacturing and service companies.<br>(2) Entrepreneurship<br><br>**Methodological:**<br>(1) A survey method |
| | Clark and Rajaratnam (1999) | Argued that existing theories could be modified to explain the internationalization of service sectors. | **Theoretical:**<br>(1) Need for theoretical modification |
| | Cloninger and Oviatt (2007) | Applied Dunning's eclectic theory to explain the internationalization of service firms.<br><br>Presented a strong theoretical support for the view that service content allows more opportunities for firms to create and leverage competitive advantages. | **Theoretical:**<br>(1) Eclectic theory<br>**Methodological:**<br>(1) Survey among service and manufacturing companies |

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| | Coviello and Martin (1999) | Integrated three major theories; FDI theory, the stage models, and the network perspective to study the internationalization of knowledge-based service SMEs.<br><br>Observed that internationalization is influenced by four key organizational characteristics such as 1) a product embodied in skilled personnel (2) a relatively high degree of client involvement, (3) relatively low capital intensity and (4) project-based nature of the business.<br><br>Emphasized that network approach, both business and socially related networks are crucial for service companies' initial market entry decisions because it helps firms offset the issues of psychic distance. | **Theoretical:**<br>(1) Multi-theory approach (FDI theory, the stage models, and the network perspective).<br><br>(2) Entrepreneurship<br>**Methodological:**<br>(1) Case studies |
| Internationalization of SMEs | Ahokangas (1998) | Classified the theories on the basis of the market (economic theories), firm (the stage theories) and entrepreneurship perspectives (INV or international entrepreneurship). | **Theoretical:**<br>(1) Theoretical classification |
| | Harris and Li (2005) | Classified the literature into traditional (stage models) and alternative approaches (the resource-based view of the firm) to internationalization. | **Theoretical:**<br>(1) Theoretical classification |
| | Coviello and McAuley (1999) | Emphasized the need to integrate different perspectives in international business to explain the internationalization of SMEs<br>Network Approach<br>Mentioned that entrepreneurship enhances SMEs' overall business performance and facilitate early and rapid internationalization.<br>Viewed that the single-method studies may not fully capture the processes under investigation. | **Theoretical:**<br>(1) Need for theoretical integration<br>(2) Network approach<br>(3) Entrepreneurship<br><br>**Methodological:**<br>(1) Need for multi method |

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| | Coviello and Munro (1997) | Offered a conceptual framework of SMEs' internationalization by integrating the traditional models of incremental internationalisation with the network perspective. | **Theoretical:**<br>(1) Theoretical integration<br>**Methodological:**<br>(1) Multi-site case research |
| | Yu (2001) | Observed that the resources embedded within the firms such as entrepreneurs' personal attributes provide competitive advantages for SMEs. | **Theoretical:**<br>(1) Entrepreneurship |
| | Ellis (2000) | The perception of opportunities abroad is influenced by existing inter-personal links in foreign markets. | **Theoretical:**<br>(1) Social network<br>**Methodological:**<br>(1) Case study |
| | Chetty and Holm (2000) | Applied network approach to analyse SMEs internationalization | **Theoretical:**<br>(1) Network approach<br>**Methodological:**<br>(1) Case study |
| | Agndal and Axelsson, 2002 | Integrated the stage models and business and social network approaches to explain the internationalization of SMEs. | **Theoretical:**<br>(1) Theoretical integration<br>**Methodological:**<br>(1) Case methods |
| | Johanson and Vahlne (2006) | Relationship commitment (social capital) has a positive impact on learning and cooperative behaviour of small and medium enterprises. | **Theoretical:**<br>(1) Network approach and opportunity recognition |
| | Oviatt and McDougall, 2000 | The INV researchers combined international business perspectives with entrepreneurship theories and developed a new concept international entrepreneurship. | **Theoretical:**<br>(1) International entrepreneurship |
| | Bell et al (2003) | They proposed an integrative model of small firm internationalization.<br>Suggested that the knowledge base of the firm is a source of competitive advantage that influences both the patterns and pace of internationalization. | **Theoretical:**<br>Integrative model<br>Knowledge as a source of competitive advantage |

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| | | Mentioned that irrespective of the type of firms, the actual internationalization pathways are individualistic, situation specific and unique. | Internationalization pathways are individualistic, situation specific and unique.<br>**Methodological:**<br>Case study |
| | Child and Rodrigues (2008, 2011) | The SMEs' flexibility to create and manage external relationships and create a strong trust based relationship always helps overcome the external market issues.<br>Entrepreneurship helps overcome issues of psychic distance | **Theoretical:**<br>(1) Network approach<br>(2) Entrepreneurship as a psychic distance coping mechanism. |
| Role of ICT in internationalization of SMEs | Arnott and Bridgewater (2002) | Internet has enabled SME internationalization | **Theoretical:**<br>(1) Internet as an enabler of internationalization<br>**Methodological:**<br>(1) A survey method |
| | Quelch and Klein (1996)<br>Petersen, Welch and Liesch (2002)<br>Bell and Loane (2010) | Internet and web access accelerate SMEs' internationalization by reducing initial costs associated with marketing and communication activities, providing an opportunity to directly interact with partners, reducing the role of intermediaries and enhancing fast and easy learning process. | **Theoretical:**<br>(1) Internet accelerates SMEs' internationalization by reducing cost and enhancing fast and easy learning.<br>(2) Internet reduces the role of intermediaries and provides an opportunity to directly interact with partners across the world. |
| | Chrysostome and Rosson (2004) | Observed that websites provide serendipitous international relationships in the form of unsolicited orders and help SMEs deal freely with foreign customers. | **Theoretical:**<br>(1) Impact of the internet on internationalizing SMEs |
| | Soliman and Janz, 2003 | ICT facilitated SMEs to make direct communication with their partners, customers, distributors, suppliers and agents in foreign markets, which not only helped them develop but also maintain their network relationship. | **Theoretical:**<br>(1) Role of ICT in Network development<br>**Methodological:**<br>(1) A survey method |

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| | Bell and Loane, 2010 | ICT enhanced SMEs' learning capability.<br><br>Firms use advanced methods of Internet, such as e-business, electronic financial transactions and other transaction-related activities with their international suppliers.<br><br>Highlighted that technologies are especially useful in exchanging commodities such as know-how or technological skills where value is hard to measure, or to market information-intensive cultural offerings. | **Theoretical:**<br>(1) Role of ICT in Learning<br><br>(2) Advanced use-- e-business, electronic financial transactions and other transaction-related activities with their international suppliers |
| | Mathews and Healy, 2008 | Pointed that ICT provides rich contribution to the network process approach | **Theoretical:**<br>(1) Role of ICT in Network development |
| | Arenius et al. (2006) | Internet is used as an international sales channel that helps moderate SMEs' main limitations in trading in foreign markets, resource scarcity and liability of foreignness | **Theoretical:**<br>(1) Internet as a sales channel<br>(2) Internet as a psychic distance coping mechanism |

# CHAPTER 4
# PSYCHIC DISTANCE, SOCIAL CAPITAL AND LEARNING CAPABILITY

## 4.1. Introduction

This chapter reviews the literature on psychic distance, social capital and learning capability and their role in the internationalization of firms.

Psychic distance refers to the perceived difference between the business environment of a home-country and a foreign one. The nature and role of psychic distance is one of the most widely discussed topics in internationalization. The general expectation is that a greater psychic distance generates uncertainties that may discourage a firm's entry into an overseas market. However, network and INV studies argued that the issues of psychic distance are not relevant in the internationalization of firms. As a result, researchers argued that psychic distance is no more a valid concept (e.g. Stöttinger and Schlegelmilch, 2000). But as Child, Rodrigues and Frynas (2009), Dow and Karunaratna (2006) and Prime, Obadia and Vida (2009) observed, we also believe that this was due to problems in the way it was conceptualized and measured. Using a multi-dimensional measurement, Child et al. (2009) argued that certain psychic distance dimensions are more consequential than others for SMEs internationalization, and some of these dimensions could affect their entry into a new market and its performance if due attention was not paid to them. They also mentioned that SMEs ability to cope with these issues reduces its impact on their internationalisation. Therefore, we believe that assessment of psychic distance is crucial in the internationalization of SMEs.

Recent studies have drawn attention to the importance of entrepreneurs and their network relationships in the internationalization of SMEs. They say that entrepreneurs and their network relationships help SMEs offset their liabilities, such as limited resources; expertise and credibility, and facilitate their internationalization. Entrepreneurial characteristics and network relationships are related to social capital aspects because, as the theory suggests, these aspects provide actual and potential benefits to companies. As mentioned earlier, the INV literature focuses on international entrepreneurship that they believe facilitates firms' rapid internationalization, which is also an emerging area in international business research. Hence, we are giving particular attention to the concept of social capital to study the internationalization of SMEs.

Learning has been widely acknowledged in the internationalization literature as a key resource for firms' internationalization. It enhances SMEs capability, and facilitates their internationalization (Zahra et al., 2000). Despite its importance in the internationalization of firms, specifically SMEs, empirical support on this remains inadequate (Fletcher, 2009). The research shows that SMEs social capital enhances their learning capability, which would help reduce the impact of psychic distance. Therefore, one would expect to find a high level of connectiveness between social capital, learning and (lower) psychic distance impact.

## 4.2. Psychic distance

The study of Nordic multinational companies is widely considered to be the starting point of psychic-distance studies in international business and international marketing (e.g. Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) although Beckerman (1956) was the first to use the term psychic distance when analyzing trade flows between countries within

Europe. He observed that a Swiss supplier would be closer to an Italian buyer than a Turkish rival in terms of psychic evaluation (language) and economic sense (less travel time) even if there were no difference in transportation costs. He mentioned it as “a special problem” and highlighted the need to check the correlation between geographic distance and trade. While subsequent studies acknowledged the concept they did not develop or explore it further (e.g. Leamer, 1974; Linnemann, 1966).

Johanson and Wiedersheim-Paul (1975: 308) defined psychic distance as “the sum of factors preventing or disturbing the flow of information between the organization and the foreign market”. The factors they suggested include differences in language, culture, political systems, level of education, and level of industrial development. The Uppsala internationalization model of Johanson and Vahlne (1977) also pointed out that firms select international markets based on “psychic proximity” and added difference in business practices to the list. Nordström and Vahlne (1994) developed the concept further by emphasizing learning and understanding rather than merely accessing information about the foreign market. O'Grady and Lane (1996:330) redefined the concept again by incorporating the uncertainty that arises from the difficulties of learning about a new market. They defined psychic distance as “a firm's level of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there”.

These definitions refer to information or learning about a foreign market and the uncertainties of a foreign market. They focus on a decision-maker’s level of awareness about a market. However, they have been come under criticism for not sufficiently analyzing the psychic and

distance aspects of the concept (e.g. Evans and Mavondo, 2002; Prime et al., 2009). The Latin word “distāntia”, which means standing apart, is the basis of the distance concept (Simpson and Weiner, 1989). However, the word “psychic” is derived from the Latin word “psychicus” which means the mind or soul (Simpson and Weiner, 1989). It refers to the cognitive and moral capabilities of the mind and it indicates how the distance and consequence are perceived and interpreted (Prime et al., 2009). Despite its inherent cognitive nature, relatively few studies have explored the perceptual feature of psychic distance concept (e.g. Chetty and Campbell-Hunt, 2004; Child et al., 2002; Child et al., 2009; Lee, 1998; Prime et al. 2009; Stottinger and Schlegelmilch, 1998).

Some psychic-distance researchers adopted a perceptual perspective in the late 1990s. However, in so doing they treated cultural distance as a synonym of psychic distance (e.g. Benito and Gripsrud, 1992; Engwall and Wallenstal, 1988; Kogut and Singh, 1988; Lee, 1998). Kogut and Singh (1988) developed a national cultural distance index to measure the cultural distance between countries using data originally provided by Hofstede (1980). Many studies have subsequently used Kogut and Singh's index of cultural distance in their studies. The adequacy of this uni-dimensional operationalization of psychic distance is open to question. Therefore, another issue regarding the operationalization of the psychic distance concept concerns the adequacy of this uni-dimensional measurement on the basis just of culture.

Dow (2000) argued that Hofstede’s scale alone is a weaker analytical tool compared with more comprehensive measures of psychic distance. There is a growing consensus that cultural distance cannot be considered as a proxy for psychic distance (O'Grady and Lane, 1996)

because uni-dimensional measurement is not sufficient enough to capture the complexities and details of the concept (Child *et al*., 2009). Moreover, Sousa and Bradley (2006; 2008) say that unlike psychic distance, which evaluates an individual's personal perceptions about the differences between home and a foreign country, cultural distance is assessed at the national level and is not directly affected by individual's perceptions.

Some more recent studies have used comprehensive multidimensional measures (e.g. Dow and Karunaratna, 2006; Brewer, 2007; Child et al., 2009). One comprehensive measure is the 12-dimensional assessment used by Child et al. (2009) in their study of British companies to Brazil. This includes geographic distance, culture, language, education, technical development, economic development, logistics and infrastructure, political systems, legal systems, regulations, business practices and ethics. They applied this construct to assess both the perceived differences and the impact of psychic distance dimensions. Another comprehensive multidimensional assessment of psychic distance is the one developed by Brewer (2007) which consists of seven primary elements--commercial, political, historical, geographical; social ties, information ties and development--and 15 determining indicators. Primary elements are quantitatively incorporated into a psychic distance index; e.g. cultural similarities, language similarities and sports represent social ties. However, Brewer (2007) used only quantitative and publicly available data to develop a standard psychic-distance index. Dow and Karunaratna (2006) also applied a broad multidimensional model of psychic distance stimuli, which includes culture, language, education, level of industrial development, political system, religion, time zone and previous colonial ties. However, their analysis employed indicators of national differences rather than addressing perceived differences at the company level.

A further complication arose with O' Grady and Lane's (1996) identification of a psychic-distance paradox. They found that due to similarities between various markets, managers often ignore some weak but important differences. Similarly, Evans, Treadgold and Mavondo (2000) found a positive association between psychic distance and the scope of international retail operations of companies. Moreover, the study by Child et al. (2009) on British SMEs exporting to Brazil reveals that some dimensions of psychic distance often create serious problems for foreign SMEs while others do not. They also found that despite a significant level of perceived difference, its impact was not correspondingly high.

This is another under-researched area. One reason for this variation appears to be in the possibilities for coping behavior by business people. Some recent studies have attempted to explore how companies overcome the impact of psychic distance in internationalization through such behavior (e.g. Child et al., 2002; Child et al., 2009; Ojala, 2008).

Child et al. (2002) is one of the first studies to explore this concept in an elaborate manner. Their Hong Kong-based case studies lead them to developing a framework comprising factors that create, compress and bridge psychic distance.They perceive that bridging psychic distance reduces the transaction costs of international business or reduces the uncertainty and problems of psychic distance occurring at strategic and operational levels. Strategic bridging involves the selection of overseas locations where management in the invested country can utilize operational bridging methods. Strategic bridging can take place through the personal network of the decision-maker and through local partners with good contacts in the host-country bureaucracy. Dikova (2009) observed that local partners provide critically important

market-specific knowledge for managers which are another key strategic bridging factor (Child et al., 2009). It helps managers implement practices which reduce psychic distance between home and target countries (Ojala, 2008). In addition, Dow (2009) suggests that managers' education and experience will also increase their awareness about the perception of psychic distance and will eventually increase their commitment to that market.

Operational bridging factors include cooperation with a local partner (Dikova, 2009), hiring professional managers, appointing non-family trusted company members or friends to take charge of overseas operations, and putting place control mechanisms to maintain close links between the headquarters and overseas units such as appointing trusted headquarters' staff to head overseas affiliates, at least during start-up and at times of crises (Child et al., 2002). Ojala (2008), in his study of Finnish companies' internationalization to Japan, revealed that companies are able to overcome psychic distance by hiring local employees and western managers who have knowledge of both environments. However, Child et al., (2009) point out the importance of securing the trust and loyalty of employees in the overseas units, if they are hired locally.

Bridging always involves medium to long-term commitment by a firm (Child et al., 2009). It helps access local tacit knowledge such as an understanding of regulations or skills and enables access to social capital relevant to foreign markets from a local partner. This social capital reduces the impact of liability of newness and foreignness and thus helps the firm overcome the impact of psychic distance (Arenius, 2005). Arenius defines social capital as "the amount and quality of the external relationships possessed by the firm". This supports the view that social capital facilitates access to quality information for identifying foreign

partners/ clients and dealing with unfamiliar foreign contingencies.

Child et al. (2009) further extended the Child et al. (2002) framework by adding avoidance as a mode of coping. They emphasized that the avoidance mode averts transaction costs or transfer the problems to other members of the network. They also observed that avoidance is not always easy to achieve; it is essentially risky in some situations. Avoidance mainly entails solutions that bypass the problem in the short term (Child et al., 2009). However, they have also highlighted many situations in which firms could not cope with issues of psychic distance, especially those which are mainly institutional in nature.

Similarly, Child and Rodrigues (2011) highlighted how organizations cope with external complexities. They suggested that SMEs, which have limited power and resources and incur a high liability of smallness, tend to rely on third parties (mediators) to overcome environmental complexity rather than directly engaging with it. The mediators could be networks such as trade associations, cooperatives and export clubs, or the network of large domestic or international clients or suppliers (Child and Rodrigues, 2011: 816). However, "over-reliance" on mediators could pose a risk for these companies. Therefore, SMEs try to develop trust-based network relationships. This draws attention to the importance of social capital in coping with external issues associated with an SME's growth in an unknown market. Coping with the effects of psychic distance---which has only recently come to be explored, warrants further research.

This review has noted several limitations in previous research on psychic distance and its role in internationalization. Moreover, these studies have examined interpretations of decision-

makers from only one country to assess the perceived psychic distance between two countries. This assumes that there is symmetry in the perceptions of people from different countries, which may not prove to be the case. There has also been criticism of the uni-dimensional measurement of psychic distance, in terms of its inability to capture the complexities and details of the phenomenon. Very few studies have made a comprehensive analysis of perceived psychic distance, giving attention not only to differences, but also to its business impact and coping methods, including the use of social capital. The need remains for further research addressing these gaps with an exploratory intent and deriving relevant propositions about them.

## 4.2. Social capital

Recent research has drawn attention to the importance of network relationships in the internationalization of SMEs (c.f. section 2.2.3). This emphasizes the importance of social capital in offsetting the liabilities of SMEs such as limited resources, expertise, and credibility (Lu and Beamish, 2001) that influence their internationalization because social capital characterizes social relationships that confer an actual or potential benefit. It is therefore considered as a resource (Tsai and Ghoshal, 1998). Social capital influences the "time" issue of internationalization by allowing for experiential learning (Arenius, 2005). He also observed that social capital reduces issues of psychic distance by providing organizational learning through network relationships inside and outside the firm. This role of social capital as an asset for international new ventures has dominated previous literature (e.g. Granovetter 2000; Oviatt and McDougall, 2005b; Chetty and Agnal 2007; Prashantham, 2010). However, while there has been several studies indicating how social capital can trigger and foster internationalization (Chetty and Agndal, 2007; Prashantham, 2010), relatively few have

looked at the dynamics of social capital -- the evolution of social capital, such as how it is initiated, developed and maintained (e.g. Maurer and Ebers, 2006; Agndal, Chetty and Wilson, 2008; Prashantham and Dhanraj, 2010).

Different meanings are attached to the social capital concept. Some define it in terms of the resources embedded in a network (e.g. Baker, 1990; Bourdieu and Wacquant, 1992) whereas others consider it in terms of the structural characteristics of networks (Coleman, 1990; Putnam 1993; Fukuyama, 1995).

Baker (1990: 619) defined social capital as "a resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationship among actors". Similarly, Bourdieu and Wacquant (1992) also defined it as "the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition".

On the other hand, Coleman (1990: 302) defined, "It is not a single entity, but a variety of different entities having two characteristics in common. All these consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure'. Similarly, Fukuyama (1995) defined social capital as the existence of a certain set of informal values or norms shared among members of a group that permit cooperation among them. These definitions focus more on the characteristics of the structural dynamics of social capital.

These literatures cannot be classified into two distinctive categories, but based on its meaning; social capital can be classified as instrumental or dynamic (Rodrigues and Child, 2009). Social capital that is instrumental in achieving individual/organizational goals can be classified as instrumental, while social capital that is defined in terms of the nature of network relationships can be classified as dynamic. Rodrigues and Child (2009) observe that the rational perspective emphasises the instrumental dimension of social capital while the social behavioural view is interested in the dynamics of social ties.

The key intentions of the present research are to examine the role of social capital in the internationalization of SMEs such as how it may assist initial market entry, offset the issues of psychic distance and enhance their learning capability. Moreover, we shall explore how SMEs create the social capital required for their internationalization---which means how they initiate, develop and maintain their social capital. This requires that we assess both the instrumental and dynamic dimensions of social capital. So we adopt Nahapiet and Ghoshal's (1998) definition that encompasses both views. They defined social capital as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (243). They suggest that firms create, and are embedded in a web of relationships which may offer access to resources and opportunities of different nature. They also contend that social capital is a property of individuals or social groups and that engagement into networks may accrue benefits which otherwise would not be available to the firm. This is based on Coleman’s (1988) insight that relationships can mediate access to resources.

Nahapiet and Ghoshal's (1998) integration of the different aspects of social capital explained it in terms of three dimensions, and described how these dimensions provide resources. These three dimensions are structural (forming the connections and linkages between actors), relational (personal relationships people have developed with each other through a series of interactions), and cognitive (shared values). For the purpose of this study we consider the network relations of firms (both business and social network) as structural social capital, inter-partner trust as the relational and shared norms and values between actors as cognitive social capital.

### 4.3.1. Structural dimension

Nahapiet and Ghoshal, (1998) explained the structural dimension of social capital by citing Burt (1992) that it is the overall pattern of connections between actors, who you reach and how you reach them. They also specify that the structural dimension signifies the presence or absence of network ties between actors, network configuration (Krackhardt, 1994), namely the pattern of linkages in terms of measures such as density, connectivity, hierarchy and appropriable organization which is the existence of networks created for one purpose that may be used for another (Coleman, 1988). A detail review of structural social capital (network perspective) was provided in Chapter 2, section 2.2.3.

### 4.3.2. Relational dimension

Relational social capital describes the kind of personal relationships people have developed with each other through a series of interactions (Granovetter, 1992; Nahapiet and Ghoshal, 1998). As Lindenberg (1996) described, in contrast to the structural dimension of social capital, the relational dimension is more behavioural. The key components of relational

dimension of social capital are trust and trustworthiness, norms and sanctions, obligations and identity and identification (Nahapiet and Ghoshal, 1998). For the purpose of this study we take trust and trustworthiness as representing relational social capital because they form the basis of partner relationships (Child et al., 2005). Also, higher levels of trust and trustworthiness help enhance the norms and sanctions, obligations and identity and identification between partners.

#### 4.3.2.1. Trust

Trust is defined as "a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviour of another" (Rousseau et al., 1998: 395). Similarly, Mayer, Davis and Schoorman (1995) defined it as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party". The concepts "vulnerable" and "reliance" are central to most definitions of trust (Soule, 1998). Sitkin and Pablo (1992) argue that in some relationships trust will lead to risk-taking and they also see that the type and intensity of this risk depends totally on the situation. However, Inkpen and Currall (2004) observe that trust is always accompanied by reliance on others and risk. Without risk, trust is irrelevant because there is no vulnerability, without reliance, trust does not exist because there is no willingness to be vulnerable.

Trust is dynamic in nature (Madhok, 1995; Lewicki, McAllister and Bies, 1998) and it requires time to emerge (Ring and Van de Ven, 1994). In addition, it requires repeated successful interactions (Madhok, 2006) and previous trusting relationships (e.g., Dasgupta,

1988; Hardy et al., 1998). Lewicki and Bunker (1996:124) propose a staged evolution model of trust and argue that trust develops gradually as the parties move from one stage to another. Child et al. (2005) developed a co-evolution model of trust and strategic alliance development. They highlight a three-stage trust development process, which proceeds from calculation to mutual understanding and bonding. Calculation undertakes the initial step of being prepared to work together, which involves calculation of risk as well. Once the partnership is developed people are able to understand each other better through frequent communication and working together, and it forms the mutual understanding stage. This reduces the sense of uncertainty which partners experience of each other. The final stage, bonding, is characterised by a more intense personal relationship, which fosters mutual trust and reduces the negative effects of bounded rationality, and specific investments in the alliance. It should also help to lower transaction costs by reducing opportunism. Trust is essential for cooperation; increased trust between partners ensures an economic pay off for each (Child et al., 2005).

Consistent with Mayer and Davis (1999: 124), we define trust as the willingness of a firm to engage in risk-taking with another firm without exploiting its vulnerability. It denotes mutual commitments and understanding between two organisations. However, in SMEs, organisational trust is related to the trust relationship between its key decision-makers. So we argue that the willingness to engage in risk-taking behaviour is confirmed when (1) inter-partner trust extends beyond the contractual commitment (goodwill); (2) exhibits fairness and reliability through the parties carrying out their promises (integrity); and (3) show when the parties demonstrate an ability to support each other and to provide an equitable contribution to the partnership (competence). These are the major attributes of trustworthiness (Mayer et al.,

1995) which forms the antecedent of trust.

Trust facilitates the identification and acquisition of new knowledge (Nahapiet and Ghoshal, 1998). It has always been found to be a critical factor in inter-organizational knowledge-sharing relationships (Pardo et al., 2006). Greater levels of trust between firms guarantee superior knowledge transfer and assure rapid learning (Levin et al., 2002; Reagans and McEvily, 2003).

### 4.3.3. Cognitive dimension

Cognitive dimension derives from mental process and resulting ideas, reinforced by culture and ideology, specifically norms, values, attitudes, and beliefs (Uphoff, 2000: 218). Therefore, it has a subjective and intangible character (Liñán and Santos, 2007:446) and contributes to cooperative behaviour and mutually beneficial collective action (Uphoff, 2000: 218). Cicourel (1973) defined the cognitive dimension of social capital as resources providing shared representations, interpretations, and systems of meaning among parties (cited in in Nahapiet and Ghoshal, 1998). It explains the mutual understanding of individuals about network of social associations in the organization emerging from shared language, codes and narrative (Nahapiet and Ghoshal, 1998). Cognitive social capital influences entrepreneurs' intension (Liñán and Santos, 2007). Since entrepreneurial intensions have an influence on the performance of any other behaviour, we argue that cognitive social capital influences structural and relational social capital.

### 4.3.4. Social capital and its relevance to internationalization

The literature on the role of social capital in the internationalization of firms has focused on how social capital initiates and enhances firms' internationalization (Chetty and Agndal, 2007; Prashantham, 2010) than on how social capital is developed (e.g. Maurer and Ebers, 2006; Agndal, Chetty and Wilson, 2008; Prashantham and Dhanraj, 2010). In other words, it has focused more on the instrumental aspects than the dynamic nature of social capital.

Child and Rodrigues (2011) observe that SMEs, due to their limited resources and liability of smallness, enter foreign markets mainly with the support of a mediator or networks. They mentioned that SMEs learn about external complexities through trustworthy relationships. This highlights the importance of developing and maintaining close personal relationships. As Welch and Welch (1996) mentioned, SME business relationships will have a mix of both business affairs and social interaction, which enhances their mutual adaptations. The mutual adaptations inherent to business dyads (Axelsson and Easton, 1992) also involve the development of social goodwill and the building up of knowledge linkages. Social capital reduces the cost of transferring information by using social relationships embedded on a particular social network (Nahapiet and Ghoshal, 1998), thereby easing the process of knowledge sharing. In this sense, they facilitate "the exchange of tacit and complex knowledge in addition to codified knowledge" (Yli-Renko, Autio and Tontti, 2002: 7).

Together with knowledge creation and transfer, the development of social capital stemming from business and social interaction enables the identification of business opportunities which others cannot see and develop (Johanson and Vahlne, 2006: 174). Social capital may be also used to overcome the problems faced in servicing a given market such as exporting perishable

products, where specific problems such as transportation conditions and storage can hinder exporters' success (McGaughey, Welch and Welch, 1997). They observe that the elements of social capital such as trust and mutual understanding would help to countervail the situation. Furthermore, they noticed that the vicissitudes of operational conditions might be better dealt with when the social capital with partner is high.

The social capital derived from business interactions in a given country may also contribute towards further international expansion. This may involve two main processes: (1) the joint identification of opportunities; and (2) referrals. Johanson and Vahlne, (2006) observed that new-country opportunities may be exploited by both partners or just by one of them. In many cases opportunity recognition will involve the identification of local partners in the market concerned. The choice of such partners may be influenced by former social/business links on that market (Ellis and Pecotich, 2001; Fletcher and Barrett, 2001; Harris and Wheeler, 2005).

Referrals are a common component of information in business life. The working of business networks and the involvement of a given firm in several networks foster bridging procedures to fill structural holes (Burt, 2000). In international business such holes are not necessarily filled by the bridging organisation. In some cases it will rely on a partner, which is better placed to exploit the opportunity. Another effect of referrals is to increase credibility and legitimacy. Their established relationships with large multinationals are often used by high-tech SMEs as referrals to enter new countries (Simões and Dominguinhos, 2001).

Studies have also highlighted the negative impact of social capital. Nahapiet and Ghoshal (1998) cite Janis (1982), Perrow (1984) and Turner (1976) to conclude that "the strong norms

and mutual identification that may exert a powerful positive influence on group performance can, at the same time, limit its openness to information and to alternative ways of doing things, producing forms of collective blindness that sometimes have disastrous consequences" (p. 244). Coleman (1990: 302) "also mentioned that a given form of social capital that is useful for facilitating certain actions may be useless or harmful for others". Nahapiet and Ghoshal (1998) observe that social capital dimensions are not always mutually supportive. An efficient network in structural terms may not be the best way to develop the strong relational or cognitive social capital that may be necessary to ensure the effective operation of such networks.

Relatively few studies have focused on the dynamic nature of social capital in international business. Prashantham and Dhanraj (2010), in their study on Indian software firms analyzed the dynamic nature of social capital by focusing on mechanisms of decay and replenishment over time. They conclude that network learning is very important for new ventures' ability to realize the potential contribution of social capital in international growth. Maurer and Ebers (2006) also analyzed how the configuration, management and evolution of social capital affect firm performance in their longitudinal case study of six new bio-technology firms. They explained how the internal organization of firms' management of relationships with external partners, through horizontal and vertical differentiation and integration, affects the dynamics of social capital and performance. Both these studies focused on high-tech firms.

Agndal and Chetty (2008) explored the dynamics of social capital in the early and later phases of SMEs internationalization. They classified social capital into economic and structural dimensions. The economic dimension includes efficacy and serendipity roles whereas direct

and indirect relationship forms the structural dimension. They observed that efficacious and direct social capital is associated with the early phases, while serendipitous and indirect social capital is more prevalent in the later phases, and concluded that social capital changes are dependent on foreign-market entry. They also observe that geographic distance influences the structural dimension of social capital whereas it does not have any influence on economic dimension. Nonetheless, firm conclusions on this issue still have not been reached.

## 4.4. Learning capability

International process theories (Johanson and Vahlne, 1977) and that on international new ventures (Oviatt and McDougall, 1994) have acknowledged the importance of knowledge and learning in the internationalization of firms. They considered knowledge as one of the key resources required for firms' internationalization.

Edith Penrose (Penrose, 1959) provided a theoretical foundation for the resource-based view (RBV), which was introduced into management literature by Wernerfelt (1984) and later familiarized by Barney (1991). However, considering the dynamic nature of the global business environment, researchers criticized the static characteristics of resource-based view (Eisenhardt and Martin, 2000; Priem and Butler, 2001). They mentioned that creating new competitive basis is not just a matter of collecting resources, but firms' capabilities to generate certain bonus from the resources provide actual competitive advantage (e.g. Chandler and Hanks, 1994; Grant, 2009). Considering these issues, we have decided to adopt a dynamic capability perspective, which highlights the need to differentiate capabilities from resources and stresses the importance of dynamic process of capability building in gaining competitive advantage (Wang and Ahmed, 2007). This draws attention to the need to analyze the role of

knowledge and learning in SME internationalization.

Dynamic Capabilities are a firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano and Shuen, 1997: 516). However, Easterby-Smith, Lyles and Peteraf (2009) point out that dynamic capability can take variety of forms and involve different functions. The key characteristics are that they are higher level capabilities, which provide opportunities for knowledge-gathering and sharing. Borch and Madsen (2007) classified dynamic capabilities as resource reconfiguration/integration capabilities and innovative strategies, resource acquisition capabilities, learning networks capabilities, and strategic path aligning capabilities. In line with these arguments, we consider the learning capability of SMEs as the key dynamic capability.

This research also adopts the notion of absorptive capacity (Cohen and Levinthal, 1990; Zahra and George, 2002) in assessing the learning capability of British and Indian SMEs when they internationalize. Absorptive capacity considers learning as firms' ability to acquire, assimilate, transform and exploit new knowledge (Zahra and George, 2002). The main focus of this research is how the British and Indian SMEs developed their learning capability, which will be measured by assessing the acquisition, assimilation, transformation and exploitation stages. In other words, there are two key stages in the process: (1) acquiring relevant knowledge; (2) being receptive to it and knowing how to apply it.

Learning is one of the main intentions of internationalization of SMEs (Nachum and Zaheer, 2005; Petersen et al., 2008). It provides knowledge related to market, product, R&D, and

internationalisation activities (Zahra et al., 2000; Yli Renko et al., 2002; Petersen et al., 2003), which help enhance their capability, facilitate their internationalization and position them as a global player (Zahra et al., 2000). Autio et al. (2000:911) defined organization's knowledge as "its capacity to apprehend and use relationships among critical factors in such a way as to achieve intended ends".

The knowledge of foreign market and internationalization activities are at the heart of international process theories (Johanson and Vahlne, 1977, 2009). These argue that knowledge grows incrementally over time through accumulating experience in current activities. Experiential learning influences foreign commitment decisions as well, which means firms start with a low level of commitment in psychically close markets and later move to psychically distant markets. Process theories also stress that as well as from learning about a foreign market situation, firms learn about international activities through their experience (Eriksson et al., 1997; Forsgren, 2002; Petersen et al., 2003). Learning about international activities includes how firms can operate their connected network, and how to design incentive structures for local and independent business partners (Welch and Luostarinen, 1988). Knowledge about local business partners, their connections, and the knowledge about local institutional situations are the two main types of market knowledge (Eriksson et al., 1997). One of the other key points of this theory is that foreign commitment decisions are not made just by an individual manager, but results from a collective process of several key actors within the organization (Autio, 2005). Overall, Johanson and Vahlne's (1977) stage theory emphasizes experiential knowledge, which is also acknowledged as important by other process theorists (e.g. Bilkey and Tesar, 1977; Czinkota, 1982; Cavusgil, 1980; Reid, 1981).

By contrast, international new ventures (INVs) (Oviatt and McDoughall, 1994) bypass the initial stages identified by the process theories. They enter a foreign market with a high level of commitment during or soon after their initiation. These firms learn or gain knowledge about the technological trends or competencies as they diversify further into international markets (Zahra et al., 2000). Similar to process theories, learning is seen to play an important role in the internationalisation of INV (Oviatt and McDougall, 1994); it has important implications for the development and evolution of capabilities in INVs (Zahra, 2005:26). However, unlike process theories, the INV literature focuses on technological learning, which they believe is complex and challenging. So knowledge integration is a main challenge for these companies, which is the process by which an entrepreneur or entrepreneurs decide and evaluate the potential importance of acquired knowledge and explore the ways in which it can be used. Knowledge integration is seen to moderate the relationship between international expansion and technological learning (Zahra et al., 2000: 926). It helps improve the future profitability and growth of companies (Zahra, 2005). Unique products or service-related knowledge is one of the key success factors of INV firms (Zahra et al., 2000; Fletcher, 2009). Similarly, knowledge intensity is one of the facilitating factors of INV firms' rapid internationalization because these are generally knowledge-based firms in knowledge-intensive sectors operating in a highly volatile environment (Oviatt and McDougall, 1994; Fletcher, 2009).

Nevertheless, how and when these firms learn or how these firms develop absorptive capacity--which means the ability to identify, select, and assimilate the external knowledge and transform and exploit these in their operations---still remain unexplored much in the INV literature (Zahra, 2005).

Autio et al. (2000) highlight the advantages of newness for learning. They believe that INVs are not affected by the factors which restrict established firms. Moreover, these firms have organic systems, which are directly controlled by founder-owners, who can speed up the whole learning process (Autio et al., 2000). Contrary to international process theory, the INV literature believes that entrepreneurs who are able to take risks and make strategic choices are the main reasons for aggressive international expansion (Autio, 2005). They play a crucial role in the learning process of companies. However, their role in developing absorptive capacity (learning capability) in these firms requires further investigation (Zahra, 2005).

The organizational learning literature defines it in different terms such as knowledge, acquisition sharing, utilization and unlearning (Huber, 1991), or the assimilation of new knowledge into existing knowledge base (Autio et al., 2000). On the other hand, "absorptive capacity is defined as the ability to recognize the value of new information, assimilate it and apply it to commercial ends" (Cohen and Levinthal, 1990: 128). Its roots are based in organizational learning (Fiol and Lyles, 1985; Levitt and March, 1988). Zahra and George (2002: 186) considering absorptive capacity as a dynamic capability defined it "as a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability". They consider that these four organizational capabilities provide a dynamic capability which provides a foundation for superior competitive advantage to the firm.

As mentioned earlier, learning starts at the individual level and will be considered to have become organizational knowledge once it is assimilated and transformed into organizations'

routines, documents and practices (Cohen and Levinthal, 1990; Autio et al., 2000) through communication and knowledge-sharing between individuals within the organization (Huber, 1991; Fletcher, 2009). Learning will have an impact on internationalization only when firms acquire, assimilate and share new knowledge in order to compete and grow in markets where they don't have any prior experience (Autio et al., 2000).

Figure: 4.1. Learning process


Source: Author

The importance of prior experience is highlighted in the absorptive capacity literatures (Cohen and Levinthal, 1990). This maintains that learning is most efficient if it is related to prior related knowledge and R&D investments, and this is labelled as the "cumulativeness feature" (Lyles and Salk 1996; Lane and Lubatkin 1998; Volberda, Foss and Lyles, 2010). Reagans and McEvily (2003: 243) also support this view; they mentioned that knowledge-transfer will be smooth when the source and the recipient already have some common knowledge, which means knowledge transfer will be higher between people with similar expertise, training and background characteristics. This not only helps acquisition and assimilation but the exploitation of knowledge as well (Autio et al., 2000).

The embedded knowledge base, path-dependent managerial cognition, and rigid capabilities might have a negative impact on learning because they could hinder firms from identifying and absorbing valuable new external knowledge (Todorova and Durisin, 2007; Volberda et al., 2010). Van den Bosch, Volberda and Boer (1999, p. 560) mentioned that

managers applying classical management thinking ignore the external environment and fail to consider it as sources of knowledge to be absorbed. The capability to recognize the value of new external knowledge is an important element of absorptive capacity because it affects the initial identification of knowledge, which is the starting point of learning and knowledge acquisition (Todorova and Durisin, 2007). Another issue is related to managers' assessment of knowledge that is not relevant for their current customers (Christensen and Bower, 1996). Occasionally, managers ignore this knowledge because they just focus on the requirement of their current customers (Christensen and Bower, 1996; Todorova and Durisin, 2007). Therefore, Todorova and Durisin (2007) perceive that ability to absorb external knowledge depends to a great extent on the ability to value new external knowledge.

Another important factor influencing learning is the socializing capability of firms (Jansen, Van den Bosch and Volberda, 2005). It characterises the structural and cognitive aspects of social relations such as linkages or connectedness and shared social experiences, respectively (Jansen et al., 2005). Reagans and McEvily (2003: 263) observed that there is a link between networking and types of knowledge to be absorbed. They mentioned that tacit knowledge is more difficult to transfer because it requires more motivation, effort, and ability to transfer than codified knowledge. They also highlighted that superior knowledge transfer is seen among firms where individuals have close personal contacts or they have dense and diverse networks. Interpersonal connections within a network ensure more rapid knowledge dissemination (Reagans and McEvily, 2003). Transfer of complex and tacit knowledge always requires strong relationship or dense network support. However, simple and codified knowledge can be transferred even if the firm does not have strong network relationships.

Contrary to this, Jansen et al (2005) suggest that connectedness inhibits the acquisition and assimilation (potential learning capability) of knowledge because unit members will have to carry out broad searches for knowledge sources if they are in a dense network. However, they observe that connectedness facilitates the transformation and exploitation (realized learning capability) of newly acquired knowledge through enhanced communication and trust that reduce the conflict regarding goals and implementation.

System capabilities such as formalization and routines are the other major factors affecting learning (Jansen et al., 2005) because they help establish patterns of organizational action (Cohen and Bacdayan, 1994: 555; Jansen et al., 2005). Formalization, as the name indicates, refers to a formal or written set of rules, procedures, instructions and communications (Jansen et al, 2005). It ensures more structured and organized individual behaviour. Jansen et al (2005) believe that well-designed rules and procedures capture prior experiences that may enable employees to acquire and assimilate new external knowledge. Similarly, formalization ensures codified, standardized procedures to speed up the exploitation and implementation (Lin and Germain, 2003; Jansen et al., 2005). Rules can systematize knowledge and its application.

Routines are sequencing of tasks that are repetitive and invariable (Jansen et al., 2005). Zahra and George (2002) view absorptive capacity as a routine of acquisition, assimilation, transformation and exploitation. They said the major attributes of acquisition routines are intensity, speed and direction. Similarly, analysing, processing, interpreting, and understanding the information form the routines of assimilation. Transformation routines are adding or deleting knowledge or interpreting the same knowledge in a different manner.

Exploitation can be serendipitous and systematic (Zahra and George, 2002). Serendipitous exploitation will not have routine and will be totally unsystematic. However, systematic exploitation includes data retrieval, and incorporation into operation on a systematic way.

Jansen et al. (2005) discuss the merits and demerits of routinization. They mention that routines limit the search for new external knowledge and narrow the scope of information-processing because employees handling routine tasks deal with few expectations and a narrow range of problems. Moreover, they restrict the interactions of members and restrict their interpretation of new knowledge (Jansen et al., 2005: 1002). They also observe that routinization hampers the integration of new knowledge with existing knowledge. In other words, routinization may not enhance a firm's potential or realized learning capability.

## 4.5. Summary

A review of previous studies reveals that relatively few studies have analyzed the perception of decision-makers when investigating the psychic distance concept. Many previous studies equated psychic distance with cultural distance. However, some recent studies have criticized this uni-dimensional measurement of the concept, mainly because of its inability to capture the complexities and details of the phenomenon. The review also reveals that only very few studies have made a comprehensive analysis of perceived psychic distance, giving attention not only to differences, but also to their business impact and coping methods. We aim to address these limitations and provide a more adequate approach to examining the role of psychic distance in internationalization.

Previous studies indicate that social capital facilitates the internationalisation of SMEs which typically lack resources. It not only facilitates their initial market entry by offsetting their liability of newness and smallness, but also assists their learning process. Similar to any other capital, social capital as an asset is widely explored in the literature. However, its dynamic aspects are relatively unknown. Despite the wider explanation about how social capital triggers and fosters internationalisation of SMEs, the literature gave very little attention to how SMEs build, develop and maintain the social capital required for their internationalisation Therefore, in this study, we try to explore the dynamic nature of social capital, along with its instrumental aspects.

Both international process theories and international new ventures have considered knowledge to be one of the key resources required for firms' internationalization. It is regarded as one of the main facets of internationalization of SMEs mainly because it provides market, product and internationalisation knowledge that enhance SMEs internationalization capability and help position them as global players. We shall adopt the absorptive capacity framework in assessing learning capability, considering learning as the ability of firms to acquire, assimilate, transform and exploit new knowledge. Although the literature has extensively discussed learning and its role in the internationalization of firms, we know very little about how and when SMEs learn or how they develop absorptive capacity (learning capability).

Table: 4.1. Summary of the theories and previous literature and their contributions to the present study

| Approach | Author (Date) | Focus, analytical framework and contributions | Contribution to the present study |
|---|---|---|---|
| **Psychic distance** | Johanson and Wiedersheim-Paul (1975) | The sum of factors preventing or disturbing the flow of information between the organization and the foreign market.<br><br>These factors include differences in language, culture, political systems, level of education and level of industrial development | **Theoretical:**<br>(1) Factors preventing the flow of information<br>**Methodological:**<br>(2) Case study method |
| | Johanson and Vahlne (1977) | Added difference in business practices to the list of factors preventing the flow of information | **Theoretical:**<br>(1) Business practices<br>**Methodological:**<br>(1) Case study method |
| | Nordström and Vahlne (1994) | Emphasized on learning and understanding | **Theoretical:**<br>(1) Factors preventing the learning and understanding of a foreign market |
| | O'Grady and Lane (1996) | Redefined the concept by incorporating "uncertainty" that arises from difficulties of learning about a new market.<br><br>Argued that cultural distance cannot be considered as a proxy for psychic distance. | **Theoretical:**<br>(1) Uncertainty<br><br>**Methodological:**<br>(1) Mixed methodology |
| | Evans and Mavondo (2002) | Criticized earlier studies for not sufficiently analyzing the psychic and distance aspects of the concept. | **Theoretical:**<br>(1) Psychic aspect of the concept<br>(2) Multi-dimensionality<br>**Methodological:**<br>(1) Quantitative Survey |
| | Benito and Gripsrud (1992), Engwall and Wallenstal (1988), Kogut and Singh (1988), Lee (1998) | Treated psychic distance as a synonym of cultural distance | **Theoretical:**<br>(1) We question the adequacy of uni-dimensional measurement on the basis just of culture. |

| | | | |
|---|---|---|---|
| | Child et al. (2002) | Perceptual psychic distance.<br>Pointed out the issues in empirical measurement— uni-dimensional assessment and quantitative analysis of the concept.<br><br>Developed a framework comprising psychic distance creating, compressing and bridging factors. Bridging psychic distance reduces the transaction costs of international business or reduces the uncertainty and problems of psychic distance occurring at strategic and operational levels. This always involves medium- to long-term commitment by a firm. | **Theoretical:**<br>(1) Psychic distance measurement issues.<br>(2) Perceptual psychic distance.<br>(3) Psychic distance coping methods.<br><br>**Methodological:**<br>(1) Case study approach |
| | Child *et al*. (2009) | Mentioned that the uni-dimensional measurement is insufficient to capture the complexities and details of the concept.<br><br>Developed a 12 dimensional PD construct-- geographic distance, culture, language, education, technical development, economic development, logistics and infrastructure, political systems, legal systems, regulations, business practices and ethics.<br><br>Looked at perceived difference, impact of psychic distance and coping with psychic distance.<br><br>Their study on British SMEs' internationalization to Brazil revealed that some dimensions of psychic distance often create serious problems for foreign SMEs while others do not. They also found that despite a significant level of perceived difference, its impact on the case of doing business in Brazil was not correspondingly high.<br>PD coping methods—bridging (Child et al., 2002) and avoiding methods. Avoiding coping mode is averting transaction cost or transferring the problems to other members of the network. | **Theoretical:**<br>(1) Multidimensional measurement of the concept.<br><br>(2) 12 dimensional psychic distance construct<br><br>(3) Psychic distance, its business impact and coping methods.<br><br>**Methodological:**<br>(1) Case study method and quantitative assessment of the construct |

| | | | |
|---|---|---|---|
| | Brewer (2007) | Multi-dimensional model consisted of seven primary elements--commercial, political, historical, geographical; social ties, information ties and development--and 15 determining indicators. Primary elements are quantitatively incorporated into a psychic distance index; e.g. cultural similarities, language similarities and sports represent social ties. | **Theoretical:**<br>(1) Multi-dimensional measurement<br><br>**Methodological:**<br>(1) A survey method |
| | Dow and Karunaratna (2006) | Applied a broad multidimensional model of psychic distance stimuli, which includes culture, language, and education, level of industrial development, political system, religion, time zone and previous colonial ties. | **Theoretical:**<br>(1) Multi-dimensional measurement of the concept.<br>**Methodological:**<br>(1) Quantitative Survey |
| | Arenius (2005) | Social capital reduces the impact of liability of newness and foreignness and helps overcome the impact of psychic distance. | **Theoretical:**<br>(1) Social capital as a psychic distance coping mechanism.<br>**Methodological:**<br>(1) Case study approach |
| **Social Capital** | Nahapiet and Ghoshal's (1998) | The sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit". They explained it in terms of three dimensions, and described how these dimensions provide resources. These three dimensions are structural (forming the connections and linkages between actors), relational (personal relationships people have developed with each other through a series of interactions), and cognitive (shared values).<br><br>Structural social capital-- the overall pattern of connections between actors, who you reach and how you reach them (Burt, 1992). | **Theoretical:**<br>(1) Integration of different aspects of social capital.<br><br>(2) Structural social capital.<br>(3) Relational social capital.<br>(4) Cognitive social capital. |

| | | | |
|---|---|---|---|
| | | Relational dimension describes the kind of personal relationships people have developed with each other through a series of interactions (trust and trustworthiness).<br><br>Trust facilitates the identification and acquisition of new knowledge.<br><br>Cognitive social capital is the mutual understanding of individuals about network of social associations in the organization emerging from shared language, codes and narrative. | |
| | Yli-Renko, Autio and Tontti (2002) | Social capital facilitates "the exchange of tacit and complex knowledge in addition to codified knowledge". | **Theoretical:**<br>(1) Social capital as a facilitator of knowledge exchange. |
| | Mayer, Davis and Schoorman (1995) | Defined trust as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party". | **Theoretical:**<br>(1) Trust |
| | Madhok, 1995 | Trust is dynamic in nature. It requires repeated successful interactions. | **Theoretical:**<br>(1) Dynamic nature of trust. |
| | Ring and Van de Ven (1994) | Trust requires time to emerge. | |
| | Lewicki and Bunker (1996:124) | Proposed a staged evolution model of trust and argued that trust develops gradually as the parties move from one stage to another. | |
| | Child et al. (2005) | Developed a co-evolution model of trust and strategic alliance development. They highlighted a three-stage trust development process, which proceeds from calculation to mutual understanding and bonding.<br><br>Calculation undertakes the initial step of being prepared to work together, which involves calculation of risk as well. | **Theoretical:**<br>(1) Evolution of trust in strategic alliance.<br><br>(2) Steps in trust development—Calculation, mutual understanding and bonding. |

| | | | |
|---|---|---|---|
| | | Mutual understanding stage – partners understand each other better through frequent communication and working together.<br><br>Bonding is characterised by a more intense personal relationship, which fosters mutual trust and reduces the negative effects of bounded rationality, and specific investments in the alliance. | |
| | Pardo et al. (2006) | Trust is important in inter-organizational knowledge-sharing relationships. | **Theoretical:**<br>(1) Trust in inter organizational knowledge sharing |
| | Levin et al. (2002), Reagans and McEvily (2003) | Greater levels of trust between firms guarantee superior knowledge transfer and assure rapid learning. | **Theoretical:**<br>(1) Trust in knowledge transfer and learning process |
| | Uphoff (2000) | Cognitive dimension derives from mental process and resulting ideas, reinforced by culture and ideology, specifically norms, values, attitudes, attitudes, and beliefs that contribute cooperative behaviour and mutually beneficial collective action. | **Theoretical:**<br>(1) Cognitive social capital influences entrepreneurial behaviour and ensures cooperative behaviour and mutually beneficial collective action. |
| | Johanson and Vahlne (2006) | Observed that together with knowledge-creation and transfer, the development of social capital stemming from business and social interaction enables the identification of business opportunities which others cannot see and develop.<br><br>The social capital derived from business interactions in a given country may also contribute towards further international expansion through (1) the joint identification of opportunities; and (2) referrals. | **Theoretical:**<br>(1) Social capital in knowledge creation, transfer, and opportunity recognition<br><br>(2) Further expansion through referrals and joint opportunity identification |

| | | | |
|---|---|---|---|
| | Maurer and Ebers (2006) | Analysed how the configuration, management and evolution of social capital affect firm performance. They explained how the internal organization of firms' management of relationships with external partners, through horizontal and vertical differentiation and integration, affects the dynamics of social capital and performance. | **Theoretical:**<br>(1) Dynamics of social capital and firm performance<br>**Methodological:**<br>(1) Case study of six new bio-tech firms. |
| | Agndal, Chetty and Wilson (2008) | Explored the dynamics of social capital in the early and later phases of SMEs' internationalization.<br><br>Classified social capital as economic (efficacy and serendipity roles) and structural dimensions (direct and indirect relationship).<br><br>They observed that efficacious and direct social capital is associated with the early phases, while serendipitous and indirect social capital is more prevalent in the later phases, and concluded that social capital changes are dependent on foreign market entry. | **Theoretical:**<br>(1) Dynamics of social capital and foreign market entry.<br><br>**Methodological:**<br>(1) Case study approach |
| | Prashantham and Dhanraj (2010) | Analysed the dynamic nature of social capital by focusing on mechanisms of decay and replenishment over time. They conclude that network learning is very important for new ventures' ability to realize the potential contribution of social capital in international growth. | **Theoretical:**<br>(1) Dynamics of social capital<br>(2) Network learning<br>**Methodological:**<br>(1) Case study of software companies |
| **Learning Capability** | Cohen and Levinthal (1990) | Absorptive capacity is defined as the ability to recognize the value of new information, assimilate it and apply it to commercial ends.<br><br>Learning starts at the individual level and will be considered to have become organizational knowledge when it is assimilated and transformed into organizations routines, documents and practices. | **Theoretical:**<br>(1) Adopted the notion of absorptive capacity<br><br>(2) Learning process |

| | | | |
|---|---|---|---|
| | Zahra and George (2002) | Absorptive capacity-- firms' ability to acquire, assimilate, transform and exploit new knowledge. | **Theoretical:**<br>(1) Adopted the notion of absorptive capacity |
| | Fletcher (2009) | Investigated the learning process in the development of absorptive capacity of internationalizing SMEs.<br><br>Provided insights into the nature of knowledge used by internationalizing firms, and its, acquisition, assimilation and exploitation techniques. | **Theoretical:**<br>(1) Learning process<br>(2) Absorptive capacity<br>(3) Internationalizing SMEs<br>**Methodological:**<br>(1) Case study approach |
| | Zahra et al. (2000) | Learning provides knowledge related to market, product, R&D, and internationalization activities, which help enhance SMEs' capability, facilitate their internationalization and position them as a global player. | **Theoretical:**<br>(1) Importance of learning in SMEs internationalization.<br>**Methodological**<br>(1) Used a combination of a two-wave mail survey, archival data, and phone and e-mail contacts with companies and trade associations. |
| | Autio et al. (2000) | Defined organization's knowledge "as its capacity to apprehend and use relationships among critical factors in such a way as to achieve intended ends".<br>Observed that learning will have an impact on internationalization only when firms acquire, assimilate and share new knowledge in order to compete and grow in markets where they do not have any prior experience. | **Theoretical:**<br>(1) Organizational learning<br>(2) Learning in internationalization |
| | Johanson and Vahlne's (1977) | Stage theory-- emphasizes experiential knowledge. | **Theoretical:**<br>(1) Experiential learning |
| | Eriksson et al. (1997), Forsgren (2002), Petersen et al. (2003) | Process theories stress that firms learn about a foreign market situation and international activities through their experience. | **Theoretical:**<br>(1) Learning in process theories |

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|---|---|---|---|
| | Welch and Luostarinen, (1988) | Learning about international activities includes how firms can operate their connected network, and how to design incentive structures for local and independent business partners. | **Theoretical:**<br>(1) Learning about international activities |
| | Eriksson et al. (1997) | Two main types of market knowledge:<br>(1) Knowledge about local business partners and their connections.<br>(2) Knowledge about local institutional situations. | **Theoretical:**<br>(1) Market knowledge<br>(2) Network learning |
| | Oviatt and McDoughall, 1994 | INV firms bypass the initial stages identified by the process theories and enter a foreign market with a high level of commitment during or soon after their initiation. | **Theoretical:**<br>(1) Learning in INV firms |
| | Zahra et al. (2000) | INV firms learn or gain knowledge about the technological trends or competencies as they diversify further into international markets. Knowledge integration is a main challenge for these companies, which is the process by which an entrepreneur or entrepreneurs decide and evaluate the potential importance of acquired knowledge and explore the ways in which it can be used. | **Theoretical:**<br>(1) Technological knowledge in INV firms<br>(2) Knowledge integration |
| | Oviatt and McDougall, 1994; Fletcher, 2009 | Knowledge intensity facilitates the rapid internationalization of INV firms. | **Theoretical:**<br>(1) Knowledge intensity and rapid internationalization |
| | Autio et al. (2000) | Most INV firms are directly controlled by founder-owners, who can speed up the whole learning process. | **Theoretical:**<br>(1) Entrepreneurship |
| | Autio (2005) | Entrepreneurs, who are able to take risks and make strategic choices, are the main reasons for aggressive international expansion. | **Theoretical:**<br>(1) Entrepreneurship |
| | Zahra (2005). | Entrepreneurs play a crucial role in the learning process of companies. However, their role in developing absorptive capacity (learning capability) in these firms requires further investigation. | **Theoretical:**<br>(1) Entrepreneurship. |

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|---|---|---|---|
| | Volberda, Foss and Lyles, 2010 | Learning is most efficient if it is related to prior related knowledge and R&D investments. | **Theoretical:**<br>(1) Prior experience and knowledge |
| | Reagans and McEvily (2003 | Knowledge-transfer will be smooth when the source and the recipient already have some common knowledge.<br><br>Observed a link between networking and types of knowledge to be absorbed. They mentioned that tacit knowledge is more difficult to transfer because it requires more motivation, effort, and ability to transfer than codified knowledge. | **Theoretical:**<br>(1) Prior relationship and understanding<br>(2) Role of network<br>(3) Tacit and codified knowledge transfer<br>**Methodological:**<br>(1) Survey |
| | Jansen et al. (2005) | Their study indicated that an organization's coordination capability enhances their potential absorptive capability whereas their socializing capability influences their realized absorptive capability.<br><br>Socializing characterises the structural and cognitive aspects of social relations such as linkages or connectedness and shared social experiences, respectively.<br><br>Mentioned that connectedness inhibits the acquisition and assimilation (potential learning capability) of knowledge because unit members will have to carry out broad searches for knowledge sources if they are in a dense network. However, they observe that connectedness facilitates the transformation and exploitation (realized learning capability) of newly acquired knowledge through enhanced communication and trust that reduce the conflict regarding goals and implementation.<br>System capabilities such as formalization and routines are the other major factors affecting learning. | **Theoretical:**<br>(1) Potential and realized absorptive capability<br>(2) Coordination<br>(3) Socializing<br>(4) Connectedness<br>(5) Systems capabilities<br><br>**Methodological:**<br>(1) Survey |

# CHAPTER 5
# RESEARCH DESIGN AND METHODOLOGY

## 5.1. Introduction

Chapters 2, 3 and 4 provided a critical review of relevant literature on the theories of internationalization, and also identified major factors related to our research objectives such as SME internationalization strategies, psychic distance, social capital, learning capability and the role of ICT. In this chapter, building on the literature, we evaluate and develop an appropriate research design to address the research questions. A research design is important for the quality and reliability of an investigation because a small change in its scope and variable selection can result a completely different image of the concept being studied (Cunningham, Young and Lee 2000). Therefore, we decided on the research design after a detail examination of alternative perspectives.

This chapter starts by explaining the rationale of the research design. We then discuss the philosophy, nature, orientations, and methods of the study. The research method adopted embraces both case and survey methods. First, we analyse the research setting, data collection, data analysis and evaluation techniques of the case study investigation. Then, we examine the sampling, questionnaire design, data collection, data analysis and the evaluation methods of quantitative survey investigation.

### 5.1.1. Rationale

The review of literature in chapters 2, 3 and 4 shows that the earlier studies on internationalization (mainly adopting an economic approach) that focused on multinationals used the quantitative survey method to study the internationalization of firms whereas process studies mainly adopted a case study approach. A case study methodology has also been common in the network approach and in work on the internationalization of new venture firms. However, some of the recent studies on social network approach and INV firms have adopted a mixed qualitative and quantitative methodology approach to study the internationalization of small and medium firms (e.g. Knight and Cavusgil, 1996; Chetty and Wilson, 2003; Lechner and Dowling, 2003; Rutashobya and Jaensson, 2004; Loane and Bell, 2006). Considering the complexity of SMEs internationalization, some studies emphasized the need to integrate different perspectives in international business to explain their internationalization (O'Farrell et al., 1998; Coviello and McAuley, 1999; Bell et al., 2003; Crick and Spence 2005; Child and Rodrigues, 2008). However, Coviello and McAuley (1999) and Coviello and Jones (2004) suggested that a fuller understanding of such processes might best be gained through a reconciliation of positivist and social constructivist methodologies. Similarly, Hurmerinta-Peltomäki and Nummela (2006) mentioned that since international business research is subject specific and a complex area of research that covers cross-national, cultural, organisational and personal boundaries, methodological pluralism or a mixed method approach would provide a more detailed and comprehensive picture (Hurmerinta-Peltomäki and Nummela, 2006). Therefore, we adopted a mixed qualitative and quantitative research methodology.

We now discuss the research design adopted for the empirical investigation of the internationalization of British and Indian SMEs. Research is a systematic collection and interpretation of information to find new evidence and to make a contribution to knowledge (Ghauri and Gronhaug, 2002, 2010; Saunders, Lewis and Thronhil, 2009). Researchers such as Ghauri and Gronhaug (2002, 2010), Gill and Johnson (2002), Howard and Sharp (1983), Rummel and Ballaine (1963) and Saunders et al. (2009) indicate the systematic protocols required to enhance the scientific basis of business research. The research process adopted for this study has eight stages, starting with the literature review and ending with the presentation of findings/research report. This process is outlined in table 5.1.

Table: 5.1. The research process

| Sequences | Stages | Activities |
|---|---|---|
| 1 | Literature review | A review of literature on internationalization, including key theoretical perspectives is presented in **Chapter 2**<br>The internationalization of small and medium companies, emerging-economy firms and service sector firms are covered in **Chapter 3**<br>A review of literature on psychic distance, social capital and learning capability is in **Chapter 4** |
| 2 | Research Design | Mixed methodology, both qualitative and quantitative **Chapter 5** |
| 3 | Data collection | Qualitative data-semi structured open-ended interviews with decision-makers of 30 British companies and of 30 partners in India<br>Quantitative data-Questionnaire survey among 100 British and 100 Indian SMEs<br>**Chapter 5** |
| 4 | Data Analysis | Qualitative data—using Nvivo<br>Content analysis<br>Quantitative data— Descriptive, Bivariate<br>**Chapter 6 – 9** |
| 5 | Formulation of Research model and analysis of a priori framework | A research model is developed to address the main issues in internationalization process namely Internationalization strategies, perceived differences and impact of psychic distance, building of social capital, learning capability, ICT in internationalization<br>Testing of a priori framework- Path analysis<br>**Chapter 10** |
| 6 | Discussion, | Comparison of UK and Indian data<br>Interpretation of findings in terms of causes & effects or patterns of relationship<br>The logic of internationalisation<br>Psychic distance<br>Social capital<br>Learning<br>ICT<br>**Chapter 11** |
| 7 | Contributions to theory and research limitations | Contribution to theory and research limitations and future recommendations--**Chapter 12** |
| 8 | Contributions | Contributions to business practitioners and national policy makers-- **Chapter 13** |

Source: Author

*Stage 1*

As indicated above, the first stage of this study is an in-depth review of existing literature on internationalization, psychic distance, social capital and learning capability which was presented in chapters 2, 3 and 4. As Gill and Johnson (2002) observed, literature review provides awareness about what has been written about the topic and also helps the researcher update developments in the area. The literature review makes several contributions: it provides the foundation for this research. It helps the researcher formulate research questions, description and evaluation of theories and concepts already informed and find out the gaps in knowledge (Gill and Johnson, 2002). Gill and Johnson (2002) also observe that a critical review of the existing literature helps to justify why a new research is timely and significant.

*Stages 2-3*

As indicated in table 5.1, this chapter deals with research design, research methods and data collection that form the second and third stages of the research process. Research design is a plan or framework for data collection and its analysis (Ghauri and Gronhaug, 2010). On the other hand, research methods concern the techniques used to collect the data.

Stage 4

The data analyses of this research are presented in chapters 6-9. The qualitative and quantitative data are analysed and presented separately. The qualitative data are analysed using within case and cross case analysis. Univariate, bivariate and multivariate analysis techniques are used to analyse quantitative data. The details of the techniques adopted in this study are discussed in sections 5.6.3 and 5.7.4 of the present chapter. Data analysis is a vital component of research because it helps researchers familiarize themselves with their data and

also facilitate the preliminary theory generating and theory testing process (Eisenhardt, 1989).

*Stage 5*

Research is undertaken to develop new knowledge (Ghauri and Gronhaug, 2010). This can be in the form of new theories/models, concepts, methods/techniques and facts. In order to develop new insights, this study will develop a conceptual model, based on the literature review and qualitative findings, explaining the internationalization of firms taking into consideration concepts such as psychic distance, social capital (personal and partner), learning capability, and the role of ICT. Ghauri and Gronhaug (1995: 19) define concepts as "an abstraction representing an object, a property of an object, or a certain phenomenon". They observe that the basic idea of a model and theory are the same; models can be seen as a systematic organization of concepts in terms of the relationships between them. According to them three key characteristics of a model are: it represents a key object or phenomenon; it is parsimonious by reducing the number of variables; and it shows the relationship between variables. A model helps by providing a description or explanation of phenomena. It also acts as a guide and helps in predicting and forecasting outcomes (Ghauri and Gronhaug, 1995). Formulation of the research model constitutes the fifth stage of the research process, which is discussed in detail in chapter 10.

Stage 6

According to Eisenhardt (1989:544), the most important feature in developing the theoretical contribution of a research study is comparison of the evolving concepts, theory, or hypotheses with the existing literature. This involves the process of comparing key findings with similar or contradicting theories and observing causes and effects. This forms the sixth stage of this

study. Eisenhardt (1989:544) notes that ignoring conflicting findings reduces the confidence in findings and challenges internal reliability and generalizability of a theory. Eisenhardt (1989) also argues that conflicting findings provides an opportunity for researchers to think more creatively and innovatively and help enhance the theoretical level and generalizability of data. Similarly, they observe that discussing findings with similar literature helps one to discern underlying similarities in phenomena normally not associated with each other. This enhances internal validity, generalizability and conceptual level of the study because others reached similar findings in different contexts.

Stage 7-8

Stages 7 and 8 discuss the original contribution of this study to knowledge and that includes contributions to theory and implications for business practitioners and policy makers. Major limitations of this study and future research recommendations are also discussed at this point, covered in chapters 12 and 13.

The first and the most important aspect of a research design and methodology is to clarify its underlying research philosophy because philosophical positions can affect the outcomes of a research study (Easterby-Smith, Thorpe and Lowe, 2002; Saunders et al., 2009). According to Easterby-Smith et al. (2002: 27) the main reasons to address the issue of research philosophy are that (1) this helps clarify the research design, (2) it helps identify the right research designs, and (3) it helps the researcher identify and create designs that may be outside his or her past experience.

## 5.2. Research Philosophy

Saunders et al. (2009) maintain that the philosophy we adopt indicates the way we view the world. Traditionally social-science research has been conducted based on two contrasting viewpoints, positivism and social-constructionism (Easterby-Smith et al., 2009; Saunders et al., 2009). These paradigms are delineated on the basis of their ontological, epistemological and methodological characteristics (Burrell and Morgan, 1979). Ontology is the assumption that we make about the nature of reality whereas epistemology is the set of assumptions about the best ways of inquiring into the nature of the world. Methodology is the combination of methods and technique used to enquire about a specific situation (Easterby-Smith et al., 2002: 31). While discussions of methodology often set out comprehensive lists of the assumptions underlying both positions, researchers in practice do not always consistently adhere to one particular position (Easterby-Smith et al., 2002). And that is the reason why, in the 1980s, many researchers began to combine methods drawn from both traditions, naming this as the "pragmatic approach". We will now discuss these approaches in detail and explain the position adopted in this research.

The ontological assumptions of positivism are that the reality is external and its properties should be measured through objective methods. The epistemological assumption underlying positivism states that knowledge is significant only if it is based on the observations of external reality (Easterby-Smith et al., 2009). Positivists assumed that research is value-neutral, where the study is independent of researchers (Gill and Johnson, 2002; Saunders et al., 2009). This view considers that knowledge can be acquired through systematic and scientific instruments because it is real, factual, tangible and exists in the world (Burrell and Morgan, 1979). Researchers, in this case, believe that it is possible to get consistent and

secure objective knowledge and they focus on generalization and abstraction (Carson et al., 2001).

On the other hand, the ontological assumption of social constructionism states that there is no single external reality and its property is measured through subjective methods (Carson et al., 2001:6). Its epistemological position explains that the research focuses on specific and concrete contexts and that phenomenon are measured through researchers' perceptions (Carson et al., 2001). Carson et al. (2001) believe that reality is not objective and external, but is socially constructed and given meaning by people (Shotter, 1993; Easterby-Smith et al., 2002). Since the researchers' interpretation makes meaning, Habermas (1970) also called it an interpretive model. Social constructionists view the world from the subjective point of view. Social constructionists believe that knowledge is intangible and cognitive in nature, which is influenced by the perception of individuals (Perry, Riege and Brown, 1999). Moreover, the researcher is part of the research process; he or she will be fully immersed within the research setting (Saunders et al., 2009). In this approach, researchers try to understand and explain why people have different experiences, rather than search for external causes and fundamental laws to explain their behaviour (Easterby-Smith et al., 2002: 30).

Considering the limitations of both approaches, there have been calls from researchers for the past two decades for combining both methods (Punch, 1994; Bulmer, 1988). They highlight that although the difference between the philosophies of both methods are very clear, all differences fade when it comes to the choice of methods and issues of research design (cited in Easterby-Smith et al., 2002: 41). They observe that the mixed method is very common among researchers who work in organizations and with managers because it provides a more

comprehensive picture of the phenomenon being investigated. However, this mixed method approach does not neatly fall into any given paradigm (Feilzer, 2010).

Tashakkori and Teddlie (1998, 2003) were one of the first ones to provide a philosophical foundation for the mixed method. They proposed a "pragmatic approach" as an alternative perspective. However, there has been disagreement between researchers about accepting a single philosophical stance for mixed methods (cf. Creswell & Plano Clark, 2007; Greene, Benjamin, and Goodyear, 2001). Nevertheless, the pragmatic approach is the most widely accepted paradigm among the mixed method research (Tashakkori & Teddlie, 1998: 29-30; Creswell & Plano Clark, 2007: 26; Feilzer, 2010:7).

Johnson and Onwuegbuzie (2004) mentioned that different approaches should be mixed in such a way that they offer opportunities for answering important research questions. So we can say that pragmatism is the best philosophical position for mixed methods because it helps understand the ways to mix research approaches very effectively (Hoshmand, 2003). The pragmatic view does not support any particular method or methods. Similarly, they do not reject other methods. It attaches importance to the model or models which best help answer the research questions, theory or phenomenon (Creswell and Plano Clark, 2007; Teddlie and Tashakkori, 2009).

Pragmatism helps overcome the logical contradictions of different paradigms (Patton, 1988: 127) because rather than resolving paradigmatic differences, the responsiveness to context forms the foundation for methodological decision-making in this approach (Greene, Benjamin and Gooyear, 2001). Pragmatism abandons the forced-choice dichotomy between post-

positivism and constructivism, and also the contentious issues such as reality and truth. It forms a practical and applied philosophy to guide the methodological choices (Tashakkori and Teddlie, 2003; Creswell and Plano Clark, 2007: 27). The flexibility of the pragmatic approach does not mean that the methods are weak, but researchers have to be very careful about the measurements they are using (Denscombe, 2008: 274). They require a good understanding of both quantitative and qualitative methods, which are normally used in positivism and social constructionism, respectively (Hammersley, 2008:177).

So the ontological position of pragmatism states that single and multiple realities exist and that the explanations to be preferred are those that produce the best outcomes (Tashakkori and Teddlie, 1998; Creswell and Plano Clark, 2007). Pragmatists challenge the incompatibility notion and argue that scientific enquiry is not formalistic and that researchers may be both objective and subjective in epistemological position over the cause of studying a research question (Tashakkori and Teddlie, 1998: 25). Pragmatists highlight practicality, i.e. researchers collect data by what works to address research question (Creswell and Plano Clark, 2007: 27). Pragmatists believe that value play a large role in conducting research, interpreting results and in drawing conclusions from their research (Tashakkori and Teddlie, 1998: 26).

We adopted pragmatic mixed methods mainly because our study is concerned with (1) discovering whether factors such as psychic distance, social capital or learning capability have a role in or influence over SME internationalization (quantitative method overted to prediction) and, if so, then (2) why they have a role, and what lies behind it, requiring a qualitative interpretative approach (overted to understanding logics). Similarly, we used

qualitative interpretive approach to explore how SMEs cope with the impact of psychic distance, and how they develop the social capital and learning capability required for their internationalization. On the other hand, quantitative analysis helped increase the validity of the study.

Furthermore, Hurmerinta-Peltomäki and Nummela (2006) mentioned that since international business research is subject specific and a complex area of research that covers cross-national, cultural, organisational and personal boundaries, the methodological pluralism or mixed method would provide a more detailed and comprehensive picture (Hurmerinta-Peltomäki and Nummela, 2006). As mentioned earlier, pragmatism rejects traditional dualism (positivist/ interpretivist) and prefers more a practical dualism based on how well it solves the problem (Johnson and Onwuegbuzie, 2004). It accepts methodological pluralism (Creswell & Plano Clark, 2007; Tashakkori and Teddlie, 2003; Teddlie and Tashakkori, 2009) and gives importance to the model or models that perfectly help answer research questions, theory or phenomenon (Johnson and Onwuegbuzie, 2004). In addition, this paradigm helps understand the ways to mix research approaches very effectively (Hoshmand, 2003). So we think it is the best philosophical position for our research, which is used both qualitative and quantitative methods in the same way.

## 5.3. Nature of the Study

Broadly, there are three main types of research: exploratory, descriptive and explanatory/ causal (Saunders et al., 2007; Ghauri and Gronhaug, 2010). Exploratory research is useful when a research problem is poorly or very less understood. It is very useful in the early stages of a research to identify and understand phenomena. There will be limited theoretical and

empirical foundations for the research to make predictions and recommendation (Strauss and Corbin, 1990). It helps identify and understand various meanings of individual phenomena and insights that cannot be gained from mere quantitative methods (Mintzberg, 1979). Ghauri and Gronhaug (2010: 56) highlight that exploratory research requires skills such as ability to observe, collect information, and construct explanation.

In descriptive research, the problem is well-structured, precise and well-understood (Ghauri and Gronhaug, 2010). It is suitable for gaining collective information regarding the general characteristics of a population or phenomenon (Saunders, 2007). Similar to the descriptive approach, explanatory or causal research studies are also structured, but researchers are confronted with the relationship between variables to understand the cause and effect problems (Ghauri and Gronhaug, 2010). They observe that the main task of this research is to isolate the causes and to see to what extend the causes influence the outcome. The other two approaches can form the basis for the casual approach.

Since the main aim of this study is to find the cause and effect of various aspects such as internationalization, psychic distance, social capital, learning capability and information communication technologies (ICT). We have looked at the relationships between these aspects in detail to arrive at a conclusion. Besides, the main aim of this research is to develop relationships that emerge from the data, which can be generalized. Considering all these aspects, we can conclude that this research mainly falls under the casual research category. However, the initial 60 interviews with decision-makers of British companies and their partners were of exploratory in nature because there haven't been any prior studies in this context to look at the partnership perceptions. This is consistent with the view that each

approach is very much interrelated.

We used both causal and exploratory research to assess the concept of psychic distance in our initial interviews. The respondents were asked to rate the perceived differences between two countries, their impact on the business, and methods of coping for each of 12 dimensions using 5-point Likert scales. Respondents were at the same time asked to explain and elaborate on the reasons for their assessments, in particular those concerning business impact and coping methods. In this case the Likert scales represent causal research because they look at the relationship between psychic distance, its business impact and coping methods. On the other hand, entrepreneurs' interpretation is exploratory in nature because that explains their perceptions about the difference, impact and how they cope with it.

## 5.4. Research orientations

A particular research orientation prescribes the relationship between methods, data theories and the values of the researcher (Ghauri and Gronhaug, 2010). The main research orientations in business research are deduction and induction (Bryman and Bell, 2003; Gill and Johnson, 2002; Saunders et al., 2009; Ghauri and Gronhaug, 2010). In deduction, a conceptual and theoretical structure are developed before pursuing empirical investigation whereas induction is the reverse of deduction---where conceptual and theoretical structures are developed based on empirical evidence. The main difference is which comes first. In deductive method we test hypotheses that are on logical reasoning. The main process of deductive research starts with the development of hypothesis and will be then tested empirically. The operationalization of hypothesis is more important in the deductive method than their development (Bryman and Bell, 2003). However, in the inductive approach, conclusions are drawn from empirical

observations. In the inductive approach, theory is the outcome of research (Bryman and Bell, 2003). The inductive approach in business studies start with the observation of facts or earlier results followed by the development of propositions and finally theories (Ghauri and Gronhaug, 2010).

The selection of a deductive or inductive approach is influenced by research philosophy and methods. The deductive approach largely are quantitative in nature (positivist) whereas inductive approach are more qualitative (social constructionism)--where theories are developed from empirical data (Gill and Johnson, 2002; Saunders et al., 2009). However, Child (2011), by citing that Darwin's Theory of Evolution was developed from empirical observation, but is based on positivist paradigm, argues that a rigid distinction between philosophical and methodological positions of deductive and inductive approaches is not possible. Similarly, Popper (2002) views that deductive theories can be refuted by a single case study. Considering the complexities, Bryman and Bell (2003) argued that both deductive and inductive approaches should be treated as tendencies rather than a rigid distinction. Creswell and Plano Clark (2007) mentioned that since the researcher is combining both qualitative and quantitative approaches, the inductive and deductive approaches also could be combined in pragmatism.

The first stage of this study will involve primarily qualitative research, which is inductive in nature because it provides the necessary empirical information on internationalization and the opportunities and challenges for British SMEs' internationalization to India and vice-versa. This will support as a source for generating hypotheses and to develop questions for a later survey. This is consistent with Ghauri and Gronhaug's (2010) view that the induction

approach in business studies starts with the observation of facts or earlier results followed by the development of propositions. While the second stage of the research---the quantitative method--is purely deductive in nature because it is based on a priori theoretical framework and the empirical evidence obtained from the initial qualitative study. Pragmatism as a research philosophy allows the study to include both inductive and deductive approaches (Creswell & Plano Clark (2007).

## 5.5. Research Methods

Our research philosophy, pragmatism, as Creswell & Plano Clark (2007) and Teddlie & Tashakkori (2009) call it, attaches importance to the model or models, which best help answer research questions, theory or phenomenon. It allows studies to mix both inductive and deductive orientations as well as qualitative and quantitative methods. So there is a wide range of methods available for us to select from in order to investigate the internationalization of British and Indian SMEs to each other's market. The principal methods available are the experiment, survey, case study, grounded theory, ethnography, and action research (Saunders et al., 2009; Ghauri and Gronhaug, 2010). Easterby-Smith et al. (2002) classified these methods based on research philosophies and researcher involvement in each method, as figure 5.1.

Figure: 5.1. Research methods vs. research philosophy


Source: adapted from Easterby-Smith et al. (2002)

After a detailed consideration of each method, and taking account of the nature of our study and research objectives, we decided to adopt two methods, which are case study and survey. The researchers' involvements in both methods are detached (Easterby-Smith et al., 2002), but case study methods are generally qualitative and the survey method is a quantitative technique. This strengthens our philosophical viewpoint. As Denzin and Lincoln (2000:3) observed, qualitative researchers "study things in their natural settings, attempting to make sense of or interpret phenomena in terms of the meanings people bring to them". So an initial-stage qualitative study helps an exploration of relatively unknown perceptions of internationalization and promises to provide a second platform for a later survey. On the other hand survey would be the best method to check and analyse a research framework and its related hypotheses arising from the qualitative phase, which help generalize the findings. The next paragraph will make an analysis of the research methodology adopted in this study.

As Cunningham et al. (2000) mentioned research methodology is very important in determining the quality and reliability of a study. A small change in methodology can result in a completely different image of the phenomenon. However, researchers observe that most research methods are not absolute and perfect (McGrath, 1981). This supports the idea of methodological pluralism (Hurmerinta-Peltomäki and Nummela, 2006; Creswell and Plano Clark, 2007). Hurmerinta-Peltomäki and Nummela (2006) emphasized the importance of pluralism in international business research because it is a complex subject area, and it covers cross-national, cultural, organizational and personal boundaries. However, methodological pluralism has not been very common in international business research (Werner, 2002). It combines the quantitative (numbers, trends, generalizability) and qualitative elements (words, context, meaning) in data collection and/or analysis. This helps improve the validity of an investigation (Bryman 1992, Creswell and Plano Clark, 2007), and offers a better understanding of the subject (Newman et al., 2003).

According to Bryman, (1992), different ways of combining qualitative and quantitative research are (a) quantitative and qualitative approaches can be combined in order to provide a more complete picture, i.e. one approach is used to plug the gaps in the other; (b) the strength of quantitative research in laying bare the structural features of social life can be combined with its counterpart's strengths in discovering process-related aspects; (c) qualitative research can be used as a facilitator for quantitative studies;(d) qualitative research provides the necessary theoretical background and contextual information, thereby functioning as a source for generating hypotheses.

Creswell and Plano Clark (2007) suggested different ways to combine qualitative and

quantitative methods, which can be broadly classified as concurrent and sequential data collection. The concurrent methods are triangulation and the embedded method in which both the quantitative and qualitative data will be collected concurrently. However, in sequential methods one approach will follow the other, which is sequential exploratory and sequential explanatory design. In triangulation, the information will be converged to make comparisons between detailed contextualized qualitative and quantitative data whereas embedded method gives emphasis to only one approach at a time. In the sequential exploratory approach, qualitative data collection is followed by a survey where qualitative findings are either used to develop quantitative measures, if the existing information is limited, or to generalize the qualitative findings that are from small number of samples, through a randomized survey among larger population. Sequential explanatory design is just opposite to sequential exploratory design, where quantitative data collection will be conducted before the qualitative.

We believe that the first and the last ways of combing qualitative and quantitative research identified by Bryman (1992) and the sequential exploratory design of Creswell and Plano Clark (2007) are relevant to this study because these designs provide a complete and comprehensive picture of the research being conducted. Also, the preliminary qualitative research will provide necessary theoretical and empirical information about internationalization, its opportunities and challenges of the British and Indian SMEs, which will act as a source for generating hypotheses and effective development of survey instruments (Birkinshaw, 2004). There are several advantages in combining both qualitative and quantitative methods. Bryman (2004) provides two significant methodological justifications for such a combination: first, to capitalize on the strengths of the two

approaches, and to compensate for the weaknesses of each, and secondly, to consider the practical issues and context of the research.

### 5.5.1. Case method

Yin (1994) mentioned that the case-study method is suitable for any research that seeks to address the questions, "how" and "why". Ghauri (2004) broadened this by adding "what". This method is inductive in nature where the investigators' control over events is limited (Easterby-Smith et al., 2002). Case-study research is mainly associated with exploratory or descriptive research (Ghauri and Gronhaug, 2010). However, Yin (1994) has talked about successful explanatory/causal case studies as well. The method used is mainly qualitative field-based analysis of case studies (Ghauri and Gronhaug, 2010: 109). The primary data collection methods of case studies are observation and personal interviews. In addition, case studies also use secondary sources such as financial reports, archives and so on. The most important characteristics of the case-study research are intensive study of the research object, individual, group, organisation, culture, incident or situation (Ghauri and Gronhaug, 2010). Case studies can be used to explain presumed causal links/causal powers in real life contexts which are too complex for survey or experimental strategies (Yin, 1994). So we can argue that case studies help overcome the major weakness of the survey method.

We have adopted the multiple-case-study approach as our preliminary data collection technique. We conducted an exploratory qualitative personal interview with decision-makers of 30 British companies and their partners in India (total 60 cases) to explore the opportunities and issues associated with their internationalization to each other's market. Multiple-case analysis helps compare sites or cases and to establish the range of generality of a finding or

explanation---and at the same time it pins down the conditions under which that finding will occur (Miles and Huberman, 1984: 151). They also mentioned that it has greater explanatory power and greater generalizability than a single case. Similar to experiments, the generalizability in case studies is theoretical generalisation, not population generalisation (Yin, 1994).

Qualitative methodology permits the researcher to build up meaningful descriptions of phenomena rather than testing hypotheses. This research is aimed at exploring an inter-partner perception on relatively unexplored areas such as internationalization, perceived psychic distance, its business impact and coping methods, building social capital and learning capability relevant for internationalization to each other's market. Qualitative methodology offers the most effective research approach to assessing inter-partner perceptions because as Marshall and Rossman (1999) explained, qualitative studies are descriptive and exploratory in nature and help build rich descriptions of complex circumstances that are largely unexplored. Since inter-partner perceptions concerning the role of psychic distance, building of social capital, learning capability development and internationalisation strategies between two countries are not explored much so far, we believe that as a preliminary stage, qualitative analysis would provide a rich data that would help broaden the existing literature and also provide a strong foundation for further analysis (Creswell, 1998; Marshall and Rossman, 1999). This, according to Yin (1994), acknowledges the issues of validity and is one of the major strength of the case study research.

We adopt the exploratory case study mainly because the proposed research aims to break new ground in a number of ways, given that inter-partner perception about internationalization,

psychic distance, its coping methods, building of social capital and learning capability have not previously been much explored. Exploratory case-studies help understand the phenomenon in an enhanced and understandable manner (Birkinshaw, 2004). This is particularly useful when the researchers lack a clear idea about the problem, when the area of investigation is vague or new, and when its real scope is yet unclear (Cooper and Schindler, 2001 and Robson, 2002). Exploratory studies are a valuable means of finding out what is happening; to seek new insights; to ask questions and to assess phenomena in a new light (Saunders et al., 2009).

In the qualitative part of the research, we collected data from only one respondent in each company, primarily because only one person is involved in the international business activities of most of these companies. Moreover, as Perry (1998) observed, collecting information from more than one person in Asian small and medium businesses is normally difficult. In order to match the sample with India, we interviewed only one person from each company.

### 5.5.2. Survey research

A survey methodology is used for the quantitative, or the second, stage of our data collection. Quantitative research can be defined as a research strategy that is based on hypothetical deduction and statistical analysis (Mehmetoglu, 2004). The survey is the most common data-collection method used in quantitative research (Saunders et al., 2009). It is defined as "a systematic method for gathering information from (a sample of) entities for the purposes of constructing quantitative descriptors of the attributes of the larger population of which the entities are members (Groves et al., 2004: 3)". The most common techniques used to collect

the response in survey are questionnaire and interview (Easterby-Smith et al., 2002; Ghauri and Gronhaug, 2010). Surveys and interviews are the most common data-collection methods used in business studies (Ghauri and Gronhaug, 2010).

The two main types of survey research are descriptive and analytical (Gill and Johnson, 2002; Ghauri and Gronhaug, 2010). Descriptive surveys are used for assessing particular characteristics of a specific population of a subject, either at a fixed point of time or varying point of time for the purpose of comparison (Gill and Johnson, 2010). On the other hand, the aim of analytical surveys is to test theory---or to take the logic of experiment out into the field (Gill and Johnson, 2010; Ghauri and Gronhaug, 2010). Here, conceptualizing and structuring of the research emphasize the development of independent, dependent and extraneous variables (Gill and Johnson, 2010). Gill and Johnson (2010) mentioned that these processes should be undertaken looking at existing literature and theory related to the problem. We shall use the survey method to simplify complex information such as comparison of variables, internationalization strategies, psychic distance and its impact, inter-partner trust, learning capability and the use of ICT between British and Indian companies. Also, we use it to test hypotheses concerning the relationship between variables and to validate our conceptual model. So we can conclude that the survey research of this study is both descriptive and causal in nature.

According to Ghauri and Gronhaug (2010), there should be an a priori assumption or hypothesis, which would be to help researchers acquire knowledge about what information they want and who should be their respondents. Another important thing researchers have to be careful about is the means of administering the questionnaire. A survey can be conducted

face-to-face, over telephone, mail or online (Gill and Johnson, 2010; Ghauri and Gronhaug, 2010). Ghauri and Gronhaug (2010) mention the merits and demerits of these methods. Online and mail surveys are cheap, but are always time-consuming. On the other hand, face-to face and telephone surveys are expensive, but are more effective and will produce higher response rate risk of greater bias. Location, sample size financial resources and complexity of information required may also influence the method chosen (Ghauri and Gronhaug, 2010).

This study adopted both drop- and-collect survey (DCS) and email survey methods because the responses for online surveys in India were very poor so as DCS method suggests we hired a trained assistant to drop and collect the questionnaires. As Ibeh, Brock and Zhou (2004: 156) mentioned drop-and-collect survey (DCS) is similar to face-to-face surveys, "where the researcher(s) and/or properly trained field assistants in personally delivering - and later collecting - the survey instrument (the questionnaire) either directly to the target respondent or indirectly via a gatekeeper (e. g., a secretary)". We used the help of gatekeepers in both the UK and India to access the companies. Due to data protection legislation, they could not reveal company information but they posted the questions online on our behalf. Similarly, we conducted online surveys with companies with whom we had prior contacts.

Since our initial qualitative research was conducted on a limited number of companies (30 British companies and their 30 partners in India) from just five sectors, the target was to conduct the survey research with 100 companies each from the UK and India so as increase the validity and reliability of the study.

## 5.6. Design of case studies

The case studies in this research are based on in-depth, semi-structured interviews with managers of 30 British SMEs and the same number of their partners in India. The main purpose of qualitative research is not to reach statistically valid conclusions but to provide theoretical explanations through the researchers' insights and understanding. The sampling issues in these studies are mainly to understand who and how many should be included (Bryman and Bell, 2003; Ghauri and Gronhaug, 2010). So the sampling procedures are mainly theoretical or purposeful sampling (Easterby-Smith et al., 2008; Bryman and Bell, 2003; Ghauri and Gronhaug, 2010). This means the samples are mainly selected for theoretical reasons or particular criteria or purpose (Ritchie, Lewis and Elam, 2003). This sampling allows for the existence of multiple realities that are strongly associated with participants' actual experiences (Lincoln and Guba, 1985).

As Miles and Huberman (1994) suggested, we have developed a sampling parameter based on the research questions and prior theorization. As they suggested, it is classified into settings, actors, events and processes.

### 5.6.1. Research settings

We have located participants from 30 British SMEs and their 30 principal transactional exchange partners in India, who can provide rich and detailed information about issues associated with internationalization. We followed the European definition of SMEs, 250 employees or less. The second criteria were related to their business links; we included only British companies with business links in India and vice-versa.

The study selected samples from five different sectors, which included both manufacturing and service sectors, in order to ensure heterogeneity (Ritchie, Lewis and Elam, 2003) and maximum variation (Miles and Huberman, 1994). This helps identify important common patterns. Eighteen cases were from service industries, which include eleven information and communication technology (ICT) companies, four finance and legal services companies and three real-estate companies. The twelve manufacturing companies include two oil and gas companies and ten textile companies (Table. 5.2). The samples are matching as between Britain and India because they are partners.

Table: 5.2. Profile of respondents

| Sectors | Number of Companies | |
|---|---|---|
| | Britain | India |
| ***Service sector*** | ***18*** | ***18*** |
| ICT companies | 11 | 11 |
| Financial and Legal services | 4 | 4 |
| Real estate | 3 | 3 |
| ***Manufacturing sector*** | ***12*** | ***12*** |
| Textile companies | 10 | 10 |
| Oil and Gas | 2 | 2 |
| ***Total*** | ***30*** | ***30*** |

### 5.6.1.1. Actors

We have selected only those participants who deal with their international business activities. Eighty percent of these respondents were involved in their companies' initial internationalization activities. The respondents include chairmen, founders or CEOs of companies. In the ICT sector, most of the Indian branches are only software development centres of their UK head offices. In such cases, the respondents are technical people who managed those offices.

The company profile (Table. 5.3) reveals that the average number of employees in the British SMEs is less than that in the Indian companies. The average percentage of foreign sales to total sales is higher for Indian companies (88%) than for the British companies (30%), mainly because most of the Indian ICT and textile firms are 100% export units. The Indian companies primarily export to the UK (71% of total exports) and therefore the value of their exports to the UK is significantly higher than the value of British companies' exports to India (3%). Zero percent foreign sales/sales to India for British companies indicate that firms were only importing goods or services (like ICT) from India.

Table: 5.3. Profile of firms

| Parameter | British firms | Indian firms |
|---|---|---|
| Employees | Range: 1-225<br>Average: 37 | Range: 15-275<br>Average: 98.40 |
| Annual sales turnover (£m) | Range: 0.05-7<br>Average: 1.76 | Range: 0-3.50<br>Average: 1.56 |
| Percentage of foreign sales | Range: 0-60<br>Average: 30.0 | Range: 40-100<br>Average: 87.70 |
| Percentage of sales to India/Britain | Range: 0-25<br>Average: 3.57 | Range: 10-100<br>Average: 71.10 |

### 5.6.1.2. Events

The main events in the sampling process were identifying and accessing companies, and selecting respondents. Companies are identified and accessed through several sources such as gate keepers, snowballing and personal contacts. The gate keepers' are individuals and their details are not presented in this thesis because they asked not to be named in order to preserve confidentiality. Internet searching and direct contacting through email and telephone were another technique, which mainly involved accessing the web sites of trade agencies in both countries, such as UKIBC, Birmingham Chamber of Commerce, City of London, CII, and

NASSCOM. However, due to the Data Protection Act, none of the UK agencies provided databases of British companies internationalizing to India. On the other hand, in India, no formal databases about Indian companies doing business in the UK were available.

Snowballing was the other main method (Easterby-Smith et al., 2002), which was very effective in getting introductions to the partner. Thirteen British companies and 17 Indian companies introduced me to their partners in India and the UK, respectively. I used my personal contacts and other references to access 17 companies in India.

#### 5.6.1.3. Process

All the companies were first contacted through email with a covering letter explaining the main aim of the study and my details. The letter clearly stated that those who wished to answer questions on condition of anonymity could do so. A personal telephone call was made in a few days to confirm the acceptance of the email. In the first stage, we contacted around 90 British companies, located all over the UK, identified through personal contacts, gate keepers and internet search---but we managed to get access to only 15 of them; two companies were not included because they did not allow recording of the interview. Then as mentioned earlier, another 22 companies were accessed in India after contacting 120 companies-- through personal contacts, gate keepers (individuals) and internet search. They are located in different locations such as Kerala, Delhi, Mumbai, Chennai, Bangalore, Gujarat and so on. Five companies are excluded because two of them did not allow tape-recording of the interview and three others could not be classified as small and medium companies. So the total sample size of this study is 60 companies.

### 5.6.2. Data collection

The qualitative study used exploratory semi-structured interviews to collect data, which according to Creswell (1998); Marshall and Rossman (1999); Patton (1990) and Saunders et al. (2003), is the primary data collection tool in qualitative research. Semi-structured interviews start with a prior set of questions and themes but the questions may vary and additional interview questions are likely to arise during the course of the interview (Saunders et al., 2009). The main focus of this research is on the process of internationalization, specifically on internationalization strategies, the issues of psychic distance, social capital and learning capability in the internationalization of British and Indian SMEs. We also explored the influence of ICT facilities in the internationalization decisions of these SMEs.

The study adopted a "general interview guide approach" (Patton, 1990) for conducting interviews, which will address validity concerns (Miles and Huberman, 1994). This involved the development of an interview checklist that outlined a set of issues to be explored with each interviewee. The interview checklist had six main questions and several supplementary questions to explore further details (see Appendix 1). Apart from soliciting comments on the checklist from two other senior academics working in the area, eight pilot interviews were also conducted with decision-makers from both the UK and Indian companies to ensure the relevance and clarity of the interview check list.

The length of interviews ranged between 60 and 90 minutes. While answering questions, respondents were asked to talk at length about their company's internationalization strategies, issues of psychic distance, social capital and learning capability and the influence of ICTs. This procedure was intended to capture the deep meaning of respondents' experience in their

own words and to reduce the risk of interviewer's prejudice (Marshall and Rossman, 1999).

The interviews were conducted in the field, i.e. face-to-face at the interviewees' premises. These interviews were conducted in English, but on two occasions in India, as I can speak the regional language, in order to extract maximum information, the respondents were encouraged to speak in their regional languages. All Interviews were audio-taped so that I could focus on the narratives that emerge from a full record of each interview.

### 5.6.3. Data analysis

The analysis of qualitative research involves three main steps: step 1 involves summarising, categorization and coding of the data. Step 2 involves aggregating the data and identifying themes and trends in the overall data, and the third step focuses on drawing conclusions and developing the theoretical framework (Miles and Huberman, 1994; Yin, 2003). Miles and Huberman (1994) call this the process of analytical abstraction. They also observed that even if these steps are structured and analytically different, the qualitative analysis is an intertwined and iterative process. They defined the qualitative analysis or analytical abstraction as a series of analytical process that condense more and more data into more and more coherent understanding of what, how and why (p. 91), which are the main characteristics of exploratory qualitative studies.

Due to the high volume of data, we required an appropriate programme to help organize the data. So we have used the qualitative data analysis software Nvivo 8 for the whole data. Previous research has indicated the merits and demerits of using software aided data analysis in qualitative studies (e.g. Bryman and Bell, 2007; Silverman, 2009). Bryman and Bell (2007)

and Silverman (2009) observed that it simplifies and facilitates refining of large voluminous data. It also enables data retrieval i.e. help retrieve previous coded data and also facilitate search function, and simplifies data comparison (within and between cases) because it helps researchers assign attributes to data. On the other hand, one of the major issues was over-quantification of data, which sometimes ignore the values in the data. Also, it ignores the contextual factors that would indulge qualitative characteristics of the data (Bryman and Bell, 2007). It could also become theoretically mindless (Child, 2011). Nonetheless, we think its merits outweigh the demerits. Moreover, we have taken careful attention to overcome these issues in using the software. The following sections will discuss the three major data analysis steps mentioned above.

#### 5.6.3.1. Summarizing, categorization and coding of the data

The first step in data analysis is the transcription of case interviews. I transcribed all the 60 interviews using Nvivo transcription option, which ensures that no information is missed out (Strauss and Corbin 1990). As Miles and Huberman (1994: 56) mentioned, it helped us in getting familiar with and understanding the data. All the transcribed data are then categorized and coded. Coding is the first analytical method used in the qualitative data, which, according them, is the analysis of differentiating and combining retrieved data and making reflections of this information.

Codes, according to Miles and Huberman (1994: 58) are the labels for assigning the units of meaning to the descriptive and inferential information compiled during the study. The data encompass 30 British and 30 Indian interview transcripts. At the end, the British and Indian data produced 102 and 97 nodes of meaning, respectively.

The research questions, hypotheses, and key variables of a study influence the coding process (Miles and Huberman, 1994, p. 56). The three main coding development approaches are (1) theory-driven, (2) inductive and (3) prior data/prior research-driven approaches (Portaleoni, 2011:220). The theory-driven approach develops codes from existing theories whereas inductive approach derives codes from empirical data. The prior data/prior research-driven approach develops the coding before collecting the data (Portaleoni, 2011:220). We adopted the second and third approaches to code the data. We have developed provisional or start list categories and codes prior to the data collection, which is derived from the review of prior studies and research questions. This helped simplify the initial complexity of coding 30 interviews, which are arduous to analyse and interpret. Nonetheless, the researcher improved the coding schemes whenever new insights arose. However, we followed an open coding process (Corbin and Strauss, 1990), which is purely inductive in nature (Boyatzis, 1998: 29-31), to code the concepts such as building of social capital and coping with psychic distance that are less explored in previous studies.

To facilitate the whole coding, we used content analysis, which, according to Holsti (1969: 2), "is a multipurpose research method developed specifically for investigating any problem in which the content of communication serves as the basis of inference". Content analysis is the organized, replicable technique for reducing many words of text into smaller amount content categories based on explicit rules of coding (Stemler, 2001 and Weber, 1990). "Manifest" and "latent" are two content analysis methods. Manifest analysis is associated with the quantitative aspect that looks at the number of times different themes or words appear or in what context it appear. On the other hand, latent content analysis is more qualitative in nature

(Boyatzis, 1998, pp. 16-17). We used both manifest and latent content analysis methods because apart from looking at the numbers and situation, we have tried to interpret the meaning behind the response. The issues such as internationalization strategies, perceived psychic distance and its impact, and role of ICT were familiar to respondents. However, the coping of psychic distance, building of social capital and learning capability development were not a familiar to respondents and so the researcher had to interpret the meaning from the close and careful observation of responses.

Following several iterative process of abstraction, we developed 102 codes for the UK data and 97 codes for Indian data. The codes were descriptive and inferential, which reflect the research questions (Miles and Huberman, 1994).

#### 5.6.3.2. Aggregating the data and identifying themes and trends

The coded data were aggregated to identify the patterns and to get a better understanding about the phenomena. Clustering the data and developing matrixes are two data-aggregating methods (Miles and Huberman, 1994). Clustering is the identification of patterns within the coded data. In this stage researcher logically identified patterns and grouped them into different clusters (Bryman and Bell, 2003). The Nvivo simplified the clustering of data. Its data retrieval function helped identify the patterns and we then clustered them into tree nodes. This enabled further interpretation of the data.

As Miles and Huberman (1994) suggested, we have also used matrixes to check the meaning associated when crossing various cases or dimensions of variables. We mainly used matrixes to compare the patterns between variables and the difference in the UK and India data sets (Saunders et al., 2009).

#### 5.6.3.3. Drawing conclusion and providing theoretical contributions

The final stage of qualitative data analysis includes drawing conclusion and developing theoretical contributions. It is the most challenging phase of qualitative research (Eisenhardt, 1989: 539). Drawing conclusions and explanations are done through finding causal relationship between variables. However, we have used frequency analysis to identify the importance of different clusters. These clusters and matrixes are closely and carefully observed to identify the relationship between different variables and to provide theoretical contributions. However, Eisenhardt (1989) emphasized that the data should be looked through different ways to provide explanations and develop theoretical contributions. Yin (1994) suggests two different ways to draw conclusion from and develop theoretical contributions, pattern matching --- where actual and expected patterns are compared and rival explanation approach. In this study we used both methods. We compared the actual and expected patterns and rival explanation approach to build some theoretical propositions.

### 5.6.4. Evaluation criteria of qualitative findings

The scientific quality of a research study is judged by certain criteria. Lincoln and Guba (1990) and Yin (2003) emphasize that the credibility of a research is decided by the standard of quality demanded by the basic research philosophy. Which means the criteria used for evaluating the credibility of qualitative studies is different from those applied to quantitative

studies (Bryman and Bell, 2007). Silverman (2009:174) pointed out that similar to quantitative analysis, validity and reliability are the criteria used to for the evaluation of qualitative data, too. However, how these can be applied to qualitative analysis still remains a matter of debate (Bryman and Bell, 2003). Guba and Lincoln (1989) argue the need for separate evaluation criteria for case research because it adopts a totally different philosophical viewpoint. On the other hand, some researchers believe that both criteria can be applied in qualitative approach as well (Lecompte and Goetz, 1982; Saunders et al., 2003; Silverman, 2009: 275-285). In order to keep the discussion consistent with the mixed methodology and pragmatic paradigm, we adopt the criteria of validity and reliability, to evaluate the credibility of the qualitative findings.

#### 5.6.4.1. Validity

The validity of findings is related to scientific standard of a research such as its "correctness", "precision" or "accuracy" (Lewis and Ritchie, 2003). This reduces the errors associated with data collection and ensures precise results. We used construct, external and internal validity techniques to satisfy the scientific quality of this research, along the lines suggested by Eisenhardt (1989) and Yin (1994).

##### 5.6.4.1.1. Construct validity

This looks at whether the tools used in the research actually measure the concept being studied. Ellis (1995: 134-135) suggested three procedures to show that the operations measure the concept. These are selecting multiple data sources, which can benefit from multiple measures about the same phenomena. The second method is maintaining a chain of evidence throughout the study. It helps the reader understand how the evidence collected addresses the

research question and contributes to the conclusion drawn through providing access to interview guide, and sufficient citation in the case reports to the evidence contained in the database. The third technique is to have respondents review the transcript or case report. In this research, we applied the second and third techniques. We showed the chain of evidence by including the interview guide and citing the evidence in the database in the case report. Similarly, we sent interview transcripts to respondents to see if there was any disagreement or need for clarification. Only four respondents provided some clarifications about their responses.

#### 5.6.4.1.2. Internal Validity

Internal validity refers to the problem of making interpretation (Kirk and Miller, 1986). Hammersley (1992: 69) mentioned that "an account is valid or true if it represents accurately those features of the phenomena that it is intended to describe, explain or theorize". The two types of inferences are statistical and causal inference (Mitchell, 1983). Since the case study addresses the questions, why, how and what, it is concerned with causal inference, which is based on the plausibility of inferences rather than the representativeness of the sample (Mitchell, 1983: 179). As Ellis (1995) suggested, the preliminary findings were discussed with other scholars in the area. Their suggestions were incorporated in the analysis and a final conclusion is arrived at after several iterative refinements. Also, we compared our empirical findings with the prior defined theoretical models (Campbell, 1966; Ellis, 1995).

#### 5.6.4.1.3. External Validity

External validity refers to the extent to which the findings can be generalized beyond the scope of the study (Bryman and Bell, 2003:34) Case studies are always criticized for small

sample size and their generalizability when compared to survey. However, as mentioned earlier, case research always aims at analytical generalization rather than statistical generalization. A prior articulation of a theoretical framework and its underlying theories facilitate generalizing to further cases (Yin, 1994). So we adopted a theoretical sampling technique to ensure the theoretical generalizability and the external validity of the case methods used in this study. As Glazer and Strauss (1970) suggested, we have selected the samples for theoretical reasons and predictions rather than statistical reasons and empirical predictions. The samples selected are consistent with similar studies in the subject, which ensure external validity. Furthermore, here we have not used data for testing the theory as in a survey method, but to explore the data inductively to provide further information for future investigation.

#### 5.6.4.2. Reliability

The underlying principle of reliability is "whether the result of the study is repeatable" (Bryman and Bell, 2007: 40). It is related to the issues of consistency of measures. Reliability helps minimize the errors and bias intrinsic with the study. Therefore, the researcher has to make sure that there is continuity in the process, between data collection consisting in the method of interviewing and analysis and the presentation of findings (Boyatzis, 1998). Therefore, other researchers or auditors following the same procedure should obtain a similar result. The researcher employed same tactics to overcome the issues of reliability in case research---which is following a strict replicable protocol, such as using an interview check list or a field guide in data collection and considering the inter-coder reliability (Yin, 1994; Miles and Huberman, 1994; Silverman, 2009:287).

Miles and Huberman (1994) emphasized that a protocol is important to ensure the reliability of the case research, especially if it is a multi-case study method. It acts as a replication guide for the researcher that ensures stability in data collection. As said earlier, in this research we used an interview check list, which had main questions and supplementary questions that guided the whole data collection process and data reporting. In addition, the study presented the verbatim data to illustrate and support the final codes presented in this study.

Inter-coder reliability is the other main technique used to ensure the reliability of the case method research in this study (Bryman and Bell, 2007: 163). Case study analysis involves a great deal of subjective judgments about data--something that can raise the issue of inconsistency. Therefore, as Bryman and Bell (2007) suggested, we used multiple coders to check if the data is understood, interpreted and coded consistently. Two coders (analysts) with diverse background (an entrepreneur and an academic) were selected, and neither of them had any prior association with this research. It was easy to train the analysts because we have a clear and standard analytical protocol. The two analysts agreed with the researcher to a great extent (80%). There was some disagreement between the analysts about issues such as coping with psychic distance and social capital development and maturity. These were rectified through discussions with them. The research supervisor also made an in-depth examination of the whole analysis, coding and interpretation.

## 5.7. Design of the survey research

As mentioned earlier, we conducted a questionnaire-based survey research in the second stage of our data collection. The main aim of this questionnaire was to test the hypotheses (see chapter 10) developed from both the review of previous studies presented in chapters 2, 3 and

4 and the results obtained from the qualitative semi-structured interview. The three main steps of this survey research are sampling, questionnaire design and data collection, and data analysis. The study adopted a cross-sectional design because it represents the population at a specific point of time (Saunders et al., 2003).

## 5.7.1. Sampling, questionnaire design

### 5.7.1.1. Sampling

Sampling is one of the key elements of survey research. It is the process of selecting a small subset of the population (Fowler, 2002: 5). According to Alreck and Settle (1995: 451) the population is the definition of all those people or elements of interest to the information seekers and from among whom the sample will be selected. Developing a sampling frame is one of the main sampling activities. It is a list of all those who are in the population. It provides an accurate list of the population; the procedure simply involves drawing a sample from the list using an appropriate method (Jones, 1998).

As in the qualitative case research, samples in the survey research were also British and Indian companies. However, due to accessibility and other practical difficulties, we could not select SMEs which were direct transactional partners. Since we accessed the companies mainly through two gatekeepers in the UK and three gatekeepers in India, we did not have direct contact with the companies to request them to introduce partners.

The main sample selection criteria for this stage of data collection were: it should be an SME (<250employees), and should have business links with each other's market (Britain and India). The survey research was not restricted to any particular sector. As a first step in data

collection we contacted three agencies in the UK to request a database of SMEs. They are UK Trade and Investment (UKTI), the India Pakistan Trade Unit (IPTU) of the Birmingham Chamber of Commerce and the East Midlands India Business Bureau of the East Midlands Development Agency (EMDA). However, due to the Data Protection Act in the UK, they could not disclose the details of these companies. Instead IPTU and EMDA suggested that they could send the online questionnaire to their member organizations and act as intermediaries (gatekeepers).

On the other hand, in India, there was no formal database of SMEs doing business with the UK. Therefore, we used the support of three gatekeepers and direct accessing of firms. The gate keepers were the CEO of an IT cluster in Kerala, a senior software professional and a senior official in the ministry of industry. They helped open channels to gain access to companies through their personal and professional contacts. As mentioned earlier, we used both online and face-to-face data collection techniques in India.

We could not develop a formal sampling frame because information on the total population of SMEs was not available in either country. Thus prevented the possibility of producing a comprehensive probabilistic sample. Therefore, we selected a non-probability sample, which according to Bryman and Bell (2003) is a type of sampling procedure in which the segment of the population selected for investigation has not been selected using a random selection method. Non-probability sample does not allow the inference of data from the sample to the general population. The main non-probability sampling techniques are convenience, snowball and purposeful sampling techniques. In this research, as mentioned earlier, we selected the firms that were accessible through either the support of gatekeepers' or personal relationship.

Therefore, we could say we adopted a convenience sampling method.

In total, we contacted 1,250 companies in the UK and around 450 companies in India and received 104 responses from British companies and 101 from Indian companies. This means the response rate for British companies is 8% and Indian companies 22.4%. Indian responses were high because the individual gatekeepers provided a personal link to companies and also 25 responses were collected directly through a drop-collect-survey method (DCS).

### 5.7.1.2. Questionnaire Design

#### 5.7.1.2.1. Variables and measures

In parallel to drawing a target sample for our survey, we developed a questionnaire based on the previous literature discussed in chapters 2, 3, and 4 and the empirical results of our initial case study research. The questionnaire is divided into eight sections. We first asked about company and personal characteristics of the respondents. The following sections covered issues such as companies' mode of internationalization, perceived difference and difficulties in doing business in the UK or India, relationship with partner in the UK or India, the impact of perceived difference, information management or the learning capability of the company and finally we asked about the role of ICT in setting up and maintaining their international business.

The questionnaire has both open-ended and closed-ended questions. The closed-ended questions include dichotomous, multi categorical and 5-point Likert scales. A copy of the questionnaire can be found in the Appendix 2.

The variable factors influencing internationalization are measured using a 5-point Likert scale. These 15 items are identified through literature review (e.g. Burgel, 1999; Child et al., 2009; Jones, 1998) and our initial case research findings. The respondents were asked to rate the importance of each of them. The mode of internationalization (mode of entry) is a multi (7) categorical variable in which the respondents had to select the most appropriate one. It was also developed through both sources. For psychic distance, the respondents were asked to rate the differences between both countries, its impact on their business using a 5 point Likert scale, which is adapted from Child et al (2009).

The variable social capital with the partner in our a priori framework includes closeness of relationship with partner, inter-partner trust and cognitive social capital. The item closeness of relationship with partner, which is developed from our initial case research findings, is a categorical variable and the respondents were asked to select the category that fits with their relationship with partner. On the other hand, inter-partner trust, which is adapted from Mayer et al. (1995) was assessed through a 5- point Likert scale question, where the respondents were asked to rate the statement about their trust relationship with partner. Cognitive social capital is a 5-point Likert scale question where the respondents were asked to rate the importance of various elements of cognitive social capital developed from Nahapiat and Ghoshal's (1998) and our initial case research findings.

The variable learning capability consists of 15 items, which were developed from Zahra and George's (2002) absorptive capacity concept. The respondents were asked to rate the extent to which they agree with these 15 learning activities in a 5 point Likert scale.

The variable use of ICT facilities was developed from the findings obtained from our initial case analysis. We asked the respondents to rate the importance of different ICT facilities to maintain their relationship with partner. The respondents were asked to rate the importance of ICT in 8 different activities.

The summary of variables, measures and sources are provided in Table 5.4.

Table: 5.4. Summary of variables, its measures and sources

| Variables | Measures | Source |
|---|---|---|
| Foreign commitment modes | Direct exporting (to foreign customer)<br>Direct Importing<br>Foreign Agent<br>Foreign Distributor (sells on a regular basis)<br>Foreign Subsidiary (wholly owned)<br>Foreign Subsidiary (joint venture)<br>Strategic Alliance (Non-equity)<br>Licensing<br>Software development centre | Burgel (1999); Jones (1998);<br><br>Findings of the previous qualitative findings |
| Factors influencing internationalization | Need for long term growth<br>Limited opportunities in domestic market<br>Fast growing economy<br>Knowledge of the language<br>Managers' previous experience<br>Managers' network in India/UK<br>Companies' business links with India/UK<br>Links provided by leading Customers/suppliers/competitors<br>Indian origin founding members/partners<br>Studied in India/UK<br>Create an international reputation<br>Unique product/technology | Burgel (1999); Child et al. (2006); Jones (1998);<br><br>Findings of the previous qualitative findings |

| | | |
|---|---|---|
| | Cost effectiveness<br>Institutional support in the UK<br>Institutional support in India | |
| Psychic distance | Geographic distance<br>Cultural distance<br>Language difference<br>Level of education<br>Level of technical development<br>Level of economic development<br>Logistics and infrastructure<br>Political systems<br>Legal systems<br>Regulation<br>Accepted business practice<br>Business ethics | Child et al. (2009) |
| Closeness of relationship with partner | Purely business relationship<br>Friendly but not very close<br>Close friendship<br>Family friends<br>Almost like brother/ sister | Findings of the previous qualitative findings |
| Inter-partner trust | My partner has special concern for my company's welfare<br>My needs are important to my partner<br>My partner has a strong sense of justice<br>My partner has high values and principles<br>My partner provides sound knowledge about the market and the product<br>My partner has some specialised capabilities to support me in India<br>My partner makes an equal contribution to the relationship | Mayer et al. (1995) |

| | | |
|---|---|---|
| | My partner has provided new client introductions in India | |
| Cognitive social capital | Shared norms<br>Coordination between partners<br>Good understanding about each other's responsibility<br>Good understanding about the benefit of this partnership | Nahapiet and Ghoshal (1998); Qualitative findings |
| Impact of psychic distance | Impact of geographic distance<br>Impact of cultural distance<br>Impact of language difference<br>Impact of level of education<br>Impact of level of technical development<br>Impact of level of economic development<br>Impact of logistics and infrastructure<br>Impact of political systems<br>Impact of legal systems<br>Impact of regulation<br>Impact of accepted business practice<br>Impact of business ethics | Child et al. (2009) |
| Learning capability | My company adapts its product in order to address opportunities in India<br>My company frequently scans the environment to identify new business opportunities<br>My company allocates its resources continuously to new promising areas of operation<br>My company is able to identify and acquire external (e.g., market) knowledge.<br>My company is able to identify and acquire relevant knowledge from inside the company.<br>My company is effective in developing new | Zahra and George (2002) |

| | | |
|---|---|---|
| | knowledge or insights that have the potential to influence product development.<br>My staffs play an important role in company's knowledge acquisition<br>We have adequate informal communications within the company to integrate information<br>My company has adequate routines to assimilate new information and knowledge.<br>My company successfully integrates its existing knowledge with newly generated knowledge.<br>My company is successful in converting new knowledge into useful applications. | |
| Importance of ICT facilities in setting up and maintain relationship with each other | Telephone<br>Email social networking sites (e.g., Facebook, Linkedin)<br>Desktop audio conferencing (e.g., Skype, VOIP)<br>Video conferencing<br>Web based product transaction technologies<br>Electronic financial transactions | Findings of the previous qualitative findings |
| Importance of ICT is in doing business activities abroad | Customer service<br>Communication with partners abroad<br>Supplier relationship<br>Sales and marketing<br>Information about foreign market<br>Product transactions nml<br>Financial transactions<br>Partnership building | Findings of the previous qualitative findings |

The initial questionnaire design extended to eight pages and was too long for securing a good

response. So we decided to conduct a pilot survey to identify questions that respondents found difficult and not so relevant. As Oppenheim (1992) observed, piloting a questionnaire is important to ensure that the measures are consistent with research questions and approaches. The initial pilot study was with 3 British companies and 3 Indian companies. Based on their feedback and also in discussion with two academics, we revised the questions which were not very relevant or which were, in some sense, duplicating. The final revised questionnaire was 4 pages, which is then again piloted with 2 British companies and 2 Indian companies. All the four respondents completed all the questions in the revised questionnaire. They also confirmed the clarity of questions.

The final questionnaire is 4 pages long and contains 31 questions. The pilot study showed that the time required to complete the questionnaire was between 10 and 13 minutes, which, according to Oppenheim (1992), is acceptable for social science survey research.

### 5.7.2. Data collection

The collection of questionnaire data was mainly conducted online. However, in India we conducted face-to-face surveys using hard copy of the questionnaire. The survey was conducted simultaneously in both Britain and India.

The first phase of data collection among British companies was conducted through the Birmingham Chamber of Commerce. The questionnaire with a covering letter from the chamber was sent to 1,100 firms that were their member organizations. These firms were located all over England. The initial response rate was very low.

Of the total 1,100 contacted only 41 companies responded, which forms only 3.7%. The first reminder letter with the questionnaire sent out again after a month, which produced another 26 responses, taking the total response to 67. The response rate is now 6.1%. The Chamber agreed to send another final reminder after 3 weeks, which produced another 8 responses. So the total response out of 1100 firms was now 75, or 6.8%.

The second gatekeeper in Britain was the India Business Bureau of East Midlands Development Agency. Initially, they sent the questionnaire with a covering letter to their 150 member-organizations that met our criteria. The initial response was very poor, producing only 8 responses. That meant the response rate was 5.3%. In order to increase the responses, the person in charge of this bureau contacted selected 40 firms again personally and sent the questionnaire that produced a very good response rate. Twenty-one firms out of 40 contacted replied--a response rate of 52.5%. This gave a total of 104 responses from 1,250 British companies contacted-- a response rate of 8.32%.

As mentioned earlier, we collected quantitative data from Indian companies simultaneously with data collection among British companies. At the initial stage we conducted face-to-face drop-collect-survey (DCS) among 25 companies. These are mainly textile companies; initially, they were contacted online but the response rate was zero. So we adopted an alternate strategy. At the second–stage, the researcher contacted another 225 firms, identified through his personal knowledge and online search, and it produced only 5 responses.

We sent reminders after 5 days with a covering reminder letter that helped increase the response. We received another 13 responses. A third reminder was sent again after a week,

which produced another 9 responses. So the total response was now 52. After this, we sought the help of 10 individuals, who through their personal and professional relationship sent our questionnaires to another 200 companies. Initially the response rate was very poor. Through several reminders and personal contact these gatekeepers somehow helped achieve one above the target sample size 100 i.e. the total response received in the Indian side is 101 responses. Compared with UK responses, the response rate is high for Indian companies (22%) because either the researcher or the 10 individual gatekeepers personally contacted most of the respondents. Moreover, we conducted face-to-face drop-collect-survey (DCS) with 25 firms, which produced 100% response rate.

Table: 5.5. Response Rate

| | British Companies | Indian Companies |
|---|---|---|
| Actual Sample | 1250 | 450 |
| Responses received | 104 | 101 |
| Usable responses | 100 | 100 |
| Response rate of usable samples (%) | 8% | 22.2% |

Since we accessed the firms through gatekeepers and the firms' details are anonymous, we cannot analyze the non-response i.e. whether the firms that participated in the study systematically differ from non-respondents. The profile of survey respondents and firms are provided in Appendix 3.

We have carried out procedural and statistical remedies to overcome the potential issue of common method bias. The procedural remedies include ensuring respondent anonymity, improving scale items and reducing item ambiguity. As a statistical remedy, we adopted

Harman's one factor test. The details of each of these steps are illustrated in Appendix 8. These show that common method bias was not a serious issue in our study.

We conducted independent sample t-tests for the UK and India samples to test the non-response bias by comparing the early and late respondents (Armstrong and Overton, 1977; Poppo and Zenger, 2002). Armstrong and Overton (1977) had observed that late respondents represented non-respondents more than they represented respondents. However, we found no significant difference ($p<0.05$) between early and late respondents on key variables such as psychic distance, social capital, learning capability (Appendix 9).

### 5.7.3. Data analysis

The final stage of a research process is to analyse the collected data. The first stage of data analysis in quantitative research is to plot graphs and observe the distributions of the data partly to see whether statistical analyses can be applied (Field, 2009).

Quantitative data analysis can be divided into parametric and non-parametric statistical analysis. The parametric model is considered as the most efficient and widely accepted model in quantitative research. However, in order to do a parametric test, the data should meet certain assumptions---data should be normally distributed, there should be homogeneity of variance, it should be an interval or ratio data, and data should be independent (Field, 2009; Hair et al., 2006).

So at the initial step we checked the normal distribution of data by plotting histograms for each variable. The normal distribution is a bell-shaped curve where majority of the scores lie

around the centre of the distribution. The bar gets smaller on the sides which indicate that the frequency is decreasing. The normal distribution can be assed in two ways, which are degree of symmetry (skew) and pointyness (kurtosis) (Field, 2009). In normal distribution, the value of skew and kurtosis are 0. The value above or below zero indicates the deviation from the normal. The normality analysis for the variables in our model meets the assumption. So we can conclude that these variables are normally distributed, and that meets the first assumption for selecting parametric statistics. The homogeneity of variance, type of data and the independence of data sets were checked and this is described in chapter 10 in hypothesis testing. So we applied a parametric statistical analysis to test all the hypotheses.

The selection of statistical models is also based on the number of variables. We select univariate descriptive statistics if we are analysing only one variable. Bivariate analysis is used if there are two variables. As the name suggests, multivariate analysis analyses if the model has more than two variables (Field, 2009). In the following section, we discuss the univariate, bivariate and multivariate analysis used in this study. We used the SPSS18 program for all analyses.

#### 5.7.3.1. Descriptive univariate analysis

As we mentioned earlier, descriptive statistics are used to familiarize with the data. Descriptive statistics include frequency calculation, relationship/cross tables, measuring central tendencies (mean, mode and median), measure of variability or dispersion (variance and standard deviation, range, coefficient of variation and measures of shapes of distributions). It helps check the central assumptions of parametric statistics. The descriptive statistics analyses of each variable in this study are provided in the relevant findings chapters.

#### 5.7.3.2. Bivariate analysis

Bivariate analysis is concerned with the relationship between two variables in the model (Field, 2009; Hair et al., 2006). Bivariate analysis is used to check the association" and causality between variables. Since we met parametric criteria the main bivariate analysis adopted in this study are the independent sample t-test and Pearson correlation.

Since we are comparing the British and Indian responses, bivariate statistics are very important for examining the extent to which each data set shows similarities and differences. The t-test assesses whether the mean values of two groups are statistically different from each other in relation to the variation in the data (Field, 2009). As mentioned, we used independent sample t-test to check this similarity and differences.

#### 5.7.3.3. Multivariate analysis

Multivariate analysis, as the name indicates, comprises a set of techniques used to analyze the data if the number of variables is more than two (Hair et al., 2006). Factor analysis is the only one multivariate technique used in this study.

Factor analysis is one of the oldest and most flexible statistical methods (Abdi, 2003). It is a technique to understand groups or clusters of variables. The three main uses of factor analysis are (1) to understand the structure of a set of variables, (2) to construct a multi-item indicator of an underlying variable and (3) to reduce a data set to a more manageable size while retaining as much of the original information as possible (Field, 2009: 628). Factor analysis helped us understand the data and its structure apart from decomposing the data set. It helped

us ensure construct validity as well. The decomposing of data set helped overcome the issues of multicollinearity and homoscedasticity. We have used the most common model of factor analysis; principal component analysis (PCA). PCA is interpreted as an orthogonal decomposition of the variance (also called inertia) of a data table (Abdi, 2003:2). The factor analysis of each variable is provided in the relevant chapters.

#### 5.7.3.4. Structural Equation Modeling (Path Analysis)

Structural equation modeling (SEM) is a general statistical technique for modelling complex relationships (Jackson, Dezee, Douglas and Shimeall, 2005**).** It is a combination of statistical techniques such as exploratory factor analysis and multiple regression analysis (Nokelainen, 2007). SEM is used for specifying and estimating models of linear relationships among variables (MacCallum and Austin, 2000). SEM models may include both measured variables (MVs) and latent variables (LVs) (MacCallum and Austin, 2000; Kline, 2010). The latent variables are hypothetical constructs that cannot be directly measured, which are represented by multiple measurement variables that serve as indicators of the construct (MacCallum and Austin, 2000). Path analysis, confirmatory factor analysis (CFA) and structural regression models are the most commonly used structural equation modeling techniques (MacCallum and Austin, 2000).

Path analysis forms the foundation of structural equation modeling technique. It is known as causal modelling because it focuses on testing the web of relationships among measurement variables (Jackson et al., 2005). It is a single-indicator technique (Kline, 2010). However, confirmatory factor analysis tests whether a pre-existing theoretical model underlies a particular set of observations (Jackson et al., 2005). It is mainly used in measurement

applications such as construct validation and scale refinement, multitrait-multimethod validation, and measurement invariance (MacCallum and Austin, 2000).

We adopted CFA to check the construct validation, scale refinement and measurement invariance of impact of psychic distance and learning capability. The results are presented in Appendix 6. The modified constructs were then transformed into observed or manifest variables using SPSS 'transform' function because we adopted path analysis technique to test our model, which analyses the relationship between only manifest or observed variables. Our sample size (N=100) is not acceptable for a structural regression model consisting of both latent and measured variables (Sava, 2000). The precision of estimating complex models goes down when the sample size of maximum likelihood estimation (ML) is relatively low (Hair et al., 2006; Sava, 2002). However, Jackson (2003) mentioned that a rule of thumb option concerning the relationship between sample size and model complexity (i.e. number of parameters) can be applied when maximum likelihood (ML) SEM estimation is used to test the model. According to him the ideal ratio between model parameters and sample size would be 1:20, i.e. 1 parameter for 20 samples. However, he mentioned that a ratio of 1:10 -- although less ideal -- is acceptable for SEM. The number of parameters in our model is 7 and the total sample size is 100, which means the parameter and sample size ratio is 1:14. Nevitt and Hancock (2004:468) also observed that small ($n \leq 50$) to moderate ($n < 100$) sample sizes can effectively model and accurately assess data model fit using SEM techniques. So our sample size of 100 each for British and Indian companies is acceptable of structural equation modelling.

SEM is an iterative process, which involves six basic steps and two additional optional steps.

The basic steps are specifying the model, evaluating model identification, selecting the measures or operationalizing the constructs and collecting, preparing and screening the data, estimating the model, re-specifying the model, and reporting the result. The optional steps are replication and application of data (Kline, 2010:92).

The model specification is the process of representing hypotheses in the form of structural equation modeling. The detailed discussion of model specification is provided in chapter 10. The second stage is identifying if it is theoretically possible for the computer to derive a unique estimate of every model parameters (Kline, 2010: 93). The two general requirements for identifying structural equation modeling are (1) the model degrees of freedom must be at least zero, and (2) every latent variable, which includes error terms as well, must be assigned a scale (metric) (Kline, 2010:124). In this study, the models for both British and Indian data showed over-identified structural equation models, i.e. degrees of freedom values are more than one. This indicates that free parameters are fewer than observations. Scales are usually assigned to disturbances in structural models or error terms in measurement models through a unit loading identification (ULI) (Kline, 2010: 127). In path analysis, scaling of latent variables corresponds to the assignment of a scale to the disturbance of endogenous variable. However, in CFA model it is assigned to the measurement errors of each indicator of latent variable.

The third stage of SEM involves the selection of measures, and preparation and screening of data. The selection or operationalization of measures is discussed in section 5.7.1. Normality tests were conducted using SPSS to ensure the normality of the data. The skewness and kurtoisis were at an acceptable level. A series of further analysis, such as t-test, reliability

analysis, factor analysis were conducted using SPSS. These are presented in chapters 6, 7, 8, and 9. Pearson's correlation was conducted to check convergent validity (c.f. Tables 10.1 and 10.2). We used AMOS 18 to estimate the model, which involves evaluating model fit; interpreting parameter estimates; considering equivalent or near equivalent models.

Model fit explains how well the model explains the data. AMOS 18 provides several model fit measures. However, a widely accepted assumption is that minimum of five measures is sufficient to accept a model. The most basic fit index is the Pearson Chi-square. A non-significant Chi- square is considered to be a good fit. Similarly, researchers also consider the Chi-square to degrees of freedom ratio. A ratio less than 2 is considered as well-fitted model, and it is acceptable if it is below 3. Jörskog-Sörbom Goodness of Fit Index (GFI) is the other widely accepted model fit index. The GFI is comparable to a squared multiple correlation; it indicates the proportion of the observed covariance explained by the model covariance (Jackson et al., 2005). As in squared multiple correlation, the values varies from 0-1, and 1 shows perfect fit. The value of 0.9 is regarded as the acceptable minimum. Bentler comparative fit index (CFI) and Bentler-Bonett non-normed fit index (NNFI) of 0.95 or above, root mean square error of approximation (RMS or RMSEA) of 0.08 or below, are the other model fit indices used in this study to show the model fit. When the model shows a poor fit the rest of this step should be skipped and move to stage 5, model respecification.

The second stage of estimation involves parameter interpretation. Path coefficients are interpreted as regression coefficients in multiple regression. We used standardised solution to interpret the path coefficients. In standardised solution variance of all variables equal 1.0. The third stage of model estimation is considering equivalent or near equivalent models

(Kline, 2010:92). Shah and Goldstein (2006) observe that evaluation of a single model give an excessively positive evaluation of model fit, and are reluctant to consider alternative explanations of data. This, according to them, generates confirmation bias, which according to Greenwald et al. (1986) is researchers' prejudice towards the evaluated model.

In order to overcome problems related to confirmation bias, Shah and Goldstein (2006) recommend alternative model approach which considers different configuration of hypothesized relations among the same variables.

As we mentioned earlier, the model need to be respecified when it shows poor model fit. Model respecification should be guided by rational considerations rather than purely statistical ones (Kline, 2010: 94). The respecification of our models was undertaken on the basis of AMOS modification indices. However, it was guided and justified by underlying theories. The details of respecification undertaken for the British and Indian models are discussed in chapter 10. The final step of SEM is to completely and accurately explain the analysis. We adopted Zhao and Cavusgil (2006) method of presenting data, mainly because we adopted their method of analysing the moderation effect in SEM.

According to Kline (2010) the two optional steps of SEM are replication and application of the results. Replication is the process of estimating across independent samples either by the same researcher(s) (internal replication) or by other researcher(s) who were not involved in the original study (external replication). Due to the difficulties in data collection and time limitations we have not replicated our model. Using the SEM results for applications such as policy or practice related prediction studies forms the application of SEM. Based on our

results we have provided implications for practitioners and policy makers.

As Kline (2010: 95) suggested we have provided a strong theoretical rationale for our final models (chapter 11). We have explained if our findings support or contradict the existing knowledge, and also discussed the unique contribution of our findings. Our final models provide a basis for future research.

## 5.7.4. Evaluation criteria

As with qualitative studies, reliability and validity analyses form the main evaluation criteria for quantitative research as well (Bryman and Bell, 2003).

### 5.7.4.1. Validity

According to Bryman and Bell (2003:33) "validity is concerned with the integrity of the conclusions that are generated from a piece of research". Validity means whether the instrument actually measures what it is supposed to measure (Field, 2009:11; Gill and Johnson, 2002). Validity analysis in quantitative research is classified into construct validity, internal validity and external validity.

#### 5.7.4.1.1. Construct validity

The most important validity issue related to quantitative survey research is construct validity (Wainer and Braun, 1988). A construct is a theoretical concept, question or hypothesis that determines the data collection process such as which data to collect and how to collect data (Winter, 2000:4). In order to validate their investigations, quantitative researchers normally use tests or other process to influence the interplay between constructs and data (Wainer and

Braun, 1988). Construct validity includes both content and criterion validity (Shepard, 1993). Therefore, it encompasses both content validity and criterion-related validity requirements (Anastasi, 1986; Stapleton, 1997).

As Bagozzi, Yi and Phillips (1991) suggested, we have used factor analysis to test the construct validity. Bryman and Cramer (1990: 253) mentioned that factor analysis enables us to assess the factorial validity, which according to Nunnally (1978:111), is considered as construct validity of the questions which make up our scales by telling us the extent to which they seem to be measuring the same concepts or variables. In this research, factor analysis was conducted for all continuous variables (both dependent and independent) assumed to form the construct. It helped identify the underlying factors of a set of variables and to find out if the factors are correlated or not, which helped overcome the issues of multicollinearity and homoscedasticity.

We have also adopted the techniques for content or face validity to assess the construct validity. This was achieved through validating the measures or questionnaires with the expert in the area. We have consulted our questionnaire and its measures with 3 academic scholars in the area who were asked to judge if it is sympathetic to the concept that is the focus of attention (Bryman and Bell, 2003: 77). Besides, we checked content validity by matching the questionnaire measures with how the construct was operationalized in previous research (Field, 2009).

#### 5.7.4.1.2. Internal validity

The main aim of positivist quantitative research design is to maximise internal validity (Easterby Smith et al., 2008). Bryman and Bell (2003) mentioned that internal validity is concerned with the truth of causal relationships embedded in the conclusions of an empirical study. So the main aim is to eliminate the probable alternative explanations or interpretations about the relationship between independent and dependent relationship (Easterby Smith et al., 2008). In order to maximise internal validity, we selected statistical tools that perfectly suited the model. We went through systematic procedures such as following all criteria and assumptions to avoid the measurement errors. The details are provided in chapter 10.

#### 5.7.4.1.3. External validity

External validity is about generalizing the results beyond the focal study (Easterby Smith, 2009: 87). It means whether our findings are equally applicable to other research settings or contexts (Saunders et al., 2009). In this research, the gate keepers we have used were the largest trade agencies helping British SMEs do business with Indian companies. Their member list is the largest unofficial data list of British companies doing business with India. Our total population include 1,250 companies, which is the largest available population because there is no official data base available about British companies doing business with their Indian counterparts. Our sample is size is 100, which make the response rate 8%. It is a reasonably good response rate when we consider the constraints imposed by the Data Protection Act, and also considering the fact that SMEs are normally reluctant to participate in academic research. In India, our response rate is 22% which is reasonably good considering the fact that there was no data base available about the Indian companies which are doing business with British companies. Also, as Prashantham (2005) mentioned accessing and

conducting research among companies in Asian countries is very difficult. Another major threat of sample selection bias is also minimized to a great extent by developing clear criteria prior to data collection. Also, in most cases the respondents were anonymous to the researcher because they are accessed through gatekeepers.

A major sample selection issue of our study is the difference in the UK and Indian SMEs internationalization, i.e. the Indian firms were exporters while the British ones were mainly importers. Besides, the samples used in this study are consistent with other studies conducted among British and Indian SME internationalization.

### 5.7.4. 2. Reliability

As Gill and Johnson (1997:88) mentioned, "validity is the measurement process while the reliability of measurement refers to its consistency; that is, the extent to which a measuring device will produce the same results when applied more than once to the same person under the same conditions". The main question of reliability is whether the results of a study are repeatable (Bryman and Bell, 2003:33). The easiest way to test reliability is to test the same group of people twice. If the instrument is reliable it will produce similar results at both points of time (Field, 2009: 12). We applied this test among our pilot samples and which produced similar results that ensured reliability of measures. Apart from that, most of the measures in our study are adapted from previous studies.

The internal reliability of the measures can be assessed by running Cronbach's alpha test for scale questions or continuous variables. The alpha values of all these measures are well above the normally accepted minimum of 0.7. The reliability of categorical variables is ensured

through the comparison of mean test. The alpha test and mean value analysis are presented in chapters 6 -10.

Overall, we argue that satisfactory levels of validity and reliability are achieved in the survey research.

## 5.8. Summary

This chapter has discussed the methodological issues related to this study. First, we outlined the philosophical position of the study. Since it employs a mixed methodology, the research paradigm of the study is pragmatism, which gives more emphasis to research questions than the exact choice of methods. The study is both exploratory and explanatory. The initial semi-structured interview is exploratory in nature whereas the survey research used to test the derived hypotheses looks for exploration in terms of causal relationships between different variables.

We adopt a mixed methodology approach. The main methods are qualitative case research and quantitative survey research. The first stage of the data collection is qualitative case research with 30 British companies and their partners in India. The second stage is a survey among 100 British companies and 100 Indian companies, which are not partners. The design of these two methods was discussed with reference to data collection, analysis and evaluation.

Chapters 6 to 10 present the research's findings.

# CHAPTER 6
# INTERNATIONALISATION STRATEGIES

## 6.1. Qualitative findings

### 6.1.1. Introduction

We begin by analysing the factors that influenced the UK and Indian SMEs decisions to internationalise to each other's market. The results differed between the two countries, and sometimes between companies themselves, mainly among Indian respondents. Two broad influencing categories were identified: economic factors and social factors. Economic factors include demand for products, economic growth of the country, limited opportunities in the domestic market, profitability, cost-effectiveness and availability of resources. Social factors include an entrepreneur's previous experience and network, an entrepreneur's ethnic background, links provided by a customer in the local market, links provided by agents, language, the entrepreneur's foreign education and international reputation of the firm.

These factors are not accorded the same degree of importance by all the entrepreneurs questioned. Out of the seven economic factors, demand for products is the only one mentioned frequently by decision-makers from both countries. On the other hand, among the social factors, entrepreneurs of both the UK and Indian companies perceive that language, an entrepreneur's previous experience and his network influence their decision to internationalise. The frequency level also widely varied; only very few factors showed consistent results.

Although the overall frequency level shows fairly equal importance for both social and economic factors, the interpretations of the entrepreneurs interviewed revealed that internationalisation of the UK SMEs to India and vice-versa are mainly motivated by the economic benefits attached to it. However, they highlighted the social factors are equally important but their interpretations reveal that it act as a facilitating factor. The entrepreneurs' interpretations about these factors vary from company to company. All the categories are derived from our empirical data. Therefore, the coding approach is inductive in nature.

### 6.1.2. Economic Factors

These factors are linked with the economic perspectives of internationalisation, which assume that profit making is the central motive for of internationalisation (Table. 6.1). Decision-makers from both the UK and India said that their internationalisation was mainly aimed at economic growth and the firm's benefit even though it is initiated by social factors mentioned in the next section. The main factors included in this category are demand for products, economic growth of the country, limited opportunities in the domestic market, profitability, cost-effectiveness and availability of resources.

Table: 6.1. Economic Factors Influencing Internationalization

| **Category of economic factors influencing internationalization** | **UK** | | **India** | |
|---|---|---|---|---|
| | **Components** | **Percentage of respondents mentioning** | **Components** | **Percentage of respondents mentioning** |
| Demand for products | Mainly for textile companies that import handlooms from India.<br><br>These companies internationalized during the 1980s and 1990s.<br><br>Associated with inward internationalization. | **25%** | Important for both service and manufacturing sectors<br>Associate with outward internationalization.<br><br>More demand for Indian software developers in the UK market because British companies are looking for low cost to make their products price competitive in order to survive in the economic crisis.<br><br>Huge demand for Indian handlooms. The UK was the largest market for the handloom companies during the 1980 and early 1990s. | **55%** |
| Economic growth of the country | Mainly service- sector companies.<br><br>Indian economy is growing despite the current economic downturn.<br><br>Associated with diversifying the market and reducing the risk associated with their business. | **60%** | | |

| | | | | |
|---|---|---|---|---|
| | Created opportunities for both Indian and foreign companies.<br><br>British companies are not involved in selling products in India but they are looking to exploit other opportunities such as cost advantages and improved support services. Mainly importing activities. | | | |
| Limited opportunities in the domestic market | | | Both manufacturing and service sector companies.<br><br>Textile companies –lack of demand due to the entry of polyester products during the 1980s and 1990s.<br><br>ICT companies—late 1990s due to the slump in IT industry.<br>Associated with risk reduction through market diversification.<br>Mainly outward internationalization activity. | **40%** |
| Profitability | | | Increasing profitability is related to increasing sales.<br>Aimed to take advantage through:<br>Selling higher volume at a higher price than the domestic market.<br>The difference in currency exchange rates. | **70%** |

| | | | | |
|---|---|---|---|---|
| | | | Both service and manufacturing companies.<br>Lower risk than doing business with a customer in the domestic market.<br>Outward internationalization activity. | |
| Cost effectiveness | British ICT companies outsource their software development work to India to bring cost advantage in domestic market without compromising on product quality.<br><br>The ICT companies either outsource or set up their own development centres in India.<br>Associated with reduction of production cost.<br>Inward internationalization process. | **30%** | | |
| Availability of resources | Mainly among ICT companies.<br><br>India has the largest number of highly skilled and educated workforce in the world.<br>Inward internationalization to address one of the risks in the domestic market, shortages of human resources and to exploit the opportunities and availability of human resources in the foreign market. | **30%** | | |

#### 6.1.2.1. Demand for products

Demand for products is considered as one of the most important factors by the UK textile companies that import handlooms from India. They found a niche market for Indian handloom products in the UK during the 1980s and 1990s. They said the quality and brand image of Indian handloom products among consumers in the UK provided a distinctive advantage for them in the country. This point is related to inward internationalization, which means companies wanted to take advantages of the market potential by importing of goods from a foreign country.

> There was great demand for handloom products in the UK in those days. It was expensive, but customers preferred it because of its quality. We all know about Indian [Kerala] handlooms... they have been famous here for long time... probably from colonial times [TXU1].

> You know... here people preferred handlooms over power-looms... they were producing high-quality products. We saw it in the exhibition. We then did a market research and we found out that it has great potential in our market [TXU3].

However, entrepreneurs from no other sector in the UK said the product demand influenced their internationalization decision (Table 1). Contrary to this, in India, the entrepreneurs from both the service and manufacturing sectors said this factor has influenced their decision to internationalize to the UK. This view applies to outward internationalization. Entrepreneurs from Indian ICT companies perceive that due to the current economic crisis, companies in the UK started thinking about reducing their software development cost in order to make their products price-competitive. This has created in more demand for Indian software developers from the British market. More than three-quarters of these companies were doing business primarily with American companies, but recently they started getting more orders from UK-based companies as well.

The CEO of a software-development company, which started doing business with the UK three years ago, said,

> The US is the biggest market for all IT companies. But for the past two years, we are seeing more demand from the UK. I don't understand the real reason. I think it is because of the increasing interest in off shoring among companies in the UK. I think due to the economic crisis, companies are forced to look at cheaper options ... it is an opportunity for us. UK companies approached us [ITI1].

Textile companies included in the study said they started their internationalization in the late 1980s and the early 1990s. The UK was one of the largest markets for handloom products during that period; there was huge demand for handlooms.

The managing partner of a 60-year-old textile company said:

> When we started our internationalization 20 years ago, the UK and Germany were the largest markets for Indian home textiles as per sales volume [TXI 4].

The respondent from a relatively new textile company who started exporting in the initial years of its inception said:

> At that time the UK was the third-largest market for Indian textiles. We initially started our business in Australia, but I identified that the UK is much bigger and then we moved there. Initially we exported fabrics and slowly we moved to made-ups as well [TXI 3].

The findings show that only the entrepreneurs from UK textile companies said the product demand was one of the major reasons for their decision to do business with Indian textile manufacturers. However, entrepreneurs from both the service and manufacturing sectors in India mentioned this as a reason for their internationalization to the UK. The entrepreneurs from these companies (UK textile and Indian ICT and textile companies) only mentioned about the customer base in the UK. Hence, the study concludes that these companies treat India as a manufacturing base. This is mainly associated with the cost advantages in India and the product distinctiveness among Indian textile companies.

### 6.1.2.2. The economic growth of India

The entrepreneurs of around sixty per cent of the UK companies, mainly service- sector companies, said the economic growth of India was one of the main factors that attracted them to India. They cited that the Indian economy is growing despite the current economic downturn which saw negative growth in several other countries. The view could be linked to diversifying the market and reducing the risk associated with their business (Hymer, 1976). The entrepreneurs perceive that this economic growth has created a lot of opportunities for both Indian and foreign companies. These are mainly service-sector companies and are not involved in selling their products in India, but they are looking to exploit other opportunities such as cost advantages and improved support services.

> I heard about the India story, the economic growth, etc. from a former colleague who was a property developer in India. Then I did some research on the market. It is growing… India is very strong; even now the growth is 6.5% when rest of the world is experiencing negative growth. So I thought India will have an opportunity for at least next 10 to 15 years. The growing middle class in India and the increasing jobs and income is the other main attraction of Indian market [REU1].

> The growth of the Indian economy created more demand for legal firms in India. It has improved very well. India is coming international. So many international companies are going to India. That has won the business growth [FLU3].

Service-sector companies such as ICT, financial and legal and real-estate companies in the UK talked about the economic growth of India. Whereas the textile companies included in this study, which started their business with Indian companies much before India's liberalization in the 1990s and the subsequent economic growth, did not mention this factor. They are just involved in importing activities and do not have any direct presence in India.

### 6.1.2.3. Limited Opportunities in the domestic market

This concept is also associated with risk reduction through market diversification (Hymer, 1976). Diversifying into an International market to reduce risk refers to international sales, which is an outward internationalization activity. Contrary to the last-mentioned factor, manufacturing companies in India which internationalized in the 1980s and 1990s disclosed that the limited opportunities or decreasing demand for the products in the home market influenced their decision to internationalize. The ICT companies, which internationalized in the late 1990s, also said the slump in the IT industry during that period affected India very badly and most of the companies had to find an alternative market. However, they now perceive that the domestic market has grown considerably since that time.

A software developer, who had huge loss in the late 1990s, said,

> We moved to the UK because of some domestic market issues ... the Internet and other latest ICT's was an opportunity for us [...] But the situation has changed a lot now I would say that there is a world of opportunity available in the domestic market [ITI10].

As mentioned earlier, limited opportunities in the domestic market was one of the major hurdles textile sector companies faced in India. However, most respondents perceive that it was an issue in the late 1980s and they were forced to find an alternative market in order to survive. Interestingly, 8 out of 10 Indian textile firms are now 100% export-oriented units.

A handloom manufacturer, who started his internationalization in the 1980s, said,

> There was a decline in demand for our products at that time ... handloom price increased due to the increased cotton price ... so people in the domestic market moved to polyester. That was too cheap [...] that was a major hit for our business ... we were forced to find alternate markets [TXI4].

This factor influenced both service and manufacturing companies in India that internationalized during the 1980s and the 1990s. However, none of the UK decision-makers

mentioned the issue of limited opportunities in either Britain or in India. This is mainly because British companies started internationalizing to India after 2000.

#### 6.1.2.4. Profitability

Increasing profitability is related to increasing sales. Companies aim to increase sales profit by selling higher volume at a higher price than the domestic market. They also would take advantages of the difference in currency exchange rates as well. Around seventy percent of Indian respondents from both the service and manufacturing sectors mentioned that doing business with an international client is more profitable and has lower risk than doing business with a domestic customer.

A textile manufacturer said:

> Profitability is more in foreign markets ... we have to give credit in the local market. Whereas, in foreign markets such as England and other European countries we get more volume and they pay in advance as well [TXI10].

An Indian legal firm, which has an office in the UK, said:

> One of the founders of our UK partner is a friend of mine. They approached us first; we were also interested in it. This gives us a chance to deal with international clients investing in India. That is more profitable as well [FLI1].

This is an outward internationalization activity. Only the respondents from India talked about profitability. This is mainly due to the difference in the money exchange rate. The entrepreneurs from the UK didn't mention profitability issues. However, British ICT companies perceive that cost-effectiveness in the Indian market influences their profitability

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#### 6.1.2.5. Cost effectiveness

The concept of cost-effectiveness is associated with the reduction of production cost. This is an inward internationalization process for British companies because it is mainly associated

with the benefit it can bring to the company domestically. The findings show that British ICT companies outsource their software development work to India to cut costs. All ICT companies included in the study have software development centres in India. This brings them cost advantages in the domestic market.

The MD of a UK software company who outsourced their work to India said:

> One main reason was cost. It was much less compared with the UK. Also, I was short of staff and we had calls from a couple of people about this development. I was trying to contract here, but they showed their figure: it was competitive and a lot cheaper [ITU3].

More than eighty percentage of software companies' interviewed revealed that the software market is highly price-competitive. The software development cost in the UK is relatively high, and the small and young companies cannot offer cheaper products if they are developing it from the UK. So in order to make their product price attractive and competent, companies either outsource or set up their own development centres in India.

> Developing software in India is much cheaper... We can compete only if we have price advantage. Otherwise it would be difficult for us here.... initially we were developing it from here. But later like other companies we also realised the advantages of outsourcing to India [ITU4].

The key points derived from the findings are that small and medium ICT companies from the UK outsource work to India mainly to survive the competition in the domestic market. Outsourcing software development to India provides them price competitive advantages without compromising on product quality. None of the Indian companies mentioned it as a reason for their firm's internationalization to the UK, but they said that this is one of their major strengths that attract foreign companies to collaborate with them.

#### 6.1.2.6. Availability of human resources

Apart from cost advantages, the respondents from UK-based ICT companies said India has the largest number of highly skilled and educated workforce in the world. The entrepreneurs selected inward internationalization as a solution to address one of the risks in the domestic market, shortages of human resources and to exploit the opportunities in the foreign market, availability of human resources.

> Other big advantage in our industry is the availability of software engineering talents. So we never had any short of resources [ITU1].

> Technically they are very strong. They know very well what they are doing. You will never face any shortages [ITU2].

Similar to cost advantages, the UK entrepreneurs mentioned that the availability of trained and highly skilled workforces in the Indian software industry helps them produce the similar quality product at a cheaper price. Entrepreneurs in India consider this as one of their strengths.

### 6.1.3. Social Factors

Social factors affecting the internationalization decisions of the UK and Indian SMEs are associated with behavioural perspectives in international business theories. This includes a manager's previous experience and network, his or her ethnic background, links provided by a customer in the local market, links provided by agents, language, foreign education and international reputation (Table: 6.2).

Table: 6.2. Social factors influencing internationalization

| **Category of Social factors influencing internationalisation** | **UK** | | **India** | |
|---|---|---|---|---|
| | **Components** | **Per cent of respondents mentioning** | **Components** | **Per cent of respondents mentioning** |
| Entrepreneur's previous experience and network | Entrepreneurs' prior experience and network.<br><br>Among both service and manufacturing companies<br><br>Considered as a facilitating factor of internationalization | **92%** | More common among service sector companies than manufacturing companies<br><br>Consider that the economic factors such as demand for products, availability of resources and skills influence the network- building between partners.<br><br>Enhances the network relationships and learning about foreign markets | **73%** |
| Entrepreneur's ethnic background | Entrepreneurs' ethnic background provided proximity to Indian culture and the institutional set up, which made doing business in that country easier for the UK firms.<br><br>Simplified the internationalization process.<br><br>Help overcome the issues of psychic distance<br><br>However, entrepreneurs revealed that economic related benefits were the main motives | **45%** | Partners ethnic background | **45%** |

| | | | | |
|---|---|---|---|---|
| Links provided by a customer in the local market | | | Only among textile companies<br><br>Introductions by customers require high level of trust between the parties<br><br>Demand for Indian products in the UK market made them more acceptable among British companies | **15%** |
| Links provided by agents | | | Textile companies only. They have started their internationalization thorough agents due to a lack of international experience and network<br><br>Provided client introductions, but only for the products outside their product range<br><br>Enhanced learning capability<br>Help reduce the risk in foreign markets<br><br>Support the incremental internationalization process concept of Uppsala model that process starts with operations of low risk and commitment to higher level of risk and commitment | **20%** |

| | | | | |
|---|---|---|---|---|
| Language | Both service and manufacturing sectors<br><br>Language advantage is a main reason but is not the only reason for companies internationalization<br><br>Some issues at lower levels where the people are normally less exposed to the international business environment<br><br>Help reduce the issues of psychic distance<br><br>Facilitate network building | **55%** | Both service and manufacturing sectors<br><br>Help deal unreservedly with clients in the UK market<br><br>Eases communications and decreases the gap between Indian companies and their partner/client in the UK<br><br>Help reduce the issues of psychic distance<br><br>Facilitate network building | **55%** |
| Foreign education | - | | Increased familiarity with the UK<br>Provided network relationships | **25%** |
| Reputation | - | | Provide international reputation to the firms in both the domestic and international market<br><br>Help enhance companies' credibility among domestic and other international markets.<br><br>Provided more network and client base.<br>Ensure public acknowledgement and acceptance of a firm's qualities, status or merits. | **20%** |

#### 6.1.3.1. The entrepreneur's previous experience and network

Entrepreneurs from nearly eighty per cent of the 60 companies studied mentioned that their prior experience and network influenced their internationalisation decision. This view is associated with the central assumption of the process and network model of internationalisation; experiential knowledge (Johanson and Vahlne, 1977; 1990) and network relationship (Johanson and Mattsson, 1988; Chetty and Patterson, 2002; Coviello and Munro, 1995, 1997).

However, entrepreneurs from the UK reveal that even if experience and network connections greatly facilitated their internationalisation, the main reasons for their internationalisation to India were its economic performance, rapidly growing market, cost-effectiveness and availability of resources, which are all economically rooted factors.

The founder of an UK outsourcing company said:

> I have been the MD of an MNC in India. So it is natural that I love India but the rapidly growing economy was the main attraction [ITU1].

An example from a British software companies was:

> I was working in India and I saw an opportunity to offer Indian software engineers in the UK market. The availability of a skilled workforce and the low production costs are their strengths [ITU2].

Similarly, entrepreneurs from India also mention that economic factors such as demand for products, availability of resources and skills influence the network- building between partners. This method is more common among Indian service-sector companies than the manufacturing companies.

The responses from all the ICT companies reveal that entrepreneur's previous experiences and skills greatly influenced their internationalisation. For example,

> One of my former colleagues introduced me to my present partner in the UK when I was at my previous job. He was impressed by my commitment and skills towards work. He allocated some work to me initially and was impressed with the way I handled it. He encouraged me to start a business here to do all the development work for him [ITI 4].

Overall, the findings show that experience in the form of previous network connections is very important for internationalisation. It enhances not only a manager's knowledge about a foreign market, but also his or her network relationship in that market. Furthermore, the results reveal that entrepreneurs' ethnic/national links also plays an important role, which will be discussed in detail subsequently.

### 6.1.3.2. Entrepreneurs' ethnic background

The findings reported so far are consistent with the two behavioural theories of internationalisation: the network approach and innovation adoption model. Researchers into the innovation adoption model argue that ethnic background is one of the managerial characteristics of an organisation's internal context. Whereas network researchers perceive that ethnic background enhances network-building and knowledge-acquisition of an internationalising firm. Although an entrepreneur's ethnic background was stated as a reason for internationalisation primarily among UK companies, 45% of Indian entrepreneurs – mainly service sector companies- also said their partner's ethnic background has influenced their internationalisation. British companies that have senior staff of Indian origin stated that their ethnic background was one of the main reasons for their company's internationalisation to India. They mentioned that their proximity to Indian culture and the institutional set up made doing business in that country easier for them.

> There are regulatory restrictions ... most foreign companies cannot directly invest in India. But we are Indians who have developed business in the UK. So the legal issues can't stop us doing business in India simultaneously... we are a group of individuals who are able to do business both in India and the UK. India is one of the most attractive economies in the world… It has huge foreign investments. We deal with the legal matters of foreign companies investing in India. So it is an opportunity for us [FLU1].

Most entrepreneurs believe their ethnic background simplified their internationalisation process. They also mentioned that their ethnic background helped overcome the issues of psychic distance in Indian market. However, they also emphasise the point that even though their ethnic background motivated their country selection to a great extent, the opportunities and the other benefits associated with India were the decisive reasons for their companies' internationalisation to that market.

#### 6.1.3.3. Links provided by a customer in the local market

Fifteen percent of the SME entrepreneurs from India mentioned that their domestic Indian customers influenced their internationalisation decision. These were all leaders of textile companies. They revealed that the demand for their product in the UK made them more acceptable as partner for British companies. None of the UK entrepreneurs mentioned that this factor influenced their internationalisation decision. Only the entrepreneurs of Indian textile companies report this factor.

A textile manufacturer has been doing business with a client in the UK for the past 20 years said:

> One of our domestic customers was doing business with the UK. He transferred his business to us... He was the real exporter ... I was supplying goods to him. He gave me this business when he decided to withdraw from this sector. We were able to build up from there. It was a very small business then. That was my only customer in the UK for first 10 years. They gave us huge business. I would say perhaps they were the largest buyer of textiles from this area [TXI 4].

The results reveal that introductions by customers require high level of trust between the parties. The presence of such introductions is consistent with the view of researchers such as Bjorkman and Kock, (1995); Chetty and Patterson, (2002); and Coviello and Munro, (1995) that networks provide access to additional relationships and established channels.

#### 6.1.3.4. Links provided by the agents

Only the respondents from the Indian manufacturing sector, which are all textile companies, said that their agents in both the local and international market introduced them to potential clients in the UK. More than sixty percent of them have started their international business through an agent due to the lack of international network and experience. These agents introduced them to clients in the UK, but mainly for the products outside their product range. This is consistent with the view of the Uppsala theory that internationalisation is an incremental process, starts with low of commitments in foreign market and then progressively continuing to higher levels of commitments.

The managing partner of a textile company who has been doing business with the UK for the past 15 years said,

> Initially we did our business with the UK companies through an agent ... they were doing all the paper work but we were exporting directly to the customers in the UK. That gave us some exposure ... the agent then introduced us to some other potential buyers but it was for different products [TXI 5].

These companies used agents even when they also sold directly to customers in the UK. Using an agent provided a chance for them to learn and understand about the foreign market and requirements for exporting. Comparing Indian textile firms with companies in the other sectors suggests that the incremental internationalisation is more common among traditional

manufacturing firms that are exporting to foreign markets. This type of internationalization is likely to help the firm to learn about a foreign market and reduce the risk of psychic distance.

### 6.1.3.5. Language advantage

Johanson and Vahlne (1990) argue that psychic distance influence the evolution of firm internationalisation. According to them, language is a component of psychic distance. The underlying rationale is that psychically closer markets can be more easily understood and require lower knowledge acquisition. Respondents from both the UK and India stated that "language advantage" is one of the other reasons for their company's internationalisation to each other's country. However, none of them said that it was the only or even the main reason. The UK decision-makers reveal that in India top managers and experienced employees speak good English. However, they highlighted some issues about language at lower levels where the people are normally less exposed to the international business environment.

> My partner has worked in a company in the US... I think his language is better than mine. It was very easy... We never had any issues in our communications [REU2].

> I don't say language as the only reason but it was an important factor. My partner speaks English very fluently... that made our initial negotiations effortless and simple [OGU1].

Indian respondents from both service and manufacturing sectors accorded with the UK decision makers' view that a language advantage helps them deal with clients in the UK market. They also perceive that it eases communications and decreases the gap between them and their partner/client in the UK.

The CEO of a software development firm in India said:

> Other than Sweden, we operate only in English-speaking countries. We have a presence in almost all English-speaking countries... otherwise we will have to seek support from a third party [ITI5].

The respondents report that language familiarity simplifies the initial negotiations between partners. The findings, to be presented in Chapter 7, show that "language advantage" not only reduces psychic distance, but also put the firms in an advantageous position to network in a foreign country.

### 6.1.3.6. Foreign education

Around a quarter of the Indian respondents said that their education in the UK was one of the reasons for their market selection. They believe that foreign education will always increase a person's familiarity with that country and its language in addition to from providing good network relationships. For example,

> The UK was our first choice... my family has very good links with the UK for long time. Almost everyone in my family is British educated... we have around 40 years linkage with the UK. So it was the easiest and safe place for us [ITI 7].

> I have done my studies in the UK. I met my partner when I was doing my internship there... He suggested this idea to me. I found it interesting and started a branch in India. [FLI2].

None of the UK respondents mentioned education in India as an influencing factor but around 15% of the respondents in the UK, who are of Indian origin, said their UK education helped them to start their business there.

### 6.1.3.7. International reputation

Some decision-makers believe that internationalisation enhances the reputation of their firm in both the domestic and international market. Twenty percent of Indian companies, which are young and small, perceive that doing business with companies in the UK, USA or other

European countries increases their reputation in the domestic market. Similarly, they think it also give credibility in other Asian countries.

> We were sure that we would get more recognition... a global company image. He allowed me to put all his work in my portfolio. I got reputed clients through him. This also helped me to get orders from other countries in the Middle East [ITI 9].

The result supports the view of Junior (2010) that international involvement may bring some sort of public acknowledgement and acceptance of a firm's qualities, status or merits.

The factors that influenced the internationalisation strategies of the British and Indian firms, as indicated by their interview replies, are summarised in figures 6.1 and 6.2 respectively.

Figure: 6.1. Factors influencing internationalisation—British Companies

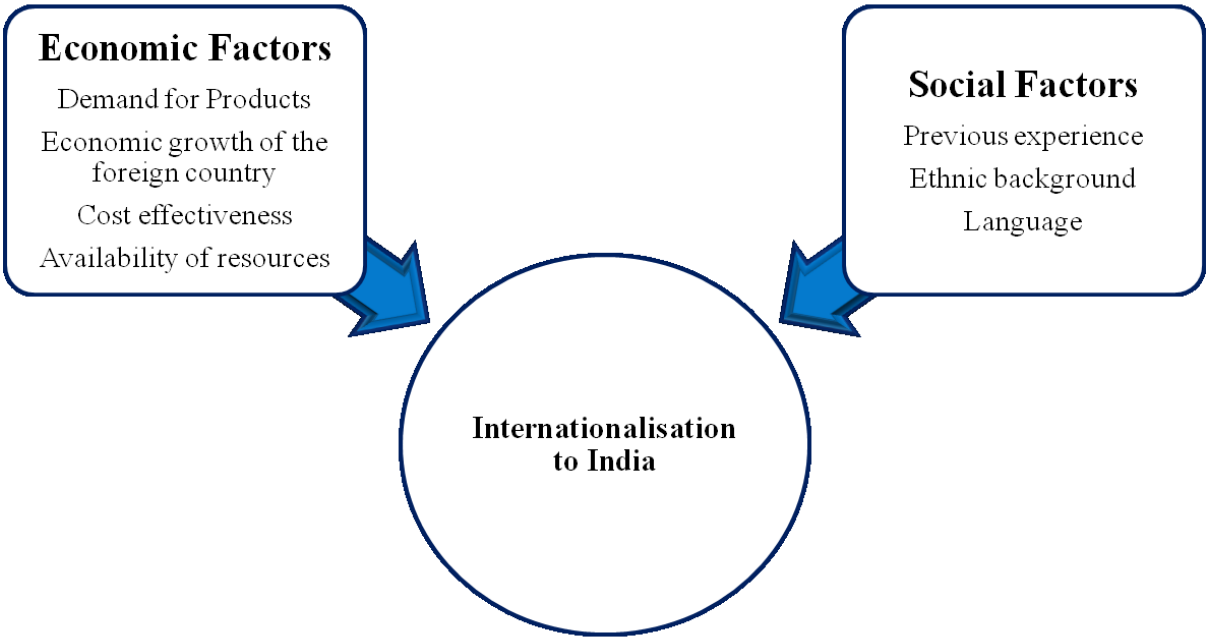
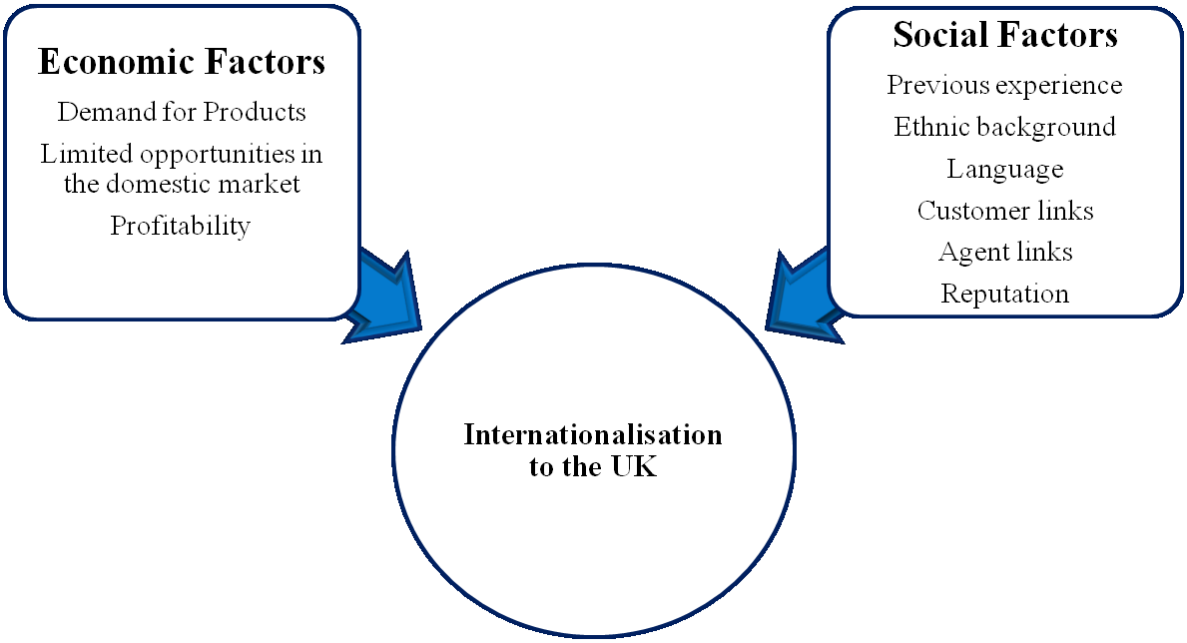


Figure: 6.2. Factors influencing internationalisation—Indian Companies




### 6.1.2. Conclusion

Respondents from British and Indian SMEs reveal that the primary motive behind their firms' internationalisation is economic. Socially related factors were important in facilitating internationalization, though the ones emphasized tended to differ as between the two sets of respondents. They even differed between the sectors in one country. Among British SMEs social factors are related to the entrepreneurs' experience in the form of previous network connections and their ethnic/national. By contrast, Indian SMEs use their prior business links with agents and customers in addition to its managers' experience and network connections. Moreover, the Indian respondent's foreign education and their wish to gain the reputation of an international company also influenced their decision to internationalise to the UK.

## 6.2. Quantitative findings

### 6.2.1. Introduction

An independent sample t -test was conducted to observe the difference between the UK and Indian responses regarding factors that influenced their decision to internationalize to India and the UK respectively. We then checked the clustering of factors using factor analysis to see if the quantitative findings compliment the qualitative results.

### 6.2.2. Independent sample t-test

The quantitative findings also show that the factors influencing internationalisation differed as between the UK and Indian companies.

The independent sample t-test (Table 6.3) reveals that responses from both countries varied on the items: fast growing economy, knowledge of language, managers' network, companies' business links, Indian origin members, unique product and institutional support in the UK.

On average, the item fast growing economy is considered more important by the British respondents (M = 4.13, SE = 0.093) than Indian respondents (M = 2.85, SE .081). This difference is also statistically significant, $t(198) = 10.397$, $p < 0.05$.

Table: 6. 3. Independent sample t test factors influencing internationalisation to India and the UK respectively (N = 200)

| Items | Mean | | SE | | t-Value | p-Value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Need for long term growth | 4.52 | 4.54 | .059 | .050 | -0.51(192.45) | 0.61 |
| Limited opportunities in domestic market | 2.46 | 2.35 | .126 | .093 | 0.70(181.81) | 0.48 |
| Fast growing economy | 4.13 | 2.85 | 0.093 | 0.081 | 10.397(198) | 0.00 |
| Knowledge of the language | 2.90 | 3.71 | .125 | .089 | -5.27(178.86) | 0.00 |
| Managers' previous experience | 3.44 | 3.20 | .136 | .106 | 1.39(187.24) | 0.17 |
| Managers' network in India/UK | 3.49 | 2.93 | .145 | .099 | 3.19 (174.36) | 0.002 |
| Companies' business links with India/UK | 3.20 | 2.67 | .135 | .096 | 3.20 (179.30) | 0.002 |
| Links provided by leading customers/suppliers/competitors | 3.03 | 2.89 | .108 | .098 | 0.89 (198) | 0.38 |
| Indian origin founding members/partners | 2.34 | 2.89 | .134 | .148 | -2.76(196.24) | 0.01 |
| Studied in India/UK | 2.16 | 2.25 | .135 | .102 | -0.53 (184.38) | 0.60 |
| Create an international reputation | 3.38 | 3.53 | .105 | .092 | -1.15 (198) | 0.25 |
| Unique product/technology | 3.41 | 2.88 | .120 | .098 | 3.36 (190.35) | 0.001 |
| Cost effectiveness | 3.12 | 2.89 | .124 | .117 | 1.29(198) | 0.20 |
| Institutional support in the UK | 2.63 | 2.20 | .115 | .055 | 3.37 (141.99) | 0.001 |
| Institutional support in India | 2.69 | 2.53 | .117 | .078 | 1.14 (173.08) | 0.26 |

The following sections present the factor analysis for the British and Indian companies, which provide a clear depiction of how the items are clustered for both country responses.

## 6.2.4. Factor Analysis

### 6.2.4.1. British Companies

A principal component analysis (PCA) was conducted on the 15 items with orthogonal rotation (varimax). The Kaiser-Meyer-Olkin (KMO) measure verified the sampling adequacy for the analysis, KMO = 0.590, which is mediocre according to Field, 2009. The anti-image correlation shown that KMO values for four items were below the bare minimum (0.5), which is not acceptable (Field, 2009). The four items, limited opportunities in domestic market, links provided by customers/suppliers, Indian origin founding members, and cost effectiveness were then removed and another PCA analysis was conducted for the remaining 11 items. The sample adequacy, KMO for 11 items is now 0. 687, which is much higher compared to the previous value. All KMO values for individual items were above the accepted level of 0.5 (Field, 2009). Bartlett's test of sphericity $\chi^2$ (55) = 490.12, $p < 0.001$ is highly significant, so factor analysis is appropriate (Field, 2009). An initial analysis was run to obtain eigenvalues for each component in the data. Four components had eigenvalues values more than 1, which is Kaiser's condition, and it explained 51.70% of the variance. However, in order to match it with the qualitative analysis, a 2-factor solution was run for the UK data. The items cluster on the same factors suggests that factor 1 represents personal attributes and factor 2 is labelled as internationalisation motives. However, the item companies' business links in factor 2 is logically more linked to the first factor. So the item was removed from the analysis. The internal reliability analysis (Cronbach's α) indicated an moderate level of clustering between the 6 items (α = 0.70). However, alpha value improved (0.73) when the item "fast growing economy" was removed. The table 6.4 presents factor loadings after rotation.

Table: 6.4. Factor Analysis for factors influencing internationalisation- British companies (N=100)

| | Personal attributes | Motives for Internationalisation |
|---|---|---|
| Managers' previous experience | .893 | |
| Managers' network in India | .821 | |
| Knowledge of the language | .820 | |
| Studied in India | .581 | |
| Institutional support in India | | .837 |
| Institutional support in the UK | | .817 |
| Create a reputation of international scope | | .685 |
| Unique product/technology | | .600 |
| Need for long term growth | | .444 |
| Eigenvalues | 2.73 | 2.48 |
| Variance | 30.37 | 27.66 |
| Alpha (α) | .82 | .73 |

These two broad factors influencing internationalisation parallel the qualitative findings. The factor "motives" for internationalisation is broadly "economic" in nature, while the factor "personal attributes" is "social" in nature.

### 6.2.4.2. Indian companies

A principal component analysis (PCA) was conducted on the 16 items with orthogonal rotation (varimax). The Kaiser- Meyer-Olkin measure verified the sampling adequacy for the analysis, KMO = 0.576, which is average according to Field, 2009. The anti image correlation shown KMO values for four items were below the bare minimum 0.5, which is not acceptable for factor analysis (Field, 2009). The four items, language, links provided by customers/suppliers, unique product, and institutional support in the UK were then removed

and conducted another PCA analysis for the 12 items. The sample adequacy, KMO for 12 items is now 0. 674, which is much higher compared to the previous value. However, the KMO for one item- fast growing economy- was below the accepted level, which is then removed and conducted another PCA analysis for 11 items. The KMO value is now 0.721, which according to Field, 2009 is good. The KMO value for cost effectiveness was below 0.5, which was also removed and another PCA analysis was conducted for 10 items. The KMO value was 0.736 and all KMO values for individual items were above the accepted level of 0.5 (Field, 2009). Bartlett's test of sphericity $\chi^2$ (45) = 338.58, $p < 0.001$, which is highly significant. So factor analysis is appropriate (Field, 2009).

An initial analysis was run to obtain eigenvalues for each component in the data. Three components had eigenvalues values more than 1, which is Kaiser's condition, and it explained 64% of the variance. However, in order to match with the UK data, a 2-factor solution was run for Indian data well. The items cluster on the same factors suggests that factor 1 represents "personal attributes" and that factor 2 may be labelled as "internationalisation motives". Taken together, the two factors explain 52.83% of the variance. The internal reliability analysis (Cronbach's α) indicated a weak clustering between the 7 items of the motives factor (α = 0.35). However, alpha rises considerably to 0.76 when two items are removed – "companies business links" and "studied in the UK". This results in the factor "internationalisation motives" having only 5 items. Table 6.5 shows the factor loadings after rotation.

Table: 6.5. Factor Analysis for factors influencing internationalisation- Indian companies (N=100)

| | Components | |
|---|---|---|
| | Personal attributes | Motives |
| Managers' network in the UK | .834 | |
| Indian origin British partner | .806 | |
| Managers' previous experience | .789 | |
| Create a reputation of international scope | | .858 |
| Institutional support in India | | .719 |
| Need for long term growth | | .661 |
| Profitability in doing business abroad | | .611 |
| Limited opportunities in domestic market | | .502 |
| Eigenvalues | 2.55 | 2.41 |
| Variance | 31.83 | 30.06 |
| Alpha (α) | .77 | .76 |

In both country samples, the items loading on the two factors refer to "personal attributes" and "internationalisation motives" respectively. There is some similarity between the factors, although their exact comparison for the British and Indian samples is not identical.

### 6.2.2. Conclusion

The survey shows that the main motive for both the British and Indian firms to internationalise to each other's country is the need for long term growth. The personal experience and connections of managers are also rated above the midpoint for both countries. The factor analysis shows that, similar to the qualitative findings, the items can be separated into two different factors, one primarily personal and the other primarily economic and institutional.

## 6.3. Summary

The qualitative and quantitative results are complementary to a great extent. The quantitative findings support our qualitative results that the factors influencing internationalisation decisions vary between the UK and India. Nevertheless, although the items emerging from the studies are not exactly the same, they could be classified into two broad categories. These categories have been given distinctive labels, but their components reveal that the personal attributes and motives displayed in the quantitative findings are similar to the social and economic factors respectively in the qualitative findings. Both sets of results show that managers' personal attributes (personal experience and network) are very important for both the British and Indian SMEs. However, these factors are more important for the British companies than Indian companies. On the other hand, some items produced contrasting results such as ethnic background (Indian origin), limited opportunities in domestic market, links provided by customer/suppliers, international reputation and language.

# CHAPTER 7
# PSYCHIC DISTANCE, IMPACT AND COPING METHODS

## 7.1. Qualitative findings

### 7.1.1. Introduction

Psychic distance was assessed by asking the respondents to rate perceived differences between India and the UK, their impact on their business, and methods of coping for each of 12 dimensions using 5-point Likert scales (see appendix 1). Respondents were at the same time asked to explain and elaborate on the reasons for their assessments, in particular, the impact in their business and how they coped with problems which emerged for each of the 12 categories.

### 7.1.2. Perceptual differences

An independent sample t-test reveals significant differences in the responses from the UK and India (table. 7.1).

The p-values of 10 dimensions are below 0.05, which reveals that there are differences between the UK and Indian responses. The descriptive statistics disclose that the cultural difference dimension represents the highest mean value for both the UK (4.37) and Indian (3.83) data. However the values of these means are different.

Table: 7.1 Independent sample t-tests for the perceived difference of the UK and India data. Total sample size (N=60)

| **Perceived difference** | **Mean** | | **SD** | | **T value** | **P-value** |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Geographic Distance | 4.10 | 2.97 | 0.54 | 0.96 | 5.60(45.95) | 0.00 |
| Cultural difference | 4.37 | 3.83 | 0.49 | 0.79 | 3.14(58) | 0.00 |
| Language | 2.20 | 2.53 | 0.89 | 1.04 | -1.34(58) | 0.19 |
| Education | 1.87 | 2.57 | 0.51 | 0.63 | -4.76(55.6) | 0.00 |
| Technical Development | 2.20 | 2.97 | 0.66 | 0.89 | -3.78(53.7) | 0.00 |
| Economic Development | 1.73 | 2.60 | 0.45 | 1.30 | -3.45(35.8) | 0.00 |
| Logistics and Infrastructure | 3.07 | 2.53 | 0.83 | 1.04 | 2.20(58) | 0.03 |
| Political systems | 3.40 | 3.60 | 0.77 | 0.81 | -0.98(58) | 0.33 |
| Legal Systems | 3.33 | 2.47 | 0.76 | 0.78 | 4.38(58) | 0.00 |
| Regulations | 2.67 | 2.07 | 1.12 | 0.64 | 2.54(45.99) | 0.02 |
| Business Practices | 2.17 | 3.07 | 0.70 | 0.91 | -4.30(54.5) | 0.00 |
| Business Ethics | 2.10 | 2.63 | 0.61 | 0.85 | -2.80(52.5) | 0.01 |

A British textile distributor, who rated '5' for cultural difference, said:

> That [India] is a very different culture. When somebody says I turn up at 5.30, they actually turn up at 7.00. I find that difficult…it is a different way of understanding time [TXU9]

The founder of a British IT company, who also gave a score of "5" to cultural difference, said:

> They are too polite always...if you ask them about some work they say, "Yes, I can", even if they cannot…everything is very slow there. Response is always very delayed [ITU3].

On the other hand, most Indian respondents scored the perceived cultural difference as somewhat lower - either 3 or 4. A respondent from the legal services company in India, who rated cultural difference as 3, said:

> There are differences…. Most of them [UK partners] wanted to know about our culture. When they come here they are very eager to know more about us. They never push their culture on us [FLI4].

The country director of an IT firm, who rated "4" for the cultural differences, said:

> There are differences. They are very strict about the time. If you have committed about something they wanted to get it on time even if we have some issues here...this has created a lot of trouble in the beginning…Our employees were not aware of it and they did not understand about it [ITI7].

Similarly, the geographic distance dimension also produced a higher mean value (4.10) for the UK responses, than for the Indian ones (2.97).

Typical comments from the UK respondents are:

> It is a big problem… they are too far for us…so meeting face to face is not possible every time [ITU3]

> It is one of the major issues…the time difference is a problem for us. We can't meet them regularly…traveling is difficult. It affects our communication as well [REU1].

The Indian ICT companies, which are providing service support to the UK companies, find it as a major issue for their business. However, the other companies do not perceive it as much of a problem.

The general manager of an IT company, who rated "4", said:

> They are too far. So we have issues with time difference...we do lots of support service in the UK... I think it is one of the main issues [ITI6].

The economic development dimension had the lowest mean value (1.73) among the UK responses. This is mainly because respondents see considerable similarities in the level of economic development between the two countries, mainly in microeconomic policies, government intervention and central-banking systems. They see India as an exceptionally attractive and rapidly growing economy. However, among the Indian responses the mean

value of economic development falls above the midpoint (2.60). It also recorded a high standard deviation (SD) (1.30); mainly due to mixed responses within the Indian sample. Only the respondents from the manufacturing sector, specifically the textile industry, and some of the new entrants from the ICT and financial services sector, said there are differences in the economic developments. They highlight the current economic crisis in the UK market as a real problem.

The owner of a textile company in India gave the score of "5", said:

> Their economy is worse than ours now…this economic slump in their market is a big concern for us. Our sales come down to 40%. It is a big concern [TXI1]

A financial services company manager, who rated '3', said

> UK is a developed economy but India is only in the growing stage now...another thing I noticed is that Indian middle class is growing faster than the European middle class. We [Indian middle class] can afford anything but they [European] can't [FLU4].

The mean values for half of the twelve psychic distance dimensions are above the mid-point in the UK data. In addition to cultural and geographic distance, logistics, political system, legal systems and regulation shows relatively higher mean values. The mean value of the logistics dimension for the UK data is 3.07. The managing director of a small software firm, who gave a score of "5" to logistics, said

> Power is one of the major issues ... also transportation is a nightmare. Driving is very dangerous…but it varies among different sates/cities…certain cities are better. Developments are slow... it is improving but not adequate [ITU1].

Similarly, the owner of a textile firm said:

> Distribution of product is a big problem...time delay is another issue. It is getting better but still difficult...there are some problems with the telephone lines as well [TXU5].

The political systems dimension represents third highest mean value in the UK data (3.40). The director of a UK asset management firm, rated "4", said:

> At the national level, certain people are very competent and strategic… But some are corrupt…it is more corrupt at the state level [FLU4].

The UK respondents made contrasting comments about the legal system in India. They perceive that India's legal system has initiated British traditions and similar laws and legislation. However, the slowness of the Indian legal system tends to be considered as a major problem for their business.

The mean value of the logistics dimension for the Indian data is lower than the UK. This is mainly because the Indian data display discordant responses from different sectors reflected in the high standard deviation (1.04).The service sector companies, who enjoy better support from the Indian government, do not face any problems with logistics. However, some of the manufacturing companies are concerned about the state of Indian infrastructure and logistics---they put the blame on poor governmental involvement in infrastructure development and ancillary support services.

Typical comments from Indian textile respondents were:

> There are big differences. It is the major problem in India…we don't have any problem with the UK. Here in India we are relatively far from major ports… the roads are really bad here [TXI1].

> The UK is no problem at all. It has improved a lot in India. It is now at a satisfactory level...Our shipping itself is faster than before...it is not a big problem as before [TXI3].

The results in Table 3 reveal that the Indian mean value for political systems differences (3.60) compliments the British value. However, the qualitative analysis of Indian findings reveals that the responses of service and manufacturing sector companies are different in some instances. It is mainly managers from manufacturing companies and new service sector companies who perceive that the political systems between both countries are different. They have raised some concerns about the Indian political system.

Typical comments are:

> There are differences. UK is more friendly to industry… the political environment in India is very bad. The approaches of the political parties are not supporting development [TXI10].

> No problem with the UK. "Harthal" [strike] is a major issue here [...] it affects everything. I don't think [state's name] is a business friendly place. I am sure the next generation would not be interested to do business here [TXI4].

Scores on "regulations" show a high SD (1.12) for the UK data. The wide variation of responses for this dimension is due to the regulatory restrictions in certain sectors such as legal services and real estate. The MD of a real estate company, who gave a score of "5", said:

> Restrictions on FDI are a major problem. If that was possible our business would be substantially more...now we have to depend on the Indian developers. We can't make direct investment [REU2].

The CEO of an ICT company in the UK, who rated difference in regulations as "3", said

> When I first started business in India, the regulations were a means of bribing the inspector. Now that has been tightened up to some extent. So it is not quite as bad as it was but there are still it is an issue [ITU1].

By contrast, regulations (2.07) elicited the lowest mean value among Indian respondents mainly because they perceive considerable similarities between both countries' regulations. However, some respondents observe differences.

Two illustrative comments are:

> No big difference. The visa regulations have to be simplified…if we want to send somebody to the UK very urgently; getting travelling visa is very difficult [ITI5].

> I think there are some differences...some regulations are not practically implementable in India. That is good for our bureaucrats...if you are ready to bribe you won't have problem [TXI1].

Appendices 4a (UK) and 4b (India) show Pearson correlation matrices for all psychic-distance dimensions. In the UK sample, the strongest correlation is between the items referring to differences in business practice and business ethics (0.93). Other relatively high correlations are between geographic distance and these same items (r= 0.68 and 0.59 respectively). On the other hand the Indian matrix shows weak correlations between these items compared with the UK results. Difference in business ethics, which is strongly associated with legal systems (0.69), also correlates with geographical distance and difference in business practice. The matrixes indicate some clustering between the business ethics dimension and geographic distance, legal systems and business practices for both the UK and Indian data. However, overall these results show that most psychic distance dimensions are relatively independent of one another, hence they justify (1) a multidimensional approach and (2) the further exploration of the separate impact on business that each may have.

Overall, the findings show that the UK respondents perceive higher psychic distance compared with Indians for areas subject to institutional and cultural influence (logistics, legal systems, regulations and culture), and for the opposite in matters to do with competencies

(education, technical and economic development, business practices and ethics). Britain as a liberal market economy (LME) has far more matured institutions and open policies in comparison with India. Britain can also boast of more sophisticated business practices and ethics. Moreover, due to immigration, family ties, education, and colonial relations, Indians are more familiar with the UK culture than the British are with India.

### 7.1.3. Impact of psychic distance dimensions

The next objective was to investigate the perceived impact of various psychic-distance dimensions on doing business in the other country, as between the UK and India. The independent sample t-test (table 7.2) reveals significant differences in the responses from the UK and India.

Table: 7.2 Independent sample t-tests for the impact of psychic distance of the UK and India data. Total sample size (N=60)

| Perceived PD impact | Mean | | SD | | T value | P-value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Geographic Distance | 2.17 | 2.50 | 0.79 | 0.94 | -1.48(58) | 0.14 |
| Cultural difference | 2.07 | 2.30 | 0.74 | 0.79 | -1.18(58) | 0.24 |
| Language | 2.10 | 2.43 | 0.71 | 0.97 | -1.52(53.2) | 0.14 |
| Education | 1.83 | 2.20 | 0.75 | 0.55 | -2.16(58) | 0.04 |
| Technical Development | 2.20 | 2.30 | 0.76 | 0.84 | -0.48(58) | 0.63 |
| Economic Development | 1.73 | 2.57 | 0.45 | 1.07 | -3.92(38.9) | 0.00 |
| Logistics and Infrastructure | 2.93 | 2.53 | 0.87 | 0.94 | 1.72(58) | 0.09 |
| Political systems | 3.00 | 2.43 | 0.79 | 0.86 | 2.66(58) | 0.01 |
| Legal Systems | 2.63 | 2.37 | 0.77 | 0.72 | 1.39(58) | 0.17 |
| Regulations | 2.57 | 2.13 | 1.10 | 0.43 | 2.00(37.76) | 0.53 |
| Business Practices | 2.37 | 2.37 | 0.72 | 0.81 | 0.00(58) | 1.00 |
| Business Ethics | 2.13 | 2.13 | 0.57 | 0.51 | 0.00(58) | 1.00 |

The descriptive statistics (Table. 7.2) reveal that the impact of psychic distance dimensions are relatively less compared with the perceived difference between countries. The comparison of the UK and Indian scores using an independent sample t-test (table. 7.2) shows no great difference for most dimensions of psychic distance impact. The p-value of only three psychic distance dimensions—education, economic development, and political systems --is above the 95% level of statistical significance. The decision-makers' perceptions about the impact of all the other psychic distance dimensions are relatively similar for both countries.

The impact of level of education (1.83) perceived by the UK respondents tends to be somewhat less when compared with the Indian responses (2.20) but both averages are positioned below the scale midpoint. This reveals that differences perceived in levels of national education do not have a great impact for either British or Indian firms with respect to doing business with the other country. However, the responses about the impact of economic development from the UK and India are more marked. This dimension has the highest mean value for Indian companies (2.57), whereas it recorded the lowest value among the UK companies. There is a relatively high SD value for the Indian responses compared to the UK ones mainly because of the difference between the service and the manufacturing sectors. Differences in economic development are not seen to have much impact for the service sector companies in India, such as ICT, financial and legal sector companies. However, they do have considerable impact on the manufacturing sector companies. This appears to be because respondents were understanding 'economic development' to mean 'economic growth'. For example:

An Indian textile exporter, who gave a score of "5" to impact of differences in economic development, said:

> Our sales have come down to 50%. It is a big concern for us now… The domestic market is least affected but taking the product to the domestic market is a total dilemma...we will have to invest a lot for that, from brand building to product development [TXI1].

Similarly, another respondent said:

> We never had any problem in the UK market...our business was growing every year. That is one of the main reasons we concentrated more in the UK…but the present crisis affected us a lot [TXI3].

Contrast to this, the respondents from the service sector companies said:

> Their economy is far better than us. We are growing but still have a long way to go. It has only positive impact on our business [ITI5].

> I think we are growing but will take some more time to level. But it does not make any impact in our business [ITI6].

The impact of political systems also produced conflicting responses between the UK and India. The mean value for the UK data (3.00) is at the scale midpoint whereas it lies somewhat below the midpoint for Indian data (2.43). The decision-makers of the UK companies linked the impact of political systems and logistics with the bureaucracy in India. They perceive that these variables pose a lot of difficulties for doing business in India.

A manager of an IT company, who started business in India 15 years ago, rated "3" for the impact of political systems and said:

> When I first started business in India, corruption was the main issue… bureaucracy was very corrupt…it is not quite as bad as it was. No big problem for me. I know about it and my partner in India helps...it is normally difficult [ITU1].

The chairman of a real estate company in the UK, who has properties in different states and gave a score of "4" for the impact of political systems, said:

> The political landscape varies in different states...it is not stable at the state level whereas it is better at the central. But most of the time we have to deal with the state bureaucracy [REU2].

However, the responses for the impact of political systems in Indian firms again reveal a clear distinction between the service and manufacturing-sector companies. The decision makers from textile firms highlight that the domestic political systems has some impact on their business and they perceive that the "lower home government support" for the manufacturing sector compared with service-sector companies is the main cause of these issues. The CEO of a textile company in India, who gave a score of "3" for impact of political system differences, commented:

> Government support is very important…we are not getting any support such as tax benefits and relaxation of duties…whereas most of the service sector companies are getting all these benefits. ICT companies are considered as essential services so political strike or any other issues won't affect them [TXI7].

> Domestic political systems have some impact on our business. [State's name] has too many political strikes but [the neighboring state's name] provides better support to the companies. These political strikes won't affect any business there. We are thinking about shifting our business to that state [TXI10].

The descriptive statistics reveal that the mean values of impact of perceived logistics and infrastructure differences for both the UK (2.93) and India (2.53) are close to the midpoint (see Table 7.2). The UK decision makers tend to associate logistics problems in India with corruption in the bureaucracy.

The chairman of a UK financial services company, which has offices in different cities in India, gave a score of "3" and said:

> It varies…it is improving but not adequate…it depends mainly on the government and the bureaucracy in different states. Developments are slow... I know about it. I have people there. So no big impact [FLU4]

A respondent from a UK textile company scored "3", said:

> It has some impact on our business. Sometimes the shipping on right time will not be possible due the transportation issues...ports are far from my partners place...the roads are not in good condition. It is developing but still a long way to go. Some cities are better [TXU 4]

However, the Indian data reveal that there are differences in the perceptions of the manufacturing and the service sector companies about the impact of logistics and infrastructure. The textile companies from India perceive that the logistics and infrastructure in India always had some impact on their company's ability to export to the UK. When asked about it, the decision makers highlighted that similar to the political systems, the logistics and infrastructure also varies in different cities and states, and they link it to the bureaucracy.

> Government support is very critical. Government is not encouraging exports or providing infrastructure support to the textile companies in this area [TXI1].

> The [state's name] government is providing better infrastructure facilities for the companies. They have better connectivity... they have better road facilities it is well connected with the seaport and the airport. This has positive impact on their cost and pricing as well [TXI5].

The table 7.2 shows that the standard deviation of regulations for UK data is very high (1.10) because of mixed responses. Most respondents from the legal services and real estate companies perceive that regulations have a great impact on their business because the Indian market is not fully open in every sector.

For example, the managing director of a real estate company, who gave a score of '5', said:

> It has a big impact on our business…we are too dependent on the Indian developers...we can't do anything else. It is probably the biggest factor affecting our business [REU1].

The Pearson correlation matrix for the UK data (Appendix. 5a) shows a clustering between the items concerning the business impact of differences in political systems, legal systems and regulations. These items are also correlated with technical development, logistics, business practice and ethics. The highest correlation (0.83) is between the impacts of legal systems and regulations. However, the matrix for Indian data (Appendix. 5b) shows relatively weak correlations. The strongest correlation (0.68) is between the impacts of technical development and political systems differences. The table reveals that there is a similar clustering between both countries for the dimensions of technical development and political systems, and legal systems and regulations. It seems that one reason for the relatively weak correlations between PD impact items in the Indian sample may be due to substantial difference between the manufacturing (textile) and service (IT) companies.

### 7.1.4. Coping with Psychic distance

The results of the study reveal that the impact of psychic distance on internationalization between the UK and Indian SMEs is much less compared with the high, perceived differences between them. This raises the questions of how well decision-makers in these SMEs are able to cope with issues related to psychic distance because an ability to cope may serve to lower perceived impact. An independent sample t-test was conducted to compare the UK and Indian results (Table 7.3). They reveal that the responses from the two countries vary only in the dimensions of economic development, regulations and level of education, which shows p-values less than 0.05.

The descriptive statistics in Table 7.3 reveal that the mean values for both countries are below the mid-level, which indicates that the SMEs are generally able to cope with issues of psychic distance. The standard deviation (SD) values for both countries also are comparatively less than those for the perceived difference and the impact dimensions.

Table: 7.3. Independent sample t-test for degrees to which respondents could cope with psychic distance. Total sample size (N=60)

| PD Coping | Mean | | SD | | T value | P-value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Geographic Distance | 2.17 | 2.13 | 0.59 | 0.73 | 0.19(58) | 0.85 |
| Cultural difference | 2.00 | 2.10 | 0.59 | 0.55 | -0.68(58) | 0.50 |
| Language | 1.90 | 2.10 | 0.55 | 0.76 | -1.17(58) | 0.25 |
| Education | 2.17 | 1.93 | 0.46 | 0.37 | 2.17(58) | 0.03 |
| Technical Development | 2.20 | 2.07 | 0.61 | 0.64 | 0.83(58) | 0.41 |
| Economic Development | 1.97 | 2.50 | 0.32 | 0.94 | -2.948(35.66) | 0.01 |
| Logistics and Infrastructure | 2.43 | 2.03 | 0.90 | 0.96 | 1.66(58) | 0.10 |
| Political systems | 2.40 | 2.33 | 0.68 | 0.71 | 0.37(58) | 0.71 |
| Legal Systems | 2.23 | 2.13 | 0.73 | 0.57 | 0.59(58) | 0.56 |
| Regulations | 2.40 | 1.93 | 0.77 | 0.52 | 2.75(50.94) | 0.01 |
| Business Practices | 2.20 | 2.13 | 0.55 | 0.78 | 0.38(58) | 0.70 |
| Business Ethics | 2.17 | 2.00 | 0.53 | 0.46 | 1.31(58) | 0.20 |

Based on the results obtained from the conversations with the decision makers from both countries, coping methods may be classified into four different categories, which includes non-coping as well; behavioral aspects such as network, trust and learning form the basis of the categorization. The results reveal that understanding and learning about a foreign market is one of the key techniques to enter and survive in that market. So the first coping strategy, which we call the absorption coping mode, is identified based on the way firms learn about a

foreign market. The second mode, the contingent mode, considers inter-partner dependence is typified by a more arm's length reliance on partners, as agents, to deal with host country issues on behalf of the SMEs. The study then analyses the pragmatic one of coping.

Unlike Child et al. (2009), who classified the coping modes on the basis of transaction cost involved, i.e. reducing a transaction cost (bridging mode) and averting transaction cost (avoidance mode), we have classified psychic distance on the basis of functions such as learning and networking. Each of these coping modes, together with non-coping is illustrated with quotations from the interviews in Table 7.4a for UK respondents and Table 7.4b for Indian respondents.

#### 7.1.4.1. Absorption mode:

This is the process of acquiring information and learning about a host market and get accustomed to that market. The firm identifies the sources of key information needed for their business in the foreign country. This is achieved through a manager's experience or network, building partnership with foreign companies or hiring experienced professionals or local employees. Modern information and communication technology also enhances the relationship and information flow by facilitating frequent communication between the partners.

#### 7.1.4.2. Contingent Mode

The results reveal that there are instances when SMEs could not overcome issues of psychic distance just by learning and understanding about the host country. In such cases, SMEs

depend upon their partner in the foreign market or a local employee for dealing with operational contingencies in the other country; they share their difficulties with them.

#### 7.1.4.3. Pragmatic mode:

There are instances when companies could not cope with some psychic- distance dimensions through any of the above-mentioned methods. In such situations firms adopt some practical ways to overcome the problems. These include accepting letters of credit, applying home country laws, adopting alternate legal procedures such as arbitration, and even infringing regulations.

#### 7.1.4.4. Non-Coping

The findings reveal that institutionally embedded dimensions (i.e. logistics and infrastructure, political systems, legal systems and regulations) are more difficult to cope with when compared with socially/culturally embedded dimensions (i.e. cultural differences, language, business practice and business ethics). Some firms are able to cope with the institutional issues associated with psychic distance through their network and experience. However, there are occasions when SMEs are not able to cope with issues caused by some psychic- distance dimensions. These vary across companies and industry segments.

The findings also disclose that six UK firms included in this study mentioned that they had problems coping with of Indian logistics and infrastructure. Similarly, three real estate firms, which face regulatory restrictions in India, find it to be the main barrier for their business. Two software firms, who are outsourcing some of their work to India, also reveal that they have troubles coping with this issue. On the other hand, four textile companies in India said

their company could not cope with the issues of Indian logistics and infrastructure. And, three of them said they have difficulties to cope with the domestic political systems. As mentioned earlier, seven textile companies highlight that their company could not cope with the present economic downturn in the UK.

### 7.1.5. Conclusion

The findings reveal a mixture of similar and disparate responses from the leaders of SMEs in the two countries. Moreover, there were diversified results for some dimensions both within the same country and even the same sector. The findings also confirm that perceived difference does not necessarily predict the impact of psychic distance in the internationalization of SMEs.So we conclude that the UK and Indian SMEs on the whole have the ability to cope with the impact of perceived psychic distance.

Table: 7.4a Coping Modes- British companies

| Absorption Mode | | | No of mentio |
|---|---|---|---|
| **Methods** | **Needs** | **Illustrative Quotations from Interviews** | |
| Experience and network of managers | Tacit knowledge about culture | Culture was a big problem for me initially. Then I learnt about it slowly...I understand that now…that's why I make money. It is a big surprise to lot of people [ITU 1]. | 16 |
| Partnerships | To learn about the differences in logistics and infrastructure between cities. | It is better in certain cities...developments are slow in some places...I learn about it through my partner. So I know where to invest in ...we closely monitor the developments [REU2]. | 13 |
| Information and communication technologies. | Market and company background information | Getting the company and the market details were a big task for us initially. We were seeking help from various institutions but were never getting complete up-to-date information. Now we use latest technologies...we have more options...it's easy, cheap and quick [REU1]. | 22 |
| **Contingent Mode** | | | **No of mentio** |
| **Methods** | **Needs** | **Illustrative Quotations from** | |
| Rely on partner in India | Distribution issues | Distribution of the product is a big problem. It is getting better but still difficult...my partner helps...I transfer these issues to him. He deals with it. So I don't have any big problem [TXU4]. | 4 |
| Rely on partner in India | Overcome regulatory restrictions | We can't invest directly in India. We depend our partner [property developer] in India a lot...he helps me overcome the regulatory restrictions [REU3]. | 3 |

| | | | |
|---|---|---|---|
| Rely on partner or employee in India | Overcome bureaucratic hurdles | Some of the issues such as slowness and corruption in the bureaucracy are totally new to me. In that case, I just avoid it and pass it to my people in India. They deal with the issue for me [FLU4]. | 10 |
| Rely on agent | Avoid Indian political systems | We do not deal with the Indian political system...it is highly corrupted…we try to avoid it…we import the goods through our agent...so there is no direct interaction with Indian political system…Agents deal with all those issues [REU1]. | 3 |
| **Pragmatic mode** | | | **No of mentio** |
| **Methods** | **Needs** | **Illustrative Quotations from** | |
| Hiring local employees | Sort the language issues. | Language was a problem in some occasions. Sometimes even the email response is poor due to the problem with language. So I hired a staff member who could speak Hindi and other Indian languages...he helped me sort these issues to a great extent [ITU4]. | 4 |
| Use of Arbitration | Overcome the slowness in the Indian legal system. | We never had any problems…Apparently Indian legal systems are extremely slow. So we try to avoid them and use arbitration methods to sort out if any issues arise [ITU2]. | 11 |
| Side stepping regulation | Overcome regulatory barriers. | I am an Indian living in the UK, so there's no problem for us with these regulatory restrictions in India. We are not restricted from doing business there [FLU1]. | 4 |

| | | | |
|---|---|---|---|
| Pay in Instalments | Reduce risk. | We make payments in two instalments to avoid risks. Only half of the agreed amount is paid after signing the contract and the rest is paid at the time of product delivery [TXU1]. | 8 |
| Letter of credit | Payment safeguard | We use letter of credit to avoid the risks associated with non-payment for goods supplied. | 7 |
| ICT | Overcome culture/distance issues | If there is any issue we use the technologies such as video conferencing and email---this reduces the cultural and distance issues [ITU7]. | 13 |

Table: 7.4b. Coping Modes- Indian Companies

| Absorption mode | | | No. of mentions |
|---|---|---|---|
| **Methods** | **Needs** | **Illustrative Quotations from Interviews** | |
| Decision maker's experience | Learning/understanding about the culture | I have around 25 years' experience in dealing with people in the UK. So I know how to talk with them and what they are looking for...We have very long relationships as well...I do not have any big issues…generally new entrant face some difficulties [TXI1]. | 22 |
| Trustworthy partnership | Tacit knowledge about latest technological developments | Market is sporadic…technology changes quite often. We have to keep our self up-to-date…They have an edge over us...they tell us about the new technologies, machineries and other technical aspects. They are more aware of it than us [TXI4]. | 19 |
| | Training and development | We had some difficulties in understanding technical issues initially. There are difference in our way and their way of doing. So people from the UK came here and trained our people [ITI4]. | 4 |
| ICT | Understanding the needs | I am the only person looking after the international activities. I use all the latest facilities to communicate with them...I do it whenever needed. That is how we understand each other's needs [TXI3]. | 12 |

| Contingent Mode | | | No. of mentions |
|---|---|---|---|
| **Methods** | **Needs** | **Illustrative Quotations from Interviews** | |
| Rely on partner | Sales and marketing. | My partner in the UK looks after the sales and the commercial side. They helped us survive this economic downturn [ITI7]. | 8 |
| Rely on agent | Logistics and infrastructure support. | Our agent in the UK provides all infrastructural and logistics support...they deal with all that issues [TXI7]. | 4 |
| | Political and legal issues | We don't deal with it directly...our agent in the UK looks after that [TXI10]. | 2 |
| **Pragmatic Mode** | | | **No. of mentions** |
| **Methods** | **Needs** | **Illustrative Quotations from Interviews** | |
| Information and Communication Technology | Quick and safe payment mode | We use online transfer...premium forward banking is done through electronic medium. It is quick and secure [REI1]. | 12 |
| | Overcoming geographic distance/culture | Most of our work is through email and telephone...Iif there is any problem in understanding the technical specifications or any other internal issues we sit at video conferencing and sort it out [ITI6]. | 24 |
| Cash in advance | Safeguard against non-payment for goods supplied | We take 100% payment before the delivery (50% paid at the time of signing the agreement and the other 50% on delivery) [TXI7]. | 11 |

| | | | |
|---|---|---|---|
| Letter of credit(LC) | Payment protection | All payments are done either through “letter of credit” or “cash against document” terms. We don’t promote any credit terms unless they are a reliable buyer. It is a big risk. We deal with that if it is supported with LC [TXI5]. | 8 |
| Change of office hours | Adjust the time difference | We have problem with time difference. We reach office late and sit extra hours in the evenings to adjust with the time difference [ITI7]. | 5 |

## 7.2. Quantitative Findings

### 7.2.1. Introduction

In the survey, questions were asked only on only psychic distance and the impact of psychic distance. An independent sample t-test was conducted for both perceived difference and its impact to see the difference between the UK and Indian responses. We then used factor analysis to check if the dimensions of perceived difference and impacts showed any clustering as found in the previous qualitative analysis. The Cronbach’s alpha test was used to check the internal reliability of the constructs.

### 7.2.2. Perceived psychic distance

#### 7.2.2.1. Independent sample t-test

The independent sample t-test reveals that the decision makers' perceptions about the distance between the UK and India are different for 8 dimensions (Table 7.5). Other dimensions namely geographic distance, level of technical development, economic development and business ethics has similar scores for entrepreneurs from both countries.

Table: 7.5. Independent sample t-test for the psychic distance of the UK and Indian companies. Total sample size (N= 200)

| Items | Mean | | SE | | t-Value (df) | p-Value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Geographic distance | 3.29 | 3.10 | .06 | .05 | 1.67 (190.34) | 0.10 |
| Cultural difference | 3.53 | 3.23 | .13 | .09 | 2.65(198) | 0.01 |
| Language difference | 3.14 | 2.56 | .09 | .07 | 5.01(198) | 0.00 |
| Level of education | 2.51 | 2.12 | .081 | .05 | 4.12(155.94) | 0.00 |
| Level of technical development | 2.85 | 2.75 | .09 | .08 | 0.87(198) | 0.39 |
| Level of economic development | 3.05 | 2.83 | .11 | .10 | 1.52 (198) | 0.13 |
| Logistics and infrastructure | 3.81 | 3.39 | .08 | .07 | 3.93 (198) | 0.00 |
| Political systems | 3.40 | 2.83 | .09 | .07 | 5.05 (187.47) | 0.00 |
| Legal systems | 3.28 | 2.59 | .09 | .06 | 6.37(180.73) | 0.00 |
| Regulations | 3.33 | 2.71 | .10 | .08 | 4.90 (193.01) | 0.00 |
| Business practice | 3.25 | 2.88 | .07 | .06 | 3.99 (191.12) | 0.00 |
| Business ethics | 2.87 | 2.66 | .10 | .06 | 1.81 (171.24) | 0.07 |

The descriptive statistics for the UK data shows that the mean values of nine dimensions are above the midpoint. The level of education represents the lowest value. On the other side, Indian logistics and infrastructure represents the highest mean value (3.81) for the UK data. However, Indian data shows that the mean values of nine items fall below the mid value.

Furthermore, the mean values of all the dimensions are relatively lower than the UK values. This is consistent with the conclusion drawn from the qualitative findings that Indian decision makers are more aware of British market than the UK entrepreneurs' about India.

#### 7.2.2.2. Internal reliability analysis

##### 7.2.2.2.1. British Companies

The internal reliability analysis (Cronbach's α) was conducted for to check if the psychic distance could be treated as a single variable for the British data. The alpha shows an acceptable level of clustering between the 12 items (α = 0.79) of psychic distance.

##### 7.2.2.2.2. Indian Companies

The internal reliability analysis (Cronbach's α) (Table: 7.9) for the Indian data also indicated an acceptable level of clustering between the 12 items of psychic distance (α = 0.79).

### 7.2.3. Impact of perceived psychic distance

#### 7.2.3.1. Independent sample t-test

The independent sample t-test (Table 7.10) reveals that entrepreneurs' responses on the impact of psychic distance between the UK and India are different for 11 out of12 dimensions.

Only impact of economic development dimension shows similarities between both countries' responses. Due to India's rapid growth, British entrepreneurs consider it as attractive and competent as the UK market. However, the descriptive statistics reveal that the mean values of all 12 dimensions for Indian companies are below the scale midpoint 3.00. The UK

responses show mean values higher than the Indian one for institutionally embedded dimensions such as logistics, political systems, legal systems, regulations and business practice. With the exception of economic development, the UK scores for impact are consistently higher than the Indian scores. Logistics and infrastructure has the highest mean value for both countries. However, the mean values for impact are lower than the perceived difference for both British and Indian responses.

Table: 7.6 Independent sample T-test of impact of psychic distance for the UK and Indian companies (total sample size = 200)

| Items | Mean | | SE | | T value | p-value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Impact of geographic distance | 2.48 | 1.93 | .058 | .066 | 6.30(198) | .000 |
| Impact of cultural difference | 2.43 | 1.97 | .064 | .077 | 4.59(198) | .000 |
| Impact of language difference | 2.10 | 1.72 | .069 | .067 | 3.96(198) | .000 |
| Impact of level of education | 2.02 | 1.56 | .085 | .054 | 4.56(198) | .000 |
| Impact of technical development | 2.43 | 2.05 | .087 | .069 | 3.43(188.14) | .001 |
| Impact of economic development | 2.16 | 2.25 | .075 | .090 | -0.77(198) | .444 |
| Impact of logistics | 3.19 | 2.47 | .087 | .056 | 6.95(168.50) | .000 |
| Impact of political systems | 2.66 | 2.22 | .083 | .052 | 4.48(166.88) | .000 |
| Impact of legal systems | 2.59 | 2.02 | .093 | .035 | 5.73(125.96) | .000 |
| Impact of regulations | 2.87 | 2.11 | .088 | .049 | 7.52(154.66) | .000 |
| Impact of business practice | 2.59 | 2.01 | .084 | .050 | 5.92(161.56) | .000 |
| Impact of business ethics | 2.45 | 1.87 | .091 | .042 | 5.77(138.68) | .000 |

Degrees of freedom values are in parenthesis (two tailed test)

### 7.2.3.2. Internal reliability analysis

#### 7.2.3.2.1. British companies

The internal reliability analysis indicated a very good clustering between the 12 items ($\alpha$ = 0.87) of impact of psychic distance.

#### 7.2.3.2.2. Indian companies

The internal reliability analysis (Cronbach's α) indicated a reasonable clustering between the 12 items (α = 0.79).

### 7.2.4. Conclusion

The quantitative analysis also supports the qualitative findings that perceived psychic distance is not a predictor of the impact of psychic distance. The alpha values of both the UK and India data show a good level of internal reliability for composite indicators both perceived difference and impact, comprising all twelve dimensions.

## 7.3. Psychic distance and mode of internationalization

Our multidimensional assessment of psychic distance shows that some dimensions are more consequential than others for SMEs in both the UK and India. These dimensions could affect an SME's entry into a new market and its performance there if due attention is not paid to them. However, our qualitative findings indicate that SME decision-makers' conscious efforts to cope with aspects of psychic distance reduce their impact. The main coping strategies adopted by British and Indian firms are related to their social capital and learning capability. On the other hand, our survey result for British companies show that psychic distance and its business impact have no direct influence on firms' mode of internationalization (table 7.7) whereas Indian findings show significant negative correlation between psychic distance, impact of psychic distance and international commitment mode (table 7.8). This is mainly due to the difference in the nature of business, i.e. Indian firms mainly export to the UK whereas British firms either import from or outsource to India. This also highlights the fact that

psychic distance has a greater influence on outward internationalization than on inward internationalization.

Table: 7.7. Pearson correlation for psychic distance, impact of psychic distance and international commitment mode—British companies

| No | Items | 1 | 2 | 3 |
|---|---|---|---|---|
| 1 | Psychic distance | 1 | | |
| 2 | Impact of psychic distance | .50** | 1 | |
| 3 | International Commitment mode | .16 | .10 | 1 |

** p < 0.01; **** p < 0.001 (2-tailed).

Table: 7.8. Pearson correlation for psychic distance, impact of psychic distance and international commitment mode—Indian companies

| No | Items | 1 | 2 | 3 |
|---|---|---|---|---|
| 1 | Psychic distance | 1 | | |
| 2 | Impact of psychic distance | .16 | 1 | |
| 3 | International Commitment mode | -.33*** | -.24*** | 1 |

** p < 0.01; **** p < 0.001 (2-tailed).

## 7.4. Summary

The psychic distance for the UK and Indian companies is higher than its business impact. This suggests that the UK and Indian SMEs have the ability to cope with the impact of psychic distance. The qualitative study provided a detailed account of the different coping modes adopted by the UK and Indian SMEs. The hypothesis testing in chapter 10 will analyze the factors influencing the impact of psychic distance for the UK and Indian companies. The

qualitative findings indicate that psychic-distance dimensions are socially or institutionally embedded. They show that the socially embedded psychic-distance dimensions have less impact and are easier to cope compared with institutionally embedded dimensions. Dimensions such as logistics, regulations, and political systems are institutionally embedded, and in some cases the decision-makers were unable to cope with them. By contrast, socially rooted dimensions such as culture, language, business practice and ethics are more easily manageable through SMEs' social capital. The quantitative results for British and Indian responses do not complement the qualitative findings that psychic-distance dimensions can be classified into institutional and social dimensions because the alpha values show a good level of internal reliability for composite indicators both perceived difference and impact, comprising all twelve dimensions. However, the dimensions which are more related to institutions show a greater level of impact for SMEs. The descriptive statistics of the impact of psychic distance for British data shows that the item impact of logistics and infrastructure is above midpoint whereas the mean values of all dimensions are below the scale midpoint for Indian data.

Overall, it appears that the impact of psychic distance for British decision-makers is higher than for their Indian counterparts. Therefore, for path analysis, confirmatory factor analysis classified the impact of psychic distance into institutional and socio-cultural dimensions (see appendix 6).

# CHAPTER 8
# SOCIAL CAPITAL

## 8.1. Qualitative findings

### 8.1.1. Introduction

This chapter looks at how the British companies initiated, developed and maintained their relationships with their partners in India, and vice-versa. These are the firms' principal transactional exchange partners. We focus on the dyadic relationship between them, and use the term 'social capital' to refer to relations between Indian and UK partners that served as assets (capital) to facilitate their internationalization. First, we look at the initiation of social capital relevant to British and Indian companies. Then we discuss how these relationships developed over time. The final section explores whether these relationships reach what might be called a 'mature' stage---and how they are maintained successfully.

### 8.1.2. Social capital initiation

The British and Indian entrepreneurs initiated their relationships with each other in broadly two ways: creating new relationships and using existing social capital. Responses by decision makers reveal that the creation of new relationships could be either intentional or serendipitous in nature. The main mechanisms the SMEs used to create a new relationship are participating in trade fairs/conferences and advanced communication technologies such as Internet and telephone. By contrast, the use of existing relationships refers to the prior experience, network, and common ethnicity of entrepreneurs. However, initiation of relationships through the use of existing social capital can also be either serendipitous or

intentional. A detailed analysis reveals that the initiation of social capital varies widely between the two countries and even among companies within the same country.

Illustrative quotations from interviews on social capital initiation through creating a new relationship is presented in table 8.1.

Table: 8.1. Social capital initiation through creating a new relationship

| Types of social capital initiation | County | Number of cases in the category | Illustrative quotes from Interviews |
|---|---|---|---|
| Participating in trade fairs/conferences | UK | 7 | I was dealing with an agent in India. We developed that relationship through trade fairs. But we did not know anything about the production centre and how the employees are treated there… these agents were buying from a number of manufacturers. So, as a social commitment and fair trade deal, which means whether the employees are treated well and paid well, we decided to deal directly with the manufacturer. We met them [the Indian manufacturer] at the Frankfurt trade fair on 1984. We were impressed with their products and its quality. We then stopped our business with the agent. We started dealing directly with the manufacturer [TXU3]. |
| | India | 7 | We started it through an agent based in Delhi. They saw us at an exhibition organized by the central government in New Delhi. We had our stall there. They were interested in our product and approached us [TXI5]. |
| Use of advanced communication technologies | UK | 4 | We got their details through online search... then first contacted through email... they've also shown interest. We then talked over the phone. We met each other afterwards… we realized that he has the capability to do our work. He has all the resources... The prices were also very attractive. That is what we wanted [ITU1]. |
| | India | 4 | Our first business was in the year 2004. They came through web... They have contacted us. They have shown their interest through email. They were more interested to know about our prices, products, client references etc. It is like first through mail and then through telephone. After the initial discussions we visited them. Then we started doing software development for them [ITI5]. |

#### 8.1.2.1. Creating a new relationship

A new relationship in this context means that the partner firms or entrepreneurs had no prior links before entering into the relationship. For eleven of the 30 companies from India and the UK respectively, their partnership was a new relationship. Participation in trade fairs/conferences and advanced communication technologies such as internet and telephone were the main ways in which their relationships were formed.

##### 8.1.2.1.1. Participating in trade fairs/conferences

Firms, which created relationship with foreign companies through participating in trade fairs and conferences, have initiated it both intentionally and serendipitously. Both intentional and serendipitous initiation of relationship through participating trade fairs/conferences is more common among manufacturing firms than in service firms. Most of the UK textile companies are agents. In other words, around 50% of Indian textile companies initiated their internationalisation to the UK by tying up with agents. They said agents provided market knowledge and experience and that helped them deal with foreign clients.

The respondents from both countries mentioned that this mode of initiation was the easiest available methods at the time of their internationalisation. This provides easy and direct access to potential business partners across the world. The decision makers of textile companies believe that trade fairs provide easy access to international supply chains, which also provided them global access. Over all our findings show that this method was more common among manufacturing sectors. Table 8.1 presents the illustrative quotations from interviews on social capital initiation through participating in trade fairs/conferences.

#### 8.1.2.1.2. Use of advanced communication technologies

Respondents of four British companies and their partners in India said they did not have any network or relationship in each other's market prior to their internationalization and hence were encouraged to find partners through latest Internet and telecommunication technologies. These companies initiated their relationship both serendipitously and intentionally. This method is seen among small and young service sector companies. The serendipitous initiation of creating a new relationship through the use of advanced communication technologies are seen more among Indian companies than British companies. It is mainly because the Indian software development and outsourcing industry enjoys great reputation in the global market due to cost-effectiveness and availability of a highly skilled work force. Furthermore, unlike Indian textile companies, they started their internationalisation after the emergence of latest information and communication technology (ICT), which created better opportunities and facilitated their internationalisation.

However, regardless of the initiation mode (intentional/serendipitous), the SME decision-makers from both countries perceive that creating a relationship only through ICT is not the best method. They observe that this kind of relationships lacks personal bonding. They also said that as a first time internationalizing firm, assessing the reliability and credibility of potential partners is very difficult without personal meetings and visiting each other's facilities. Despite these limitations, the SME entrepreneurs from both countries maintained that using advanced information and communication technologies is the easiest and most affordable method for small firms that have limited resources. This mode helps the companies to reach to any market without the help of a third party and reduces the impact of psychic

distance. However, Indian entrepreneurs perceive that having direct physical presence or a partner in the UK would help grow in foreign market.

### 8.1.2.2. Using existing social capital

The second category of relationship initiation that emerged from the perception of entrepreneurs of the UK and India is through the use of their existing social capital. Sixty three percent of the total (both British and India) companies surveyed used their existing relationship to initiate the social capital required for their internationalization. Three quarters of these companies are from the service sector. The main types of existing social capital refer to prior international experience, network relationship and common ethnicity. Nevertheless, all these types are interrelated and companies generally have access to more than one type of social capital, as presented in table 8.2. Table 8.3 summarizes the social capital initiation mode with some illustrative quotations from the interviews

Table: 8.2. Social capital initiation using existing relationships (N =38)

| Sectors | | Textiles | | Oil and Gas | | ICT | | Financial and legal | | Real estate | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Modes/countries | | UK | India | UK | India | UK | India | UK | India | UK | India |
| Number of companies | | 3 | 3 | 2 | 2 | 9 | 9 | 3 | 3 | 2 | 2 |
| Prior int. experience | | 2 | - | 2 | 2 | 8 | 5 | 3 | 1 | 2 | 2 |
| Network | Personal (10,11) | 2 | 2 | 1 | 1 | 3 | 4 | 3 | 3 | 1 | 1 |
| | Commercial (5,7) | 1 | 1 | | 1 | 3 | 4 | - | - | 1 | 1 |
| | Relationship with Institutions | - | 3 | - | - | 3 | 2 | 2 | 1 | 2 | 1 |
| Ethnicity | | - | - | 1 | 1 | 5 | 5 | 3 | 3 | - | - |

Table: 8.3. Social capital initiation using existing relationships

| Types of social capital initiation | County | Number of cases in each category | Illustrative quotations from Interviews |
|---|---|---|---|
| Prior international experience | UK | 17 | I was working for an Indian manager in London. He went back to his family business and gave me an offer to work in Bangalore, India. Through him I developed relationship with my partner [name]. We found opportunities and then we formed two separate companies; I set up one in here and similarly he also formed one in India. Then we created a joint venture with them, which lasted five years and in 2000 we merged as a single company. I became a board member of the merged company [ITU2]. |
| | India | 10 | I was working in the UK for more than 12 years. I started this company along with an old colleague in there [ITI1]. |
| Personal network | UK | 10 | A friend in India introduced me to my partner. That time I was not dealing with handlooms. The details like how it is produced, its market potential in the UK etc. was unknown to me. I went there and stayed with them for few months and learnt about it. Then I came back here and did some studies about it. I found huge potential for those products. I went back again and signed the contract [TXU4]. |
| | India | 11 | One of my friends was a colleague of my partner in the UK. My friend introduced me to him. We found a niche market for [technical term] in the UK. I had experience in that application...my partner was interested in my work and also found opportunities for those products in the UK and he supported me to start a development centre for him [ITI 7]. |
| Business network | UK | 5 | We have some network... but didn't have specific network. We initially hired a consultant to help us to set up the company. He helped us to establish there... location selection, recruitment etc. He is still in the company as a director [ITU4]. |

| | | | |
|---|---|---|---|
| | | | I had good network here... But primarily, the network I had made in India helped a lot. It is difficult to make contacts but I built good network there. Then I expanded it. I entertained people; I talked to people [REU2]. |
| | India | 7 | They [UK partner] are expert in the area. They have been involved in couple of projects with one of our associated company. They [associate company] introduced them to me. They had confidence in their [UK partner] expertise. Then we started dealing directly [OGI1]. |
| Network with Institutional agencies | UK | 7 | Through UKTI (UK trade and investment), we got access to the deputy high commission in Kolkata. We tapped in for that in Kolkata very much. We used their contacts. They are good to make contacts, in terms of meeting some potential clients and other business partners etc [REU1]. |
| | India | 7 | The Indian trade promotion unit (ITPU) of government of India helped me a lot. They conduct exhibitions here and also they provide subsidies to participate in international trade fairs. It is a big support for new firms. They will provide all sorts of support. Similarly, handloom export promotion council is also very supportive [TXI5]. |
| The decision-makers' ethnic background | UK | 9 | Regulation prevents foreign law firms from operating in India. Since we are Indians who have established business presence in the UK and launched business, we have the right to work in both countries. So it was the best option for us [FLU3]. |
| | India | 9 | We are in this profession for long time...ours is a family owned firm. Our partner firm in the UK is owned by one of my brothers. He started that with other colleagues. That is like a branch but they are registered as a separate company there. He did his studies in the UK, and then he and his friend started it as an LLP [limited liability partnership] company. We started dealing with international clients only after we built this relationship [FLI2]. |

#### 8.1.2.2.1. Prior international experience

The entrepreneurs from seventeen out of 19 British companies and ten out of 19 Indian companies, who used their existing social capital, revealed that they had prior international experience, which provided them network relationships apart from providing knowledge about each other's market. The British and Indian findings shows that more than 70% (12 British companies and 8 for Indian companies) of these companies entered into each other's market by either creating a branch or developing partnership with a company. The Indian respondents mentioned that their experience always gave them confidence to deal with foreign companies.

#### 8.1.2.2.2. Network of entrepreneurs

The findings from both British and Indian companies reveal that the experience of entrepreneurs deepens their network relationship. This provides new introductions to entrepreneurs in both the domestic and foreign market that are crucial for initiating new relationships as well.

The entrepreneurs of 15 British companies and 18 Indian companies indicate that their managers' or companies existing network relationships were the foundation of social capital related to their business in each other's market. The results suggest that service sector companies enjoy better network relationships than manufacturing sector companies. 11 out of 15 British companies and 13 out of 18 Indian companies, with existing network relationships are service sector companies. The networks could be categorized as personal, business and institutional networks.

*8.1.2.2.2.1. Personal network*

Personal networks can be based on entrepreneurs' families, friends or colleagues. Such networks, when international, can help the firms extend their social capital both intentionally and serendipitously. They assist the SMEs to serve a high level of commitment from partners in foreign markets.

*8.1.2.2.2.2. Business network*

The findings show that 5 British companies and 7 Indian companies have initiated their social capital each other through their prior business related networks. None of the British and Indian financial and legal services companies have relied on business relationships. Business networks are seen more among Indian companies mainly because their perceptions about psychic distance are relatively less compared with their counterparts in the UK—besides, Indian firms have far greater access to the UK market compared with British companies access to the Indian market.

Business relationships also include these with consultants. Two British companies and their partners in India said they used the help of consultancies in building their business in India. On the other side, their counterparts in India revealed that they started their Indian branch through the network and experience of the decision-makers in their head quarters in the UK and through an expert in the local market.

The entrepreneurs from both the UK and India offered varied reactions about the role of domestic personal and business networks. Only two respondents from British, -- one real-estate and one ICT company -- said they have used their domestic market network to build the social capital required for their entry to India. However, six companies – one real estate, one

textile and four ICT companies—said explicitly that their networks in the domestic market were not of great help to build the social capital required for their business in India. On the other hand, in India only a textile manufacturer, who initiated their relationship with the UK, used his business relationship in the domestic market.

*8.1.2.2.2.3. Network with Institutional agencies*

Apart from the personal and commercial networks, the decision-makers believe that building relationships with various institutional agencies are also important. The respondents from both countries believe that these relationships would always augment their business relationships.

However, only seven British companies received support from institutional agencies. This include only service sector companies, none of the British manufacturing companies have received any support from the institutions in either the UK or India. Similarly, seven companies from India –-three manufacturing and four service-sector companies-- also mentioned about the role of institutional agencies in their social capital initiation.

**8.1.2.2.3. The entrepreneurs' ethnic background**

The British entrepreneurs of nine companies are of Indian origin; this includes one oil and gas, five ICT and three financial and legal services companies. Their counterparts in India said their partners' ethnic background was the main source of their social capital initiation. The ethnic background of entrepreneurs provides them market knowledge and network relationship in both countries. This reflected in the responses from both countries; they had good networks in both UK and India.

The entrepreneurs from British legal services companies said the regulatory restrictions of legal sectors in India do not allow foreign nationals to do business freely in India. As a result these companies developed partnerships with Indian companies. However, the companies that are owned by Indians or have an Indian on their board have their own branches in India. The decision-makers of Indian companies, which had British partners of Indian origin, perceive that it the best and safest method to build relationship with a foreign company because as a person of Indian origin, their partner will have knowledge about both Indian and the UK market.

Overall, the findings indicate that British and Indian small and medium companies initiate their social capital mainly through their existing social capital. However, around 35% percent of companies in this study have created new relationship to initiate their social capital required for their internationalisation. The companies which opted for creating new relations did not have any prior international business network connections. The results reveal that the entrepreneurs of British and Indian companies believe that the entrepreneurs' experience, network and knowledge are very important for initiating new social capital. Furthermore, they believe entrepreneurs' ethnic backgrounds are always main a source of social capital.

### 8.1.3. Social capital development

Both British and Indian responses reveal that once established the SMEs use various ways to develop their social capital with partners in the foreign country. Based on the UK and Indian responses, we identified seven different types of social capital development, through communication, personal relations, socializing, hiring ethnic origin, training, contract, trust and mutual understanding (Table: 8.4). However, social capital development varies according to the social capital initiation mode. Generally, firms, which create a new relationship for their internationalisation, find the process much more lengthy and difficult compared with firms that use their existing social capital (Table: 8.5).

Table: 8.4. Development of Social capital

| Means | | Sectors | Textiles | Oil and Gas | ICT | Financial and legal | Real estate | No of Companies |
|---|---|---|---|---|---|---|---|---|
| | | Country | 10 | 2 | 11 | 4 | 3 | 30 |
| Communication | | UK | 10 | 2 | 11 | 4 | 3 | 30 |
| | | IND | 10 | 2 | 11 | 4 | 3 | 30 |
| Personal relations | | UK | 2 | 1 | 10 | 4 | 2 | 19 |
| | | IND | 3 | 1 | 9 | 3 | 2 | 18 |
| Socializing | | UK | - | 1 | 9 | 3 | 2 | 15 |
| | | IND | - | - | 2 | - | - | 2 |
| Hiring ethnic origin | | UK | - | - | 7 | 4 | 3 | 14 |
| | | IND | - | - | - | - | - | - |
| Training | | UK | - | - | 5 | - | - | 5 |
| | | IND | - | - | 5 | - | - | 5 |
| Contract | | UK | 8 | 1 | 4 | - | 1 | 14 |
| | | IND | 8 | 1 | 4 | - | 1 | 14 |
| Trust | Integrity | UK | 10 | 2 | 9 | 4 | 1 | 26 |
| | | IND | 8 | 2 | 11 | 4 | 3 | 28 |
| | Competence | UK | 7 | 2 | 9 | 4 | 2 | 24 |
| | | IND | 9 | 2 | 10 | 4 | 2 | 27 |
| Compatible goals | | UK | 2 | - | 4 | - | 1 | 7 |
| | | IND | 1 | - | 6 | - | - | 7 |

Table: 8.5. Illustrative quotations from interviews on different social capital development methods

| **Social capital development methods** | **County** | **Number of cases in each category** | **Illustrative quotes from Interviews** |
|---|---|---|---|
| Communication | UK | 30 | Initially we had some issues. We had some issues on understanding things… then we started video conferencing… that had some impact… Then we started meeting each other and spending time at each other's place. That helped a lot [ITU4]. |
| | | 30 | They saw our product at the trade fair...then they came to us and expressed their interest. After a series of negotiations about the product and price we finalised our deal...we exported directly to them. It was very formal… I have never visited their place. We just see once a year at the fair. Communication was a major issue at that time...we used telephone that were taking long time to get connected. Now we use Internet as well. We always used the letter of credit agreement as a guarantee [TXI1]. |
| Personal interaction | UK | 19 | Well, we had very few direct personal contacts. I would like to meet people [...] I think people would like to meet to deal with others. Communication through emails, telephones etc are always difficult. Time zone is the other difficulty... it is six hours ahead, it was not too bad as that of Australia but it is difficult. Because of all these facts I have made a deal; a partner deal with a company in London, they do all this type of work for me now [ITU3].<br>We attend trade events to meet people and build new relationships [TXI10] |
| | India | 18 | It is like first through mail and then through telephone. After all initial discussions through email and telephone, we visited them. He came here afterwards. We wanted to see each other's resources. We wanted to see how big he is. All our business was done directly [ITI5]. |

| | | | |
|---|---|---|---|
| Socializing | UK | 15 | I go to reception parties, speak at conferences, use my friends, call up my lawyer and say I want to meet somebody... read papers. If I speak at a conference I get more enquiries than anything else. All sorts of people approached me because I basically made my business to go and speak up at conferences. [REU2]. |
| | India | 2 | Our credibility in the market is very important in the legal business. We developed that through our personal contact base. We build our personal network through one to one meeting, attending networking events, showcasing the ability in terms of speaking at the events, seminars and through networks [FLI3]. |
| Hiring ethnic Indian/local people | UK | 14 | I had two Indian staff members; one was the business development manager, which was the big source initially because he could speak different Indian languages…he telephoned developers all over India in their languages, which was definitely an advantage over time. Somebody Indian in your team will definitely help you. He was able to arrange a lot of meetings for me... While I was traveling in India he was arranging meetings for me from London on the phone and email and I was just arriving at the meetings. So he probably helped me in my earlier days because he knows how the Indian systems work. Perhaps it is because he could speak their language [REU1]. |
| | India | -- | -- |
| Training | UK | 5 | The main challenge was culture. The Indian way of working is different from that in the UK. Hence you have to understand that. In order to get the UK and Indian employees to integrate in an appropriate way with the UK customers, you have to train Indian employees in a slightly different way they are used to. But on the whole it is different and good experience. Customers were almost always very appreciative about the work ethics and integrity of the Indian employees [ITU2]. |

| | | | |
|---|---|---|---|
| | India | 5 | Trust level was very bad initially but we developed it slowly. There were some misunderstandings. We were not familiar about the way they think and work. Most of our employees were not exposed to it. So they sent some people to train our staffs here. We had language issues as well. They trained all of us to cope with these issues [ITI11]. |
| Integrity trust | UK | 26 | It is very important... without integrity we can't survive. The integrity decides the trust between partners. If the party starts behaving without integrity the goodwill start fragmented. The lack of integrity is not that material. If there is a small lack of integrity you have to start operate a sort of blind eye. If it is a material lack of integrity there is a real problem. That affects the goodwill... the goodwill breaks down [REU2] |
| | India | 28 | Without keeping the promises to each other we can't remain in the business. Today, our business survives only because of the goodwill we have with our customers and the good reference they give to other people. So it is absolutely essential to keep our word. I think that is why small companies like us are doing well. We have been consistently successful to keep our word [ITI8]. |
| Competence trust | UK | 25 | Indians would never give advice. They think it is old-fashioned. If I ask them can we build in a specific way they wouldn't give any advice. Probably they think it is like insulting us. They wouldn't feel confident in giving any advice. If I ask for suggestion they say what I suggested is great. Whereas the person in the UK will say, it is not too bad but you can make like this and that. In India they always could not or did not want to say negative. To me positive and constructive criticism is very important. They always say "yes, I will do it" even if they can't [ITU3]. |
| | India | 27 | Yes... I think he is very capable and creative. He himself designs the product. He has done all that work. Our business has grown from nothing... He also grew with us. He always plans everything in advance. He already started planning for next year [TXI4]. |

| | | | |
|---|---|---|---|
| Contract | UK | 14 | We create a plan…we are very strong on business planning...then we stick to it...make sure each person does it... It is very difficult with India. India sense of time and UK sense of time is different... But you have to work on that... I make sure that people understand what I mean and I understand what they mean and understand [ITU1]. |
| | India | 14 | It is mostly a trust-based relationship. But it is grown over the years not happened overnight. Initially it was more based on the contract. Almost all our new customers had already gone through some failed Indian relationships. So they also try to keep the relationship. Most of the times we deal with confidential information so switching the customers are not very easy [ITI8]. |
| Compatible goals | UK | 7 | We have mutual commercial interest... They want to make money similarly I also want to make money... That's what we focused on. We know the importance of this relationship [ITU1].<br><br>There are changes in the UK and Indian business environment... You have to be lot more open minded... punctuality is a major concern. Initially when you go for a meeting and somebody is an hour late you will find frustrated. Then you try to get the meaning behind it such as the traffic, how difficult it is. You will try to understand. That is very important [FLU4]. |
| | India | 7 | Mutual support is very important. We have to give what they expect and similarly they also have to provide the support we expect. That is how we developed our relationship. They want right quality product on time, at the same time we want payment on time and repeat orders. Both of us were fulfilling our requirements. That increased the trust between us [TXI4]. |

#### 8.1.3.1. Communication

All respondents said that communication between partners is crucial for the development of social capital.

The British companies, which created new a relationship for their internationalization, revealed that keeping regular communication between partners can be difficult but is important for further development of the relationship. Similarly, the Indian respondents from companies, which internationalised before the entry of latest ICT facilities by creating new a relationship, found communication and transportation to be major barriers in their relationship development. The illustrative quotations of the decision-makers from Indian textile companies that created relationship by tying up with agents confirm this point (Table 8.5). On the other hand, companies that started their business using existing social capital could ensure enhanced personal relationships, better interactions and understanding on the basis of good communication.

#### 8.1.3.2. Personal interaction

The findings show that 19 British and 18 Indian companies consider face-to-face meetings and personal communication (personal interaction) are more important than just communicating through other means. The firms, which initiated social capital by creating new relationships, reported fewer personal interactions and is had even a negative impact in the social capital development of some firms. However, the companies that initiated new social capital through existing relationship enjoy better personal relationship and enhanced personal interactions.

#### 8.1.3.3. Socializing

Fifteen British respondents mentioned that they make their own effort to develop their personal network through socialising and meeting people. They believe that this would reduce their overdependence on their partner in India, and also help improve their personal credibility as well. However, only two respondents from Indian ICT companies said they attend events and socialise to develop their own personal network.

#### 8.1.3.4. Hiring ethnic Indian/local people

The other important factors influencing social capital development, according to the British decision-makers are, hiring ethnic Indians in their office in the UK or hiring people locally in their branch in India. The respondents of 14 British companies believe that apart from reducing the difficulties of network building and communication in India, this policy helps to reduce the issues of psychic distance as well. The respondents perceive that local employees are always a source of social capital. They know the market lot better than anyone in the UK. So they would be able to guide the business in the right direction.

Similarly, the companies that have 100% subsidiaries in India said that hiring employees locally is not only important to develop the social capital, but also for smooth running of the company. These are mainly seen among offshore centers of British companies in Indian. However, as mentioned in Chapter 7, 4 companies raised the issues of psychic-distance while hiring employees locally. On the other hand, Indian respondents did not speak about this factor mainly because none of the Indian companies included in this study owns a branch or offshore hub in the UK.

### 8.1.3.5. Training

Entrepreneurs from both countries emphasize the importance of training staff to reduce or avoid problem arising from cultural difference and to improve communication between partners. Five British ICT companies and their counterparts in India used training to overcome the issues associated with cultural differences in the initial stages of their internationalization. This method is mainly seen among companies that have a high level of commitment such as subsidiary or partnership. The Indian responses reveal that ICT companies, which are offshore centres of the UK companies, brought people from their head office in the UK to train their staff and to overcome cultural misunderstandings. This improved the communication between the Indian branch and their head office in the UK, which is critical for the development of social capital. So both the UK and Indian companies believe that training is the best method to familiarize Indian employees with the customer specifications in the UK.

### 8.1.3.6. Contract

The British decision-makers of 14 companies and their partners in India mentioned that their relationships were of contractual in nature in the initial stages, and had developed into trust based relationships over time. These are small and newly internationalized firms with a lower commitment mode such as outsourcing/export/import/licensing, and they believe that a contract is very important in the initial stages to ensure that they are treated fairly. However, British decision makers point out that sticking with the contract for everything is difficult because they have to allow for the cultural aspects as well. Overall, decision makers from both countries perceive that trust underpins every relationship, even if it is purely a contractual relationship.

### 8.1.3.7. Trust

The decision-makers from both countries consider that the integrity and competence trust are very important for the development of social capital, without which the relationship will not grow further.

#### 8.1.3.7.1. Integrity- based trust

The respondents from both the UK and India emphasized the importance of integrity between partners as one of the most important factors affecting social capital development. The entrepreneurs of 26 (87%) British companies and 28 (93%) Indian companies believe that integrity between partners ensures a greater level of trust and helps increase the goodwill between partners. They perceive that keeping promises and showing strong sense of justices to each other are the primary factors influencing social capital development. The entrepreneurs perceive that while matters of competency can be often sorted out, a failure of integrity would result in the breakdown of the relationship.

#### 8.1.3.7.2. Competence – based trust

Another element that the entrepreneurs believe is crucial for the development of social capital is the competence of partners. They emphasise that they would not continue a relationship with partner who is not competent enough to provide equal contribution. Moreover, the findings also show that partnerships which have equal contributions will last longer than those with disparate contributions and capabilities. The British decision-makers emphasize that partners' contributions to the relationship are more important than their capability or competence. They highlight that the disparity in contributions create problems for the

relationship. They cited some cases where firms despite having capability and knowledge in certain areas, are not ready to share it with their partners. This could even lead to the termination of the partnership. However, the Indian respondents did not specifically mention the question of their partner's contribution, but their interpretations reveal that they link their partners' competency level with their contributions to the relationship. However, none of them said this is an issue affecting their social capital development.

#### 8.1.3.8. Compatible goals

Compatible goal refers to mutual understanding about the benefits of relationships. The findings show that seven British companies and seven Indian companies perceive that compatible goals of partners enhance the commitment between partners and ensures greater level of trust between them, which is very important for the develop a relationship. The respondents from both countries believe that it would increase the trust levels between them.

Overall, our findings reveal that social capital development stage characterizes greater level of trust and mutual understanding.

### 8.1.4. Social capital maturity

The evolution of social capital often reaches a mature stage where it stabilizes. The maturity stage is characterized by high level of interpersonal relationship and personal bonding between partners. The main task for companies and their decision-makers at that stage is to maintain the social capital required for their business in a given country. SMEs adopt various techniques to maintain their social capital, some of which are similar for both countries (Table: 8.6).

Table: 8.6. Summary of social capital maturity stage with illustrative quotation from interviews

| **Characteristics of social capital maturity stage** | **County** | **Number of cases in each category** | **Illustrative quotes from Interviews** |
|---|---|---|---|
| The high quality of interpersonal relationship | UK | 14 | It is very informal because we are very good friends... We know each other for around 20 years. We are family friends... He always invites my family to all his family functions. We also do that… He is like a part of my family now [ITU2]. |
| | India | 14 | We keep very good informal relationship...I stay at their place whenever I visit them and similarly, they also stay with me whenever they visit us... at the same time they also know how to draw a line between business and personal relationships [ITI2].<br>We are very close now. We are like family friends... He stays with us whenever he visits… He even came with his family and stayed here. But our business has declined during the past five years; even then we keep similar relationship... It is because we know them very well. He lost some market share as well…t is mainly because of cheap Chinese goods in the market.... Chinese companies go for bulk orders.So small buyers like him can't afford that [TXI4]. |
| Goodwill trust | UK | 13 | He always helps me. If they don't help we can't sell. They understand that they need to help us regardless or else they are their own [REU1]. |
| | India | 14 | He talks to our employees directly to assess their skills and training needs. He supports us to provide the required training to them. He also enquires about the employee benefits and make sure that the employees are happy [ITI7]. |
| Mutual support | UK | 12 | I had very large network here and I was good on the sales side. As I mentioned earlier our main sales were from the UK and the USA, I used my networks and contacts here to expand its base here. My partner worked in US before, so he helped to look after our sales activities in the US. Since my partner is an Indian and has an extensive network there, he resolved all issues associated with the Indian operations [ITI11]. |

| | | | |
|---|---|---|---|
| | India | 12 | He is very supportive. I can't expect any more support from him. He will understand if there is any delay in delivery. Normally all other buyers will make us to airfreight the goods. We have to bear those expenses. He would never do that [...] he will always adjust that in his profits... Normally, buyers will just follow the contract norms but he won't do that. I think I make more faults than him... If there is any from my side I somehow convince him [TXI10]. We provide mutual support...When they are in trouble they will inform us [...] we provide whatever support we can. Similarly, they supported us as well. For example, if we had any difficulties in delivering the goods on time due to employee shortage or power failure etc they consider us and find some solution [ITI8] |
| Support outside the scope of business | UK | 8 | My main partner started an Indian wine brand. I am now helping them through my contacts to find a whiskey brand. So the relationship is moving in a different direction [REU1].<br>Sometimes they will have issues in delivery due to some problems in their factory or some other shipping issues. We understand that... we try to convince our customers. Similarly they also support us... there were cases they air freight the goods when we wanted it very urgently. It is mutual support [TXI10] |
| | India | 9 | We have a very smooth relationship. Both of us are working together to survive the present economic crisis... He gives me all kind of support in the UK [...] provide all information about the market.... he also gives information about the products... what kinds of products are moving in various markets...He inform us about the day to day changes as well [TXI4].<br>There has been an instance of one of my oldest clients going bankrupt, and he had owned us a lot of money. Then he started a new business, and he came back to us again. But we did not ask for that money [...] whatever is gone is gone. We knew that there is no point in asking for it… he was bankrupt... he even sold his house...We were ready to support him because we worked together for long time. They also give importance to relationship[ITI8] |

| | | | |
|---|---|---|---|
| References and business introductions | UK | 7 | I introduced some of the partners each other. They also refer me to other developers in other cities. The bigger developers will only look after their problems [REU1].<br>Yes most of them. If they need, I introduce them to each other e.g. There is a UK management school; the head of the school is going to India this week. I was able to set up meetings for him with my commercial relationships. So I do that [ITU1] |
| | India | 10 | I am very grateful to him. He was my only contact in the UK, but he introduced me to so many new people. I have very good contacts in both India and UK now. This partnership gave me so many things. I know I am more independent now. But I am enjoying working with him. He has been and is very generous to me. This partnership increased my reputation here as well. Because of them, I am in the technopark [IT cluster] CEO and HR forum now. So I get a chance to interact with lots of people. If there is any problem, whether it is technological or company related, we get advice, support and solutions from the other specialist and experts within the forum [ITI6].<br>Yes he introduced me to some potential customers in the market. He has been giving reference for me. This helped me a lot to expand my business there [ITI5]. |
| Extensive network relationship | UK | 5 | I have wider networks in India now... I have personal contacts and business relationships in more cities with some of the main developers. I have very good relationship with the 2nd largest bank in India. I am developing more relationships with more banks in India. I am very much a part of [name of an institution] and I have contact with almost all major players in India. Pretty much of these relationships I have developed myself. I had been to trade shows, trade events in both the UK and in India. We were the first dedicated Indian property website [ITU6]. |
| | India | - | - |

A detailed analysis of these factors is presented below. Based on this analysis we conclude that only around 47% of the companies (14 companies) included in this study have reached the stage of social capital maturity. Most of these (11 companies) are service-sector companies.

#### 8.1.4.1. The high quality of interpersonal relationship

The maturity stage is characterized by a high quality of interpersonal relationship between partners. Decision-makers share a highly informal relationship at this level, which also involves considerable trust. Therefore the British and Indian decision-makers of 14 companies perceive that it would help maintain the social capital required for their firm's internationalization to India. The high level of interpersonal informal relationship ensures high level of goodwill trust between partners.

#### 8.1.4.2. Goodwill trust

As mentioned earlier, goodwill trust is a major characteristic of a high-quality relationship. Both Indian and British decision-makers perceive that their partners show interest in the goodwill of their company and its employees only when their social capital reaches a mature stage, when the relationship with these partners has become a high quality one. Goodwill always increases the personal bonding between partners. Goodwill trust between partners ensures greater concerns among firms about each other's issues; firms attach considerable importance to their partner's needs and desires.

#### 8.1.4.3. Mutual support

The decision makers of 12 British companies and their partners in India perceive that providing mutual support and complementing each other's weaknesses strengthens the relationships between them. It also raises their confidence levels in doing business as well as helping them in their learning process. They help maintain the level of social capital between them. However, respondents also mentioned that too much dependence on a partner without supporting each other would be counterproductive.

#### 8.1.4.4. Support outside the scope of business

Comments made by respondents in eight British companies and nine Indian ones suggest that, on some occasions, firms with high levels of mutual social capital even provide support to each other on matters that fall outside the scope of their business. This makes their relationship closer and more informal and promotes a great level of trust and commitment between the partners.

#### 8.1.4.5. References and business introductions

Comments made in the case of seven British companies reveal that stable and high trust relationships would make entrepreneurs willing to offer references and business introductions to their partners in India. This would increase mutual commitment between the partners and minimize their reliance on legal contracts and other controls. Similarly, 10 Indian companies mentioned that when a relationship reaches stability, companies help each other by providing customer introductions and business references. This view was expressed among both service and manufacturing companies.

### 8.1.4.6. Extensive network relationship

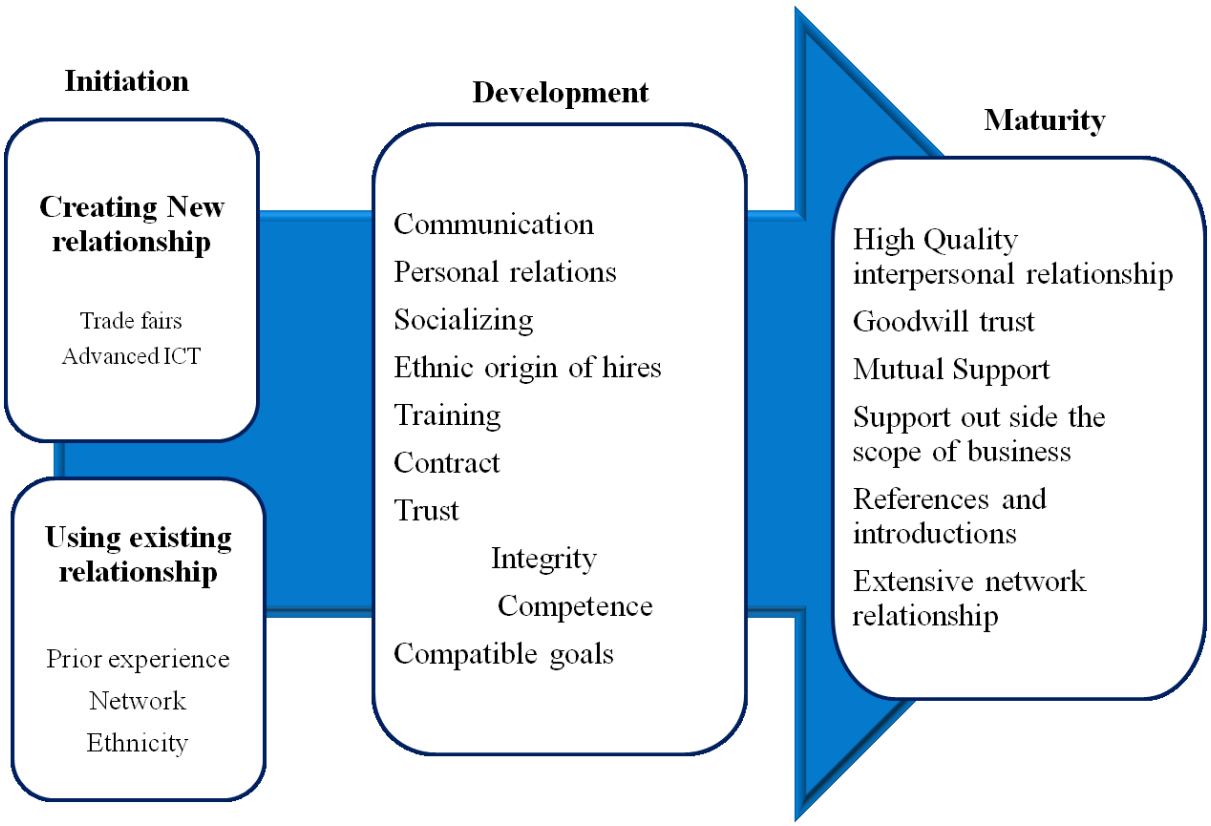
Responses from the entrepreneurs in five of the British companies enjoying a stable relationship with their counterparts in India indicate that at a mature stage of social capital they can develop extensive networks not only in their home country but also in the host country. . They use these networks to expand their social capital and business in India. However, none of the Indian decision-makers mentioned that their partnership provided an extensive network in the UK. This is mainly because the service-sector companies, which account for 79% of the firms with a mature relationship, are not highly engaged with the UK market. Indian companies mainly act as the production hub such as software development centre or offshore centre of their UK partner.

The British responses reveal that high levels of informal or close and interpersonal relationships are common among firms with higher international commitment modes such as partnership or subsidiary relationships. However, four British companies with a lower level of commitment mode such as outsourcing or export-import, reveal that they were unable to develop an informal relationship with their partner in India. They cited reasons such as lack of personal and face-to-face meetings and geographic distance. Similarly, Indian findings also reveal that not all firms included in this study achieved mature social capital. Though they had been doing business for nearly 20 years, eight textiles firms perceive that their relationship had not yet reached a mature state. Like their British partners', they also cite limited personal interaction and a lower commitment mode as reasons for not reaching the mature stage. These features are mainly evident among the manufacturing firms. Manufacturing firms constitute only 21% of the firms that reached the maturity stage. The responses from firms that had reached the maturity from both countries matched on most features analyzed above except for

network relationship category. By contrast, five service-sector companies had achieved stability in their relationship with partners within 5 years. Stability in relationships encourages mutual support and understanding, which in turn contributes to maintaining the relationship.

A summary overview of the findings on the SMEs' social capital building process relevant to their internationalisation is provided in Figure 8.1.

Figure: 8.1. Social capital building process




## 8.1.5. Conclusion

The findings showed how SMEs build their social capital relevant for their internationalization. The qualitative data identified three different stages of social capital building process, which are initiation, development and maturity stages. The findings show that initiation of social capital is done mainly by creating a new relationship or using existing

relationships. Existing relationships can derive from entrepreneurs' prior experience, network relationships (personal, commercial and institutional), knowledge and ethnicity. The factors influencing social capital development are communication and personal relationship between partners, socializing, hiring ethnic-origin people, training, contract, trust and mutual understanding. The final stage in the social capital building process is maturity, which is characterized by high-quality interpersonal relationship, goodwill trust, mutual support, support outside the scope of business, references and introductions, extensive network relationships and merger. Overall, the results show that the social capital initiation, development and maintaining mechanisms used by British and Indian companies are, to a great extent, similar, mainly because they are partners. The companies use all available resources to initiate and develop their social capital, which they believe is crucial for their international business. However, the result shows that only 47% of the total firms included in this study have reached the maturity stage. So we perceive that development of social capital is more difficult and important than its initiation. Our findings confirm that social capital has a significant positive impact on SMEs' internationalization. It influences their initial market-entry decisions, facilitates their learning and help cope with the issues of psychic distance. We will focus on these aspects in detail when modelling various factors of internationalization in Chapter 10.

## 8.2. Quantitative findings

### 8.2.1. Introduction

In this section, we apply quantitative measurement to the British and Indian SMEs' social capital with their principal transactional exchange partner in each other's market. Independent sample t-tests were used to assess whether differences in scores between Indian and UK companies for inter-partner trust and cognitive social capital were likely to have occurred by chance. The internal reliability of these variables was checked using Cronbach's alpha. Furthermore, we performed a Chi-square analysis test to check the closeness of partner relationship.

### 8.2.2. Inter partner trust

#### 8.2.2.1. Independent sample t-test

The independent sample t-test results (table. 8.8) show that Indian decision makers tended to score their trust in UK business counterparts more highly than did the UK respondents. However, the mean responses from both countries are above the midpoint – 3.0 – for all dimensions. Perceptions related to goodwill and integrity trust (items 1- 4) are similar for respondents from both countries. By contrast, the competence trust items (5-8) produce diverse responses between the two countries. The mean values of Indian responses are higher than those of UK respondents for these dimensions. This is mainly because all of the Indian companies are selling into the UK, whereas only 55 British companies are selling their products in India. However, for the other 45, their business with India involved purchases there. This shows that trust in trading partner varies according to the transactional mode, i.e. whether they are buying or selling. Also, we can conclude that Indian companies are heavily dependent on their partner/client in the UK for product and market related knowledge. Based

on these findings we can expect that the relationship between partners will develop satisfactorily only if there is a high level competence trust.

Table: 8.7. Independent sample t test of inter-partner trust (N = 200)

| | Items | Mean | | SE | | T-value | P-value |
|---|---|---|---|---|---|---|---|
| | | UK | India | UK | India | | |
| 1 | Partner has special concern for company's welfare | 3.39 | 3.60 | .09 | .09 | -1.65(198) | .10 |
| 2 | Needs are important to partner | 3.59 | 3.66 | .07 | .09 | -.61(190.32) | .54 |
| 3 | Partner has strong sense of justice | 4.03 | 4.12 | .06 | .07 | -.99(198) | .32 |
| 4 | Partner has high values and principles | 4.10 | 4.22 | .06 | .07 | -1.32(196.07) | .19 |
| 5 | Partner provides sound knowledge about the market/product | 4.14 | 4.51 | .07 | .05 | -4.09(198) | .000 |
| 6 | Partner has specialized capabilities to provide support in India | 4.16 | 4.53 | .07 | .06 | -4.01(198) | .000 |
| 7 | Partner makes equal contribution | 3.61 | 4.02 | .08 | .08 | -3.73(198) | .000 |
| 8 | Partner has provided new client introduction in India | 3.02 | 3.42 | .09 | .12 | -2.72(184.32) | .01 |

(Degrees of freedom values are in parenthesis)

### 8.2.2.1. Internal reliability

#### 8.2.2.1.1. British companies

The internal reliability analysis (Cronbach's α) (table. 8.9) indicated a very high level of clustering between the 8 trust items (α = 0.90). The Cronbach's 'alpha if item deleted' indicates that the alpha value of all individual items are lower or equal to overall reliability, which means that the reliability would decrease if an item was deleted. So trust will be considered as a single variable for further analyses.

Table: 8.8. Reliability analysis of inter-partner trust for the UK companies (N = 100)

| Items | Alpha if items deleted ($\alpha$ = 0.90 for all items) |
|---|---|
| Partner has special concern for company's welfare | .88 |
| Needs are important to partner | .88 |
| Partner has strong sense of justice | .89 |
| Partner has high values and principles | .89 |
| Partner provides sound knowledge about the market/product | .89 |
| Partner has specialized capabilities to provide support in India | .89 |
| Partner makes equal contribution to the relationship | .89 |
| Partner has provided new client introduction in India | .90 |

**8.2.2.1.2. Indian companies**

The 8 dimensions of trust for Indian companies also show very high reliability. The overall $\alpha$ = .93. The Cronbach's 'alpha if item deleted' indicates that the alpha value of all individual items are lower or equal to overall reliability, which means that the reliability would decrease if an item was deleted. So trust will be considered as a single variable for further analyses (table. 8.10).

Table: 8.9. Reliability analysis of inter-partner trust for Indian companies (N = 100)

| | Alpha if items deleted ($\alpha$ = 0.93 for all items) |
|---|---|
| Partner has special concern for company's welfare | .91 |
| Needs are important to partner | .90 |
| Partner has strong sense of justice | .91 |
| Partner has high values and principles | .92 |
| Partner provides sound knowledge about the market/product | .92 |
| Partner has specialized capabilities to provide support in the UK | .93 |
| Partner makes equal contribution to the relationship | .92 |
| Partner has provided new client introduction in the UK | .91 |

## 8.2.3. Cognitive social capital

The cognitive dimension of social capital refers to the extent to which individuals have a shared understanding regarding the network of social associations in the organization (Nahapiet and Ghoshal, 1998). It derives from mental process and resulting ideas, reinforced by culture and ideology, specifically norms, values, attitudes, and beliefs (Uphoff, 2000: 218).

### 8.2.3.1. Independent sample t-test

The independent sample t-test (table. 8.11) shows that mean scores and distributions on all the cognitive social capital dimensions are similar for the UK and Indian responses. This is consistent with the qualitative findings that factors such as a shared language and a mutual understanding about responsibilities and benefits in the international business relationship underpin the social capital development process.

Table: 8.10. Independent sample t test for cognitive social capital (N = 200)

| Items | Mean | | SE | | T-value | P-value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Shared norms | 3.89 | 3.78 | 0.09 | 0.05 | 1.08(156.98) | .282 |
| Coordination between partners | 4.23 | 4.22 | 0.06 | 0.06 | .12(198) | .903 |
| Understanding about each other's responsibility | 4.14 | 4.27 | 0.06 | 0.07 | -1.45(193.85) | .150 |
| Understanding about the benefit of partnership | 4.21 | 4.26 | 0.07 | 0.07 | -0.53(198) | .600 |

### 8.2.3.1. Internal reliability

#### 8.2.3.1.1. British companies

The Cronbach's alpha value shows a relatively high level of clustering between the four items of cognitive social capital (0.83). The Cronbach's 'alpha if item deleted' indicates that none of the items would increase the reliability if they were deleted because all individual items values are less than the overall α of .83. So we shall aggregate the cognitive social capital items into a single variable for further analysis.

#### 8.2.3.1.2. Indian companies

The overall reliability of shared norms, coordination between partners, understanding each other's responsibility and benefit of partnership is 0.90, which means the internal reliability of cognitive social capital for Indian companies is very high. So similar to the UK data, we treat cognitive social capital as a single aggregated variable for further analysis.

### 8.2.4. Closeness of relationship between partners

A chi-square test is conducted to check the association of closeness of partnership relationship between the UK and India.

The test result shows that there are no cells with an expected count lower than 5. So Chi-square test is appropriate.

Table: 8.11. Cross tabulation table for closeness of relationship between partners and country (N= 200)

| | | | Country | | |
|---|---|---|---|---|---|
| | | | UK | India | Total |
| Closeness of relationship with partner | Purely business relationship | % within country | 34.0 | 17.0 | 25.5 |
| | | Adjusted Residual | 2.8 | -2.8 | |
| | Friendly but not very close | % within country | 25.0 | 21.0 | 23.0 |
| | | Adjusted Residual | .7 | -.7 | |
| | Close friendship | % within country | 30.0 | 36.0 | 33.0 |
| | | Adjusted Residual | -.9 | .9 | |
| | Family friends | % within country | 11.0 | 26.0 | 18.5 |
| | | Adjusted Residual | -2.7 | 2.7 | |

$\chi^2$ (3) = 12.641, p< .01.

There was a significant association between country and closeness of relationship between partners $\chi^2$ (3) = 12.641, p< .01.

The adjusted residual values (2.8) in Table 8.12 inform us that much larger number of British firms have a purely business relationship with their partner in India (34% of British companies compared to 25.5% of all respondents). Similarly, British companies show a positive adjusted residual for the friendly but not very close category (.7). Twenty five percent

of British companies are in this category, which is above the total average response of 23%. The adjusted residual for Indian companies are negative for these two categories. By contrast, the other two categories, close friendship and family friends; show a positive adjusted residual for Indian responses (0.9 and 2.7 respectively). The percent of these categories for Indian companies are above the total average. However, the adjusted residual for the UK companies are negative.

From these results, we can conclude that there is a significant association between country and closeness of relationship between partners. Indian companies show higher level of closeness with their partners in the UK. By contrast, British companies report a more formal relationship with their partners in India. This could be due to the extent to which Indian companies had ethnic/family links to their business partners in the UK.

### 8.2.3. Internal reliability analysis - closeness of relationship, trust and cognitive social capital

The internal reliability analysis indicated a very good clustering between closeness of relationship with partner, trust and cognitive social capital for British ($\alpha = 0.90$) and Indian ($\alpha = 0.92$) companies.

### 8.2.4. Conclusion

Both the UK and Indian decision makers rated inter partner trust much above the midpoint. However, the level of trust for Indian companies is generally greater than the UK companies and this difference is statistically significant for competence based trust. The result shows that the cognitive social capital for both the UK and Indian companies are high and similar. The

UK companies' relationship with their partner is more formal in nature whereas Indian companies report a more informal relationship with their partner in the UK.

## 8.3. Social capital and mode of internationalization

Social capital initiation associated with the internationalization of British and Indian SMEs involves creating a new relationship or using their existing relationships. More than 60% of the companies in this study used their existing relationship in the form of prior experience, network and common ethnicity to initiate the social capital relevant for their internationalization. The existing relationship ensures greater level of closeness between partners and that facilitates the development of trust and norms. Firms with a pre existing relationships reported a more committed mode of internationalization. On the other hand, firms creating a new relationship were characterized by a lower level of international commitment such as export/import or outsourcing.

## 8.4. Summary

The qualitative findings provide one of the first investigations on how the SMEs build the social capital required for their internationalization. It reveals that the social capital building is a three-stage process such as initiation, development and maturity. It also illustrates the mechanisms SMEs adopted to initiate, develop and maintain their social capital.

The results reveal that only 47% of the firms included in this study had reached the maturity stage, which is characterised by a high level of interpersonal relationship. This highlights the importance and difficulties of social capital development and the importance of developing interpersonal relationship with great level of trust.

The importance of entrepreneurs' personal attributes such as network relationship, experience, and ethnicity in social capital building and in the internationalisation process as a whole emerge from both the qualitative and quantitative (c.f. chapter 6) studies.

On the other hand, the survey data analysed the inter partner trust, cognitive social capital and the type of relationship between partners. This reveals that both the UK and Indian companies enjoys a high level of inter-partner trust and cognitive social capital. However, inter-partner trust among Indian companies tends to be higher when compared with the UK companies. Similarly, 62 out of 100Indian companies believe that their relationship with their partner is highly informal whereas only 41 out of 100 British companies said their relationship is informal. Overall, we can conclude that Indian companies try to build highly informal relationship because they are highly dependent on their partner in the UK.

# CHAPTER 9:
# LEARNING CAPABILITY

## 9.1. Qualitative findings

### 9.1.1. Introduction

Developing social capital alone is not enough for a firm's internationalisation. It should have the capability to utilise the resources it has achieved through its social capital. It is also important for firms to have capabilities adequate to utilise the resource in hand. Studies emphasise that learning is a key requirement for resource utilization. Therefore, the next stage of this research will explore how the small and medium companies included in this study develop their learning capability related to their internationalisation. We measured SMEs' learning capabilities by analysing the four different stages of the learning process concerning the acquisition, assimilation, transformation and exploitation of information and knowledge. This analytical scheme is adopted from Cohen and Levinthal (1990) and Zahra and George's (2002) absorptive capacity research construct. We distinguish information as classified or structured data whereas knowledge is validated information which can be a guide to, or basis for, action.

### 9.1.2. Acquisition of information

The first stage of the learning process is assumed to be when and where firms or decision-makers identify the information that is important for their company and their internationalisation, and how they obtain that information. The following section analyzes the different sources of information mentioned.

#### 9.1.2.1. Experience of entrepreneurs

Findings from the British and Indian SMEs reveal that their entrepreneurs' experience heightens an awareness of the types and sources of information required for their internationalisation. They also mentioned that it provides market information, such as market potential and market trends, and cultural awareness. The Indian entrepreneurs, but not the UK one, also mentioned that experience facilitates the acquisition of knowledge about latest developments in product and technology.

#### 9.1.2.2. Network relationship

Experience tends to deepen and expand network relationships. These also serve as a source of information and knowledge about new markets or products. The entrepreneurs from both countries perceive that network is the most reliable and key source of identifying and acquiring information related to internationalisation. Both the UK and Indian firms seek networks for market and client related information. The Indian decision makers also use their network to get information about latest product and technological developments.

#### 9.1.2.3. Customers/clients

Entrepreneurs in the nine British companies said the product developments would be done mainly on the basis of their customers' requirements. The customers provided product/technical related information to them. However, among the Indian companies (eight), textile companies depend on their customers mainly for product-related information, whereas ICT companies get both product- and market-related information from their customers in both domestic and international markets.

#### 9.1.2.4. Partnership

Both British and Indian SMEs consider networking as the best method to access relevant technical, market and business/client related information. Ten British companies said their partner in India helped them learn about their weaknesses and the areas where they have to focus more. Similarly, 16 Indian respondents — both service and manufacturing companies -- said their partners in the UK are a major source of information.

#### 9.1.2.5. Employees

Only 13 British and 11 Indian respondents said their employees are involved in their information acquisition process. The employees in Indian companies help mainly in developing product-related information. This is mainly because it is difficult for the employees, especially of ICT companies, to collect market related information in the UK, their main market. However, the British findings disclose that employees not only provide product and/or technical information, but also market-related information. This is because the ethnic Indian employees can easily get market-related information about India. Companies that have a separate department for knowledge management said they encouraged their employees to acquire new knowledge to increases their skill sets and share it with other members in the organisation.

#### 9.1.2.6. Institutions

The respondents from seven British firms mentioned that external parties such as institutions, advisors and other trade organisations also help them identify and acquire information. Five Indian respondents also mentioned this role performed by institutions. However, they said the institutions do not provide them specific information on markets and customers. They offer

general country-specific economic information which they think they could access from the Internet. Overall, institutions normally provide market and other business related information rather than product/ technical information.

#### 9.1.2.7. Information and communication technology (ICT)

Another key source the entrepreneurs mentioned was available through ICT. It provides easy access to latest and up-to-date information related to a foreign market and the companies in that market. They also indicated that the websites of most trade agencies provide regular market and industry specific information. All the British and Indian companies included in this study said ICT helps them simplify the whole learning process. ICT is used mainly to acquire market related information rather than information related to products and technologies.

These findings highlight the importance of social capital in information acquisition. They indicate that the main sources for information acquisition are the experience and network of decision makers, and their firm's relationship with partners or customers or institutions, and employees. The companies mainly acquire information, related to market, business players (customer, partners etc), product and technology through these sources. The findings also spotlight the role of ICT in information acquisition. The factors assisting information acquisition and related illustrative quotes from interviews are presented in table 9.1.

Table: 9.1. Factors assisting information acquisition

| **Factors assisting information acquisition** | **Country** | **Number of cases mentioning** | **Illustrative quotes from interviews** |
|---|---|---|---|
| Experience of entrepreneurs | UK | 27 | We are in this business for very long time. We got experience in both countries...so we know about it [Indian market]...we know where we can get it etc [FLU3]. |
| | India | 19 | I am doing this business for more than 25 years...so I know about the sources and kinds of information we need... I go to trade fairs; there we get information about market trends... We have international designers working for us... they also give information related to market and the trends apart from providing product development support [TXI3]. |
| Network relationship | UK | 28 | I make a weekly call to know what's going on. If I am in India I meet with people, I ring up and talk with my network team, brokers, economist and lawyers. My network plays a huge role. It is important for market and client related knowledge [FLU4]. |
| | India | 22 | Basically through travelling and meeting people. I have built an extensive network worldwide. I have relationship with designers...We get to know about latest market and product trends when we go for fairs [TXI5]. |
| | UK | 9 | My clients provide me all their specifications and some technically related information...we give that to our developers in India. They are technical people. So if they have any suggestions we will consider that as well [ITU7]. |

| | | | |
|---|---|---|---|
| Customers/clients | India | 8 | We are all specialized in certain areas so customers will come to us only for those in which we specialize. Most of these have been acquired over a period of time from multiple customers. In some cases we recommend an Indian solution to a foreign problem. I use the knowledge I acquired from the US client and apply it to solve the issues of clients in the UK [ITI8]. |
| Partnership | UK | 10 | We [respondent and Indian partner] worked together before starting this company... So we had good relationship...we know this market [UK] very well. He is an Indian so he had knowledge about Indian market as well. We are technical people...that are our strength...When we decided to form this company we discussed our weakness and areas where we need to learn more. We complement each other's weaknesses [ITU2]. |
| | India | 16 | Yes, in some occasions we found out about the new product through him. He informs about its scope in the UK market. Also, he gives all latest technological inputs required for their product development. But he never provides us information which is outside our business area [ITI7]. |
| Employees | UK | 13 | They [employees] helped me a lot during the initial stages. They helped me to learn about India...about various states, cities etc. They were helping me to get more contacts in India [REU1]. |
| | India | 11 | Yes. Each person will have different ways of looking at things. So we encourage that...We have a committee to organize and monitor that [ITI4]. |

| | | | |
|---|---|---|---|
| Institutions | UK | 7 | We get general market related information from UKTI, the High-Commission, FICCI or CII. That is always useful to understand the basic market information but these organizations were not that helpful for specific customer related information. I haven't got any till now [ITI5] |
| | India | 5 | I think the information provided by embassy or any government agencies are more reliable than any other sources. It will be bit old sometimes. The Export Promotion Council was a great help initially [TXI1]. |
| Information Communication Technology (ICT) | UK | 30 | We use usual sources such as digital and print media. I subscribe to a number of web sites such as FICCI, Indian institute of logistics, High Commission of India and I look at a whole set of sites to get information. It is our understanding of our market...looking at the trade web site...I do it every day. I spend half hour or so a day to understand what is going on in the market [ITU1]. |
| | India | 30 | Internet is the main source. We follow the websites of professional organizations, academic institutions... Technology business indicator also provides us with some latest information [ITI7].<br>We keep ourselves up-to-date mainly through email. We can access the online newspapers, and magazines of other countries... It is the cheapest sources to learn about the market and customers [ITI5] |

### 9.1.3. Assimilation of information

Following Zahra and George (2002), we also enquired about the assimilation of information. The acquired information will be validated for action at this stage, which is called knowledge. We assume that the firms' routines and processes help them organise, analyse, interpret and understand information obtained from external and internal sources. Rather than looking at these routines specifically, we investigated how the firms assimilate the acquired information. The results are summarized in Table 9.2.

The entrepreneurs of 21 British companies and 18 Indian companies revealed that they do not have formal procedures to process the information they had acquired both externally and internally. The remaining respondents from 9 British and 12 Indian said they have software systems and dedicated staffs for information and knowledge management.

#### 9.1.3.1. The role of entrepreneurs

The findings from 26 British and 20 Indian companies in this study reveal that the decision-makers were very important for the information assimilation process, as regards organising, analysing and interpreting both externally and internally generated information. These decision makers are experienced, and have good network relationships. They learnt about this process through their experience within and outside the company. And they think that it could be improved if there was a systematic approach. It is seen more among British firms. The slight difference is mainly because the knowledge assimilation process in Indian ICT companies is a group activity, which involves employees and their partner.

#### 9.1.3.2. Meetings

The entrepreneurs of 21 British and 18 Indian SMEs mentioned that meeting were important for the whole range of assimilation activities such as organizing, analysing and interpreting information. These included management level, operation level, team or strategic meetings. The findings reveal that the meeting as an assimilation mechanism is seen more common among service sector companies such as ICT, real estate, financial and legal services.

#### 9.1.3.3. Presentation

The entrepreneurs of 15 British companies 13 Indian companies said they organise acquired information and make presentations to the rest of the organisation. The presentations are mainly used to analyse organised knowledge. Presentation and meetings are integrated activities. Presentation is normally employed in formal circumstances. The findings from the UK and Indian SMEs show that mainly ICT companies are using presentation as tool of assimilating the acquired knowledge.

#### 9.1.3.4. Network

The findings also reveal that if a decision-maker himself cannot interpret the acquired information he uses his personal network to do that. The decision-makers discuss it with to insiders such as employees and other managers and outsiders such as partners, clients, lawyers, accountants and in some occasions banks and other institutions. The responses from Indian companies on the importance of networks in the information assimilation process were more enthusiastic than those from their British counterparts. This is mainly because around 65% of Indian companies included in this study are manufacturing bases for their UK counterparts; they do not sell anything in the domestic market. So these companies are highly

dependent on their partners or other contacts in the UK for product and market related information.

#### 9.1.3.5. Training

The findings show that 18 British companies and 17 Indian companies conduct training programmes for both decision-makers and employees not only to acquire information, but also to analyse and interpret acquired information. This is mainly seen among service sector companies; they send their employees outside if they do not have any in-house facilities. However, unlike their counterparts, Indian companies received training mainly from their partners in the UK, whom they believe possess superior knowledge.

#### 9.1.3.6. ICT facilities

As with acquiring information, the knowledge management software system helps in information assimilation. ICT simplifies and make the process quicker; however, the software or latest technology alone cannot do the entire processing. The entrepreneurs emphasised the importance of their role as well as the potential of a separate knowledge management or R&D department. The results emphasise the importance of a decision-maker in the information assimilation process. It is evident that entrepreneurs organise acquired information even though companies use other techniques such as meetings, presentation, training, support from stakeholders and latest ICT facilities for the purpose. Similar to knowledge acquisition, 21 British companies and 18 Indian companies in this study do not have a proper knowledge assimilation system. However, they believe that a systematic knowledge management system would enhance their companies' performance.

Table: 9.2. Information assimilation mechanisms

| **Information assimilation mechanisms** | **Country** | **Number of cases mentioning** | **Illustrative quotes from interviews** |
|---|---|---|---|
| The role of decision-makers | UK | 26 | I have around 20 years experience. I just do it...I acquire it and use it…we follow the same process we have been doing for years...I discuss it with our employees, lawyers, accountants etc. We are thinking about introducing new software to make it more effective [ITU1]. |
| | India | 20 | I myself try to understand it first. The international businesses related information is important for our company, whether it is product related or market related. I will analyze it first and interpret…I use my network, partners support etc. Then we pass it to our employees. Similarly, my wife is the only one dealing with some of the accounting related information [ITI8]. |
| Meetings | UK | 21 | It is very bad here. We are very poor in organizing and sharing knowledge. We are poor in dissipating the acquired knowledge among the different actors. At the moment we just meet informally and share it. I don't think it is a good way...So we are trying to bring together, a sort of library that one guy may learn something technical and would tell the other guy and the other guy would learn the business side and bring everything together promptly [ITU3]. |
| | India | 18 | It is teamwork…we have project discussion and technical discussions. We discuss everything. We do a kind of homework and discuss each other to analyze and interpret the information [ITI6]. |
| Presentation | UK | 15 | I put presentations together. I present it inside the company such as to management, or to our employees if it is relevant to them. I present it externally to clients or partners as well. We do lot of research for the company as well [ITU11]. |
| | India | 13 | The project managers or our R&D people come and present about the new knowledge acquired by them or the members of their team. Following a series of meeting and discussion we decide about it [ITI5]. |

| | | | |
|---|---|---|---|
| Network | UK | 18 | I am the only one involved in the learning activities of my company. But if there are any issues related to understanding things I discuss it with partners, my employees, banks, lawyers, etc.[REU1]. |
| | India | 25 | When I get a new idea, first, I will contact international designers, who are our consultants. Normally, they will add some variation and develop a new design. We then create a design and forward it to our buyers. We will create sample if they are happy with it…then we will pass it to our production department. The buyers' role is crucial [TXI4]. |
| Training | UK | 18 | We make products based on our clients requirements...they are based here. So we get new information/knowledge about it. If it is feasible we will pass it to our partner in India but we will have to train them...we have to teach them. Otherwise it will be difficult for them to understand. They are developing everything so it is very important. Once they get the idea they are good in developing it. They got strong technical base [ITU1]. |
| | India | 17 | We have in-house training model. Our R&D people are responsible for it. They are running regular training courses for employees. They help our employees if they find any difficulty in understanding newly acquired knowledge. Project teams work very closely with R&D [ITI5]. |
| ICT facilities | UK | 9 | We try to record. We analyze the data we get from our web site. There is software for it [ITU9]. |
| | India | 12 | We have knowledge management software. We upload all the information into it and will be distributed among all our employees. We work based on their feedback [ITI10] |

### 9.1.4. Transformation of information/knowledge

The transformation of information/knowledge is the process of combining existing knowledge with acquired and assimilated information. In line with previous responses, 21 British and 18 Indian respondents said they did not have a systematic method to transform the information/knowledge. However, the managers generally thought that assimilation of information could simplify the transformation process.

Transformation involves the internalization of information and it requires a great deal of interpersonal activity in which entrepreneurs claim to play an important role. They also said they use meetings, discussions, presentations or training to transform the acquired and assimilated information/knowledge. These were also the main mechanisms for assimilating acquired knowledge. In other words, a firm's internal social capital influences the transformation of knowledge. The summary of different transformation mechanisms with illustrative quotes from interviews is presented in the table 9.3.

#### 9.1.4.1 Meetings/discussions

Unlike the assimilation of information, meetings and discussions used for information/knowledge transformation are only intra-organisational. The respondents from both the UK and Indian SMEs said they use formal or informal meetings within the organisation as the main transformation mechanism. These are mainly found among service-sector companies, especially ICT companies. The respondents of 21 British companies said their transformation process is not systematic and they did not use meetings or discussions for these purpose. However, meeting are used more systematically on the Indian side. This is mainly because many Indian ICT companies' are software development centres and the

transformation of newly assimilated knowledge is more crucial to them than their counterparts in the UK.

#### 9.1.4.2. Presentation

Respondents of 8 British and 10 Indian companies said presentation is the other knowledge transformation mechanism. They said that managers collect all acquired and assimilated information and share it with everyone in the company through presentations. This mechanism is seen mainly in companies that are medium sized (rather than small) and have various departments. The companies' characteristics show the total number of employees in Indian companies is higher than their British counterparts; this has reflected in the selection of presentation as one of the knowledge transformation modes because it facilitates easy dissemination of information to larger number of people.

The findings indicate that presentation is just a first step for transformation of knowledge because product and technological knowledge is always complicated and difficult to understand in one single presentation. So the companies have to train or teach their employees in detail about the benefits of presentations and how to use them. So the next method of knowledge transformation is training.

#### 9.1.4.3. Training

Respondents from the UK (two) and Indian (eight) companies use training as a knowledge transformation mechanism mainly for product or technology related information/knowledge which is normally more complex and difficult to internalise. The decision-makers point out that the awareness of their employees about new knowledge and how they adapt are crucial

for the survival of their companies. The British ICT companies generally provide training if there require complex technological or product related knowledge which is difficult to understand. However, this is rare because all these companies are developing software in India. On the other hand, the Indian companies, mainly from the service sector hold regular training and workshops to hone the skills and raise the knowledge level of their employees.

#### 9.1.4.4. Separate department/ ICT facilities

The findings from 9 British and 12 Indian companies reveal that they use latest information and communication technology for their knowledge transformation. The entrepreneurs of these companies also said other mechanisms such as meetings, presentations, and training are used to augment their transformation process.

As seen with information acquisition and assimilation, a manager's role plays a key part. As mentioned earlier, 21 UK companies and 18 Indian companies are still following unsystematic knowledge processing processes. Nonetheless, some of these companies use techniques such as meetings, presentations, training and ICT to transform information and knowledge.

Table: 9.3. The summary of different transformation process with illustrative quotes

| **Knowledge transformation** | **Country/ Number of cases mentioning** | | **Illustrative quotes from interviews** |
|---|---|---|---|
| Meetings/ discussions | UK | 30 | No systematic process. It comes up in operational, management and board meeting. We discuss and share [ITU2]. |
| | India | 30 | We have regular meetings. We have project meeting to give more information to the employees. We meet every week to discuss about the newly assimilated knowledge [ITI7]. |
| Presentation | UK | 8 | We do presentations. The project managers present inside their teams, then to us and other project managers so that everyone gets the information [ITU3]. |
| | India | 10 | Once we get positive reply from our clients about the prototype we developed, we try to pass the information to our employees. We have to teach them about it...that is very important. As a first step we do a presentation to everyone [ITI5]. |
| Training | UK | 2 | Initially we had some issues in our development centre there. They are all new. They couldn't understand what we are doing here. Our people from here trained them [ITU4] |
| | India | 8 | We have a Saturday workshop...we have technology specific, knowledge specific sessions. Each department conducts separate classes to develop the skills and knowledge of our employees. Our R&D team also helps them [ITI8]. |
| Separate department/ ICT facilities | UK | 9 | Yes. We have an IT facility. We have a separate department to look after that. They will conduct presentations, meetings etc. They provide training to our employees if they need it [FLU3]. |
| | India | 12 | We have a department...they are in charge of it. They will first upload everything in our software system. They will make sure that it is reached to everyone... if not they take further steps [ITI5]. |

### 9.1.5. Exploitation of knowledge

The exploitation of knowledge involves the process of deploying newly transformed knowledge into operation. We explored how the small and medium companies deployed their knowledge and how often they did so (table 9.4). Nine British and 12 Indian companies use knowledge management software for their learning process, which is more systematic and fast. These companies transform the acquired and assimilated knowledge and make it available in their data base. All the respondents from the UK and India mentioned the importance of decision makers in knowledge exploitation. They said decision makers decide when to incorporate the knowledge. They are very important if the firm has a formal knowledge management system.

#### 9.1.5.3. Frequency of knowledge deployment

The process of knowledge deployment is similar for almost all the companies. However, the frequency of deployment is differs across sectors. When asked about the frequency of knowledge deployment, 26 British decision-makers said it was a continuous and regular process. However, in the case of four British companies, information/knowledge deployment was done only once or twice a year and they considered it as a strategic decision.

The Indian responses are slightly different. The entrepreneurs from 20 companies (both service and manufacturing) mentioned that they deployed their product/technical knowledge only when they got an order. This is mainly because Indian sides of most firms included in the study were production centres of their British partners. They believe that as the final stage of learning, exploitation is always very important because this enhances the performance of both staff and the company as a whole.

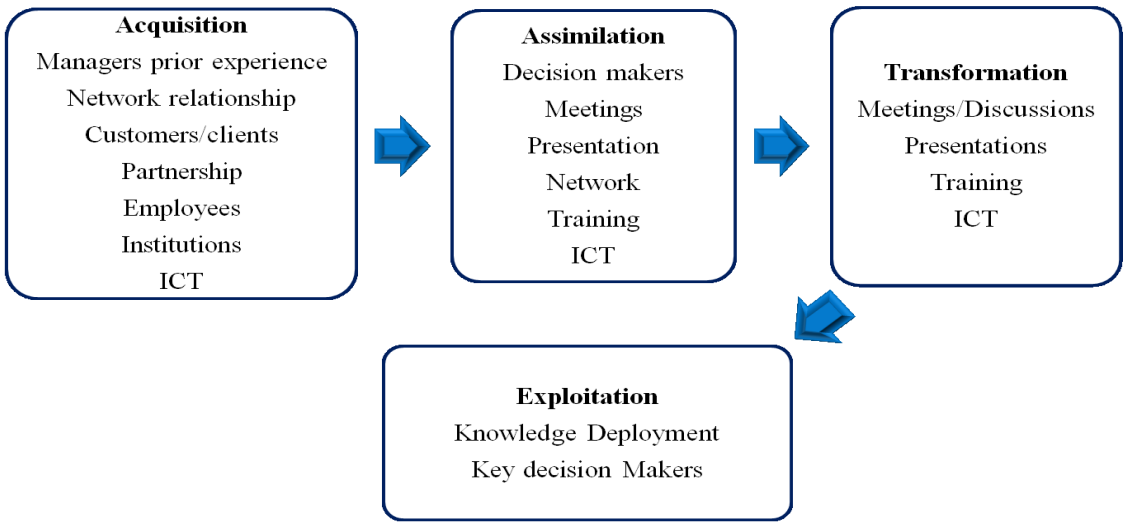
Table: 9.4. Knowledge exploitation

| **Mechanisms of knowledge exploitation** | **Country** | **Number of cases mentioning** | **Illustrative quotes from interviews** |
|---|---|---|---|
| Decision makers | UK | 30 | We are a small group. I look after everything...we don't have a formal way...it is very unsystematic way. I share it with my people [ITU3]. |
| | India | 30 | Our CEO (based in the UK) is in charge of all these processes because he knows about the market more than us [ITI2]. |
| Knowledge management software | UK | 9 | It will be available in our digital library but we [key decision makers] I decide when to incorporate in operation after discussing with my people [ITU1]. |
| | India | 12 | We have software but our operations vice president is in charge of all knowledge related to operations [ITI5].<br>I am involved in the overall knowledge deployment process of the company [ITI7] |
| **Frequency of knowledge deployment** | **Country** | **Number of cases** | **Illustrative quotes from interviews** |
| Regularly (Normally daily) | UK | 26 | Yes, we are a small company so there is no systematic process. It is not at all complicated [...] whatever we have learned will be incorporated in to our operation [REU1]. |

| | | | |
|---|---|---|---|
| | India | 20 | We incorporate it regularly...we do it every time we get something new [market knowledge]. It is very important [ITI5]. [**Market Knowledge**] |
| Less frequent but at regular intervals | UK | 4 | It is not a systematic process. We incorporate in operation only when we make a strategic decision. Our market would not change that quick. If we incorporate the knowledge without proper planned decision, it would affect our business model. We have a much focused strategy; we have a very well planed model. Our business model evolves over time. So we can't make frequent changes. The changes will be made yearly [ITU2]. |
| | India | - | - |
| **Based on orders** | UK | - | - |
| | India | 30 | It will be based on orders. When we get an order we decide about it. We first look at the resources, who are all free and the skills etc [ITI10]. [**Product Knowledge**] |

Figure 9.1 presents a summary overview of the findings on the SMEs learning process relevant to their internationalisation

Figure: 9.1. Summary overview of SMEs learning process relevant to Internationalization




## 9.1.5. Conclusion

The findings reveal that the social capital of a firm and its decision-makers' are crucial for the whole learning process----from acquisition to the exploitation of knowledge-related to their internationalisation. Since most firms included in this study are small and new, they have limited resources to implement a proper knowledge management system. This also reflected the findings that more than 65 per cent of the respondents—both British and Indian—do not have a formal or systematic knowledge management system. Compared with their British respondents, more Indian counterparts use knowledge management system. This is mainly because the Indian companies have more employees than the British ones; also, in ICT sectors they are the software development centres, where the flow of latest knowledge/information is highly crucial. Nonetheless, the decision-makers from both the UK and India reveal that having a proper systematic knowledge management system facilitates their companies' further development.

## 9.2. Quantitative Findings

### 9.2.1. Introduction

An independent sample t test was conducted to check if the characteristics of learning capability vary between the UK and Indian companies. We then conducted factor analysis for both countries to see if the items show any clustering, as to simplify further analysis.

### 9.2.2. Independent sample t-test

Table: 9.5. Independent sample t test (Learning capability) (N = 200)

| Items | Mean | | SE | | t-Value | p-Value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Company adapts its products/services to address opportunities in India/UK | 3.47 | 4.21 | .103 | .056 | -6.3(152.21) | .000 |
| Frequently scan the environment | 3.94 | 4.00 | .068 | .045 | -0.7(171.79) | .462 |
| Allocate resources to new areas | 3.87 | 3.72 | .079 | .070 | 1.43(198) | .16 |
| Identify and acquire external knowledge | 4.09 | 4.02 | .060 | .035 | 1.00(157.99) | .32 |
| Identify and acquire internal knowledge | 3.62 | 3.73 | .071 | .079 | -1.04(198) | .30 |
| Effective in developing new knowledge | 3.96 | 4.09 | .078 | .029 | -1.6(125.60) | .12 |
| Staff is important in knowledge acquisition | 3.76 | 3.75 | .059 | .085 | 0.10(198) | .92 |
| Informal internal communication to integrate the knowledge | 3.80 | 3.81 | .075 | .068 | -0.10(198) | .92 |
| Routines to assimilate the knowledge | 3.80 | 3.94 | .079 | .034 | -1.6(134.91) | 0.11 |
| Integrating existing knowledge with new knowledge | 3.85 | 3.97 | .064 | .030 | -1.7(140.32) | .092 |
| Convert knowledge into useful applications | 3.86 | 3.94 | .065 | .034 | -1.1(149.92) | .279 |

The independent sample t-test (table. 9.5) reveals that only adapting products or services to meet the market requirement shown difference between both country responses. It is mainly because many of the British companies are not adapting their products for Indian market; they are purchasing rather than selling products and services in India.

### 9.2.3. Factor analysis

#### 9.2.3.1. British companies

Table: 9.6. Factor analysis of learning capability for the UK companies (N= 100)

| Items | Component | |
|---|---|---|
| | 1 | 2 |
| Frequently scan the environment | .636 | |
| Allocate resources to new areas | .680 | |
| Identify and acquire external knowledge | .896 | |
| Identify and acquire internal knowledge | .691 | |
| Effective in developing new knowledge | .655 | |
| Staff is important in knowledge acquisition | .551 | |
| Informal internal communication to integrate the knowledge | | .895 |
| Routines to assimilate the knowledge | | .928 |
| Integrating existing knowledge with new knowledge | | .781 |
| Convert knowledge into useful applications | | .556 |
| Eigenvalues | 3.44 | 3.46 |
| % of variance | 34.43 | 34.64 |
| α reliability | .86 | .89 |

A principal component analysis (PCA) was conducted on the 11 items with orthogonal rotation (varimax). The Kaiser-Meyer-Olkin (KMO) measure verified the sampling adequacy for the analysis, KMO = 0.808, which is very satisfactory according to Field (2009). The anti-image correlation shown that KMO value for one item was below the bare minimum 0.5,

which is not acceptable (Field, 2009). The item, adapting the products to address the opportunities in India is then removed and conducted another PCA analysis for rest of the 10 items. The sample adequacy, KMO for 10 items is now 0. 826, which is acceptable. All KMO values for individual items were above the accepted level of 0.5 (Field, 2009). Bartlett's test of sphericity $\chi^2$ (45) = 681.98, $p < 0.001$, which is highly significant, so factor analysis is appropriate (Field, 2009). An initial analysis was run to obtain eigenvalues for each component in the data. Two components had eigenvalues values more than 1, which is Kaiser's condition, and it explained 69% of the variance. The table 9.6 show factor loading after rotation. The item cluster on the same factors suggests that factor 1 is labelled as potential learning capability, and factor 2 is labelled as realized learning capability.

#### 9.2.3.2. Indian companies

A principal component analysis (PCA) was conducted on the 11 items with orthogonal rotation (varimax). The Kaiser-Meyer-Olkin (KMO) measure verified the sampling adequacy for the analysis, KMO = 0.683, which is mediocare according to Field, 2009. The anti image correlation shown that KMO values for three items were below the bare minimum 0.5, which is not acceptable (Field, 2009). The items frequently scan the environment, adapting the products to address the opportunities in the UK, and acquiring external knowledge is then removed and conducted another PCA analysis for rest of the 8 items. The sample adequacy (KMO) for 9 items is now good (0. 738). All KMO values for individual items were above the accepted level of 0.5 (Field, 2009). Bartlett's test of sphericity $\chi^2$ (28) = 701.33, $p < 0.001$, which is highly significant, so factor analysis is appropriate (Field, 2009). An initial analysis was run to obtain eigenvalues for each component in the data. Two components had eigenvalues values more than 1, which is Kaiser's condition, and it explained 72.41% of the

variance. The table 9.7 show factor loadings after rotation. The item cluster on the same factors suggests that factor 1 represents potential learning capability and factor 2 is realized learning capability. However, the analysis for Indian data shows slight difference in item clustering; the item informal internal communication to integrate the knowledge is loaded with the first factor. However, conceptually this cannot be treated as a potential learning factor. So the item will be excluded from further analysis.

Table: 9.7. Factor analysis of learning capability for Indian companies (N= 100)

| | Component | |
|---|---|---|
| | 1 | 2 |
| Staffs are important in knowledge acquisition | 0.93 | |
| Identify and acquire internal knowledge | 0.91 | |
| Informal internal communication to integrate the knowledge | 0.86 | |
| Allocate resources to new areas | 0.64 | |
| Effective in developing new knowledge | 0.44 | |
| Integrating existing knowledge with new knowledge | | 0.96 |
| Routines to assimilate the knowledge | | 0.88 |
| Convert knowledge into useful applications | | 0.86 |
| Eigenvalues | 3.16 | 2.63 |
| % of variance | 39.51 | 32.90 |
| | 0.85 | 0.90 |

## 9.2.4. Conclusion

The responses of the UK and Indian decision makers were similar for all the learning capability dimensions except for the first dimension adapting products. The factor analysis shows that the dimensions are clustering into two factors, which are related external learning and internal learning. As George and Zahra (2002) noted, these can be named potential and realized learning capability respectively.

## 9.4. Learning capability and mode of internationalization

Our findings indicate that learning is a key requirement for firms' internationalisation. Lack of knowledge about foreign markets would limit firms' ability to evaluate and understand the foreign contexts, their opportunities and risks. Knowledge helps SMEs to overcome the issues of psychic distance, and facilitates their internationalisation. Our findings suggest that acquiring a new knowledge alone is not sufficient for a firm's internationalisation but they should have the capability to transform and exploit the acquired knowledge into their existing knowledge base, i.e. learning will be complete only when the acquired knowledge is utilized to generate some bonus from it. So we can conclude that both potential and realized learning capabilities are important for SMEs internationalisation. The results from the UK and Indian companies also reveal that the key decision makers in SMEs play very important role in the whole learning process, i.e. in both potential and realized learning capability. Our survey findings for both the UK and Indian companies show that firms learning capability is positively related to their international commitment mode (Tables 9.8 and 9.9). Therefore, we can interpret that the firms develop their learning capability prior to their internationalization.

Table: 9.8. Pearson correlation for learning capability and international commitment mode—British companies (N=100)

| | Variables | 1 | 2 |
|---|---|---|---|
| 1 | International commitment mode | 1 | |
| 2 | Learning capability | .21* | 1 |

Table: 9.9. Pearson correlation for learning capability and international commitment mode—Indian companies (N=100)

| | Variables | 1 | 2 |
|---|---|---|---|
| 1 | International commitment mode | 1 | |
| 2 | Learning capability | .45** | 1 |

** $p < 0.01$; * $p < 0.05$ (2-tailed).

## 9.3. Summary

The qualitative findings explored how the SMEs develop their learning capability by analysing four different stages of learning process such as acquisition, assimilation, transformation and exploitation of knowledge/information (adopted from Zahra and George, 2002). The first two stages deal with external information, which we call as potential learning capability, whereas the other two stages deal with already acquired and assimilated internal information, which are termed as realized learning capability. The overall results from the UK and Indian companies reveal that the key decision makers (entrepreneurs) in SMEs play very important role in the whole learning process. The entrepreneurs of most companies mentioned that the whole process is unsystematic and they believe that a more systematic process incorporating the ICT facilities would enhance the entire learning process.

The quantitative results from our survey complement the qualitative findings. They show that only adapting products to meet the market requirement varies between the mean responses from each country. The descriptive statistics reveal that the mean values of all learning activities are above the midpoint, which implies that companies have the capability to learn and apply the information required for their internationalisation. One can interpret this as indicating that learning is a very important requirement for the firms' internationalisation so

the internationalising firms try to develop their learning capability prior or in the initial stages of their internationalisation. The other salient result of the survey is that, similar to the case study findings, learning capabilities could be classified into potential and realized for both the UK and Indian firms with relatively minor differences of detail.

# CHAPTER 10
# ANALYSIS OF A COMPOSITE MODEL

## 10.1. Introduction

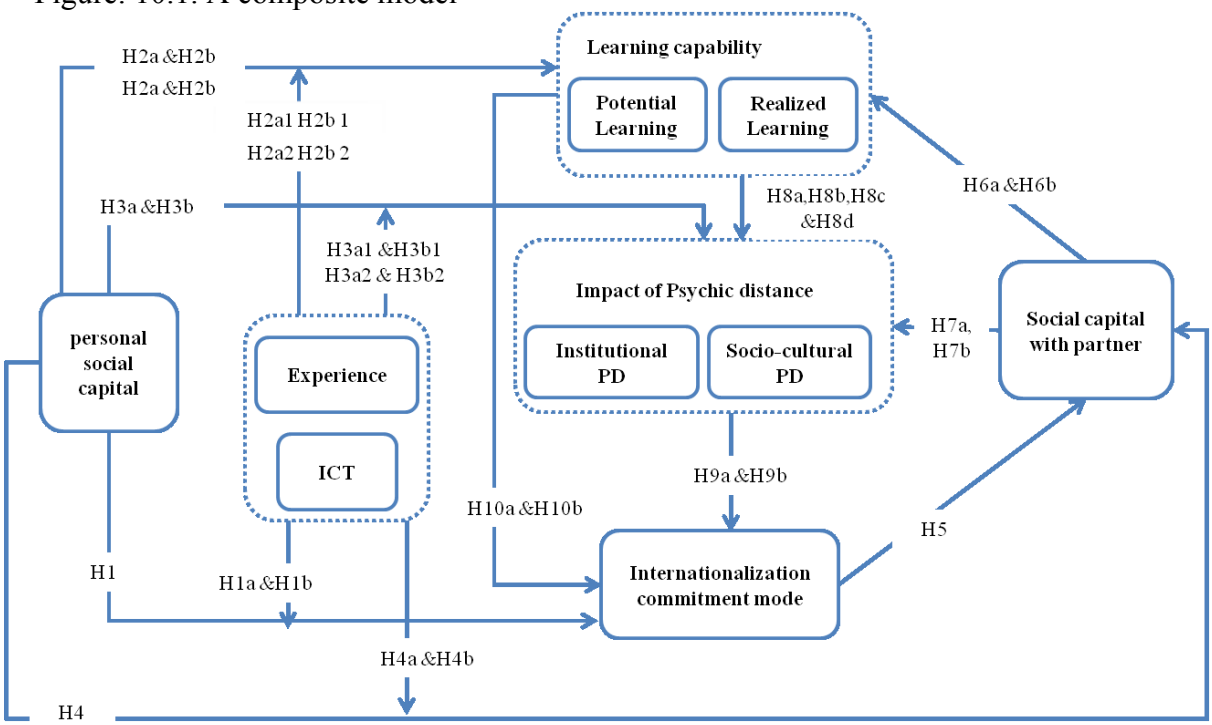
The review of literature in chapters 2, 3 and 4 revealed that psychic distance, social capital and learning capability are relevant to SME internationalization. However, it shows that although there has been a lot of research focusing on the process of internationalization, a holistic approach of assessing these issues in developed and emerging-country SME internationalization has not been attempted before despite being recommended by some authorities. Therefore, as mentioned earlier, the main focus of this investigation is on the process of internationalization, specifically on the relevance of psychic distance, social capital, learning capability and the role of ICT in the internationalization of British and Indian SMEs. Our qualitative findings also confirm the importance of assessing the influence of these factors. Therefore, in order validate our qualitative findings and to address our main research questions we developed a composite model, which explores whether SMEs personal and partner social capital, psychic distance, learning capability influence their internationalization decision.

This chapter deals with analysis and validation of a composite model developed from the review of literature undertaken in chapters 2, 3 and 4, and the results obtained from the exploratory case studies with 30 British companies and their partners in India which are discussed in chapters 6, 7, 8, and 9. The exploratory case studies helped identify a set of factors and relationships in the process of internationalization of British and Indian SMEs into

each other's market. In view of limitations in the available theoretical explanations for the internationalization of SMEs, a holistic approach was adopted in constructing a comprehensive framework representing crucial elements involved in the process of small and medium enterprises' (SMEs) internationalization (Figure. 10.1). This summarises a set of hypotheses which we shall set out involving the factors we have considered separately in the previous chapters: social capital, experience, learning capability, impact of psychic distance, role of ICT (see Appendix 7) and the mode of internationalization.

## 10.2. A composite model

Figure: 10.1. A composite model



### 10.2.1. Personal social capital → Internationalization commitment mode

Our qualitative findings suggest that although economic-related factors are the motives for the internationalization of both British and Indian SMEs, socially related factors such as the experience of the entrepreneurs, their network, ethnicity, education and international reputation facilitate the process. The responses of entrepreneurs from both countries indicate how socially related factors facilitate the internationalization of SMEs by offsetting their limitations.

Internationalization commitment mode refers to the initial preferences of SMEs as reflected in their commitment to risk and resource allocation when they decide to enter a foreign market. This is classified according to the amount of equity invested in each other's market. Joint ventures and wholly owned subsidiaries or branches represent equity entry modes whereas non-equity entry modes are exporting or importing and use of agents (Tihanyi, Griffith and Russell, 2005). Exporting/importing, use of agents, joint ventures and wholly owned subsidiary represent a progression from low to high commitment.

Although the network model does not specifically explore the influence of network attachment on the mode of entry, studies of small and medium knowledge intensive firms reveal that networking has a great influence on their internationalization (e.g. Bell, 1995; Coviello and Munro, 1995, 1997; Coviello and Martin, 1999; Sharma and Blomstermo, 2003; Coviello, 2006). However, they focused mainly on entry initiatives and market selection (e.g. Coviello and Munro, 1995). Jones and Young (2009) concluded that the relationship between networks and entry mode remains an under-researched area. They said that due to the

dominance of traditional market-seeking approaches, limited attention has been given to exploring the links between motivation and commitment mode. Hence,

**Hypothesis 1:** The h*igher the entrepreneurs' personal social capital, the more likely that firm will use a high international commitment mode*

Our findings also show that entrepreneurs' previous experience influenced new market entry decisions of both British and Indian SMEs. This is consistent with major international business theories such as behaviour, network and INV perspectives. However, as mentioned earlier, experience is not a component of personal social capital. Therefore, we hypothesise,

***Hypothesis 1a****: The higher the entrepreneurs' experience, the stronger the relationship between personal social capital and international commitment mode*

Studies show that along with factors such as network, experience, managers' international orientation and other resources (Coviello & McAuley, 1999; Knight & Cavusgil, 2004; Rialp et al., 2005), ICT also has a strong influence on the internationalization of SMEs. Advanced communication technologies, specifically the Internet, helps firms access information about export markets, customers and distributors and facilitate their internationalization (Mustafa, Wheeler and Jones, 2006). While investigating the links between entrepreneurial orientations, commitment to the Internet and export performance in small- and medium-sized firms, Mustafa et al. (2006) observed that high entrepreneurial firms show better export performance when they are more committed to the Internet. It provides direct connection between producers and suppliers by eliminating the intermediaries (Quelch and Klein, 1996). By creating "borderless" virtual business platforms, Internet influence firms' international market entry and the market selection decisions (Moen, Gavlen and Endresen, 2004). Consistent with

these arguments, our qualitative findings also show that ICT facilitates the market entry of SMEs. Hence,

***Hypothesis 1b****: The greater the use of advanced ICT, the stronger the relationship between personal social capital and international commitment mode.*

### 10.2.2. Personal social capital → learning capability

Since most firms included in this study are small and new, they have limited resources to implement a proper knowledge management system. However, our findings show that the social capital of entrepreneurs are crucial for the whole learning process----from acquisition to the exploitation of knowledge related to their internationalization. The overall results from the UK and Indian companies reveal that the entrepreneurs in SMEs play a key role in the whole learning process. This support Ellis's (2000) view that SMEs normally acquire knowledge related to a foreign market through entrepreneurs existing inter-personal links. This is also consistent with Autio's (2005) argument that entrepreneurs who are able to take risks and make strategic choices, play a crucial role in the learning process of rapidly internationalizing companies. However, our qualitative findings reveal that learning capability involves two types, potential learning capability (learning related to external information) and realized learning capability (internal learning). Therefore, we propose that,

**Hypothesis 2a:** *The greater the personal social capital, the higher the potential learning capability*

***Hypothesis 2b****: The greater the personal social capital, the higher the realized learning capability*

Johanson and Vahlne (1977, 2009) argue that knowledge grows incrementally over time through experience in current activities. Similarly, network theories also emphasize that the learning process is influenced by the experience and network relationships of the entrepreneurs. The INV perspective believes that entrepreneurs' experience along with all other attributes play an important role in the firms' rapid learning and internationalization. Consistent with these arguments, our findings also reveal that entrepreneurs' experience has a positive impact on learning, specifically among Indian firms. Therefore,

**Hypothesis 2a1:** *The higher the* entrepreneurs' *experience, the stronger the relationship between personal social capital and potential learning capability.*

**Hypothesis 2b1:** *The higher the* entrepreneurs' *experience, the stronger the relationship between personal social capital and realized learning capability.*

Studies show that latest information and communication technologies (ICT) assisted SMEs to communicate directly with their partners, customers, distributors, suppliers and agents in foreign markets. This not only helped them develop and maintain their network relationships (Soliman and Janz, 2003; Aalst, 1999; Coltman, Devinney, Latukefu and Midgley, 2001), but also enhanced their learning capability (Hamill and Gregory, 1997; Bell and Loane, 2010). Our findings also show that ICT facilities have enhanced the firms' learning capabilities. However, they also reveal that the use of ICT facilities along with decision-makers' involvement promotes effective learning. Hence,

**Hypothesis 2a2:** *The greater the use of ICT, the stronger the relationship between personal social capital and potential learning capability.*

**Hypothesis 2b2:** *The greater the use of ICT, the stronger the relationship between personal social capital and realized learning capability.*

### 10.2.3. Personal social capital → impact of psychic distance

Our findings reveal that previous international experience and network contacts are important ingredients for accessing a new foreign market. More specifically, they show that social capital, through external networking, figures prominently in SMEs' psychic distance coping behaviour. Both absorption and contingency coping modes rely on external social capital, although the roles performed by that capital are different. In the absorption mode, social capital is primarily a source of learning about foreign environment. In the contingency mode, it is primarily a means of handling a difficulty at arm's length. These findings are consistent with Arenius's (2005) view that social capital helps overcome the barriers posed by the liability of newness and the impact of psychic distance. Our qualitative findings also indicate that psychic-distance dimensions are socially or institutionally embedded. Dimensions such as logistics, regulations, and political systems are institutionally embedded, and in some cases the decision-makers were unable to cope with them. By contrast, socially rooted dimensions, such as culture, language, business practice, and ethics are more easily manageable through the SMEs' social capital and personal adaptation. Hence, we propose that

**Hypothesis 3a:** *The higher the personal social capital, the lower the impact of institutional psychic distance*

**Hypothesis 3b:** *The higher the personal social capital, the lower the impact of socio-cultural psychic distance*

**Hypothesis 3a1:** *The higher the* entrepreneurs' *experience, the stronger the negative relationship between personal social capital and impact institutional psychic distance.*

**Hypothesis 3b1:** *The higher the* entrepreneurs' *experience, the stronger the negative relationship between personal social capital and impact socio-cultural psychic distance.*

SME decision-makers tended to emphasize the role of information and communication technology (ICT) in reducing psychic distance. They believe that ICT enables regular communication between companies, which in turn enhances trust between them and reduce the impact of psychic distance. Therefore,

***Hypothesis 3a2****: The greater the use of ICT, the stronger the negative relationship between personal social capital and impact of institutional psychic distance*

***Hypothesis 3b2:*** *The greater the use of ICT, the stronger the negative relationship between personal social capital and impact of socio-cultural psychic distance*

### 10.2.4. Personal social capital → social capital with partner

More than 60 per cent of the companies in our qualitative study used their existing relationship in the form of prior experience, network and common ethnicity to initiate social capital relevant for their internationalization. The social capital development stage also varied according to the social capital initiation mode. Generally, firms that use their existing relationship to create a new relationship for their internationalization find the process much easier compared with firms that create a new relationship. This is consistent with the literature on emerging country firms' internationalization (Hitt et al., 2000; Ramamurti, 2001; Child and Rodrigues, 2005; Gaur and Kumar, 2009), which suggests that firms develop high level of commitment through linking with people or firms with similar ethnic origin or with people in their existing network. Therefore,

***Hypothesis 4:*** *The higher the entrepreneurs' personal social capital, the greater his/her social capital with partner*

***Hypothesis 4a:*** *The higher the entrepreneurs' experience, the stronger the relationship between his/her personal social capital and social capital with partners.*

Studies show that advanced communication technologies help SMEs to communicate directly with their partners, customers, distributors, suppliers and agents in foreign markets. This not only helps them develop and maintain their network relationship (Soliman and Janz, 2003; Aalst, 1999; Coltman, Devinney, Latukefu and Midgley, 2001), but also enhances their learning capability and mutual understanding (Hamill and Gregory, 1997; Bell and Loane, 2010). Our findings also indicate that initiating a relationship through ICT can reduce the initial costs associated with marketing and communication activities, and can provide an opportunity to interact directly with partners and ensure a fast and easy learning. However, direct face-to-face and personal interaction remains important to sustain the relationship. Hence,

***Hypothesis 4b:*** *The greater the use of advanced ICT, the stronger the relationship between personal social capital and social capital with partner.*

### 10.2.5. International commitment mode→ social capital with partner

High-control commitment modes ensure greater level of commitment between partners and help build close personal relationships. It increases the interaction and communication between partners and provides unique competence in foreign markets (Blomstermo, Sharma and Sallis, 2006). Our qualitative findings also reveal that firms which enter a new country with a high level of commitment will be able to develop close relationship with their partners much faster than those without. Stated formally,

***Hypothesis 5**: The higher the international commitment mode, the higher the social capital with the foreign partner*

### 10.2.6. Social capital with partner → learning capability

Both British and Indian SMEs consider networking to be the best method to access technical, market and business/client related information relevant for their business. The respondents from British and Indian companies said their partners in each other's market helped them learn about their weaknesses and the areas where they have to focus more. Hence,

***Hypothesis 6a:** The higher the social capital with the partner, the greater the firms' potential learning capability*

***Hypothesis 6b**: The higher the social capital with the partner, the greater the firms' realized learning capability*

### 10.2.7. Social capital with partner → impact of psychic distance

As mentioned earlier, our findings show that SMEs depend on their partner in the foreign market for coping with the impact of psychic distance by developing trustworthy partnerships. Both absorptive and contingent modes of coping are strongly associated with linking with partner. The bridging and avoidance mode of coping mentioned by Child et al. (2009) also emphasize the role of trusted partners. Therefore we argue that,

***Hypothesis 7a:** The higher the social capital with the partner, the lower the impact of institutional psychic distance*

***Hypothesis 7b:** The higher the social capital with the partner, the lower the impact of socio-cultural psychic distance*

### 10.2.8. Learning capability → impact of psychic distance

The knowledge of foreign market and internationalization activities are the fundamentals of international process theories (Johanson and Vahlne, 1977, 2009). These maintain that experiential learning influences foreign commitment decisions, which means firms start with low level of commitment in psychically close markets and later move to psychically distant markets. This perspective assumes that apart from learning about a foreign market situation, firms learn about international activities as well through their experience (Eriksson et al., 1997; Forsgren, 2002; Petersen et al., 2003). Overall, they emphasize experiential learning and its role in offsetting the impact of psychic distance. Our findings also reveal that the main coping mode (absorptive coping mode) adopted by SMEs in both the UK and Indian is related to learning. Hence,

***Hypothesis 8a:*** *The higher the potential learning capability, the lower the impact of institutional psychic distance*

***Hypothesis 8b:*** *The higher the potential learning capability, the lower the impact of socio-cultural psychic distance*

***Hypothesis 8c:*** *The higher the realized learning capability, the lower the impact of institutional psychic distance*

***Hypothesis 8d:*** *The higher the realized learning capability, the lower the impact of socio-cultural psychic distance*

### 10.2.9. Impact of psychic distance → international commitment mode

Psychic distance as a predictor of international entry-mode decisions has been widely explored (e.g. Gatignon and Anderson, 1988; Kogut and Singh, 1988; Luo and Chen 1995; Padmanabhan and Cho, 1996; Barkema et al., 1997; Barkema and Vermeulen, 1998; Tihanyi,

Griffith and Russell, 2005). However, these showed mixed results for the influence of psychic/cultural distance on international commitment mode decisions (Benito and Grisprud, 1992; Shenkar, 2001; Tihanyi et al., 2005). Eramilli and Rao (1993) mentioned that firms adopt a lower level of commitment mode when the psychic distance is low. Firms reduce the transaction costs by adopting a lower commitment mode when the psychic distance and its associated risk are low. On the other hand, Padmanabhan and Cho (1996) hypothesized that firms will adopt a higher level of commitment mode, such as wholly owned subsidiary, if the psychic distance is high. Literature indicates that firms prefer an entry strategy that minimizes resource commitment and shares control with management in the foreign subsidiary when entering a psychically-distance market that has high level of risk (Evans et al., 2008). Higher level of control ensures greater level of trust and helps reduce the potential risk; it also aids in offsetting the information cost and difficulties in transferring competencies (Li and Guisinger, 1992).

Similarly, a number of other studies have found that greater cultural or psychic distance is associated with a lower level of commitment such as export or use of agents (Luo and Chen 1995; Barkema et al., 1997; Barkema and Vermeulen, 1998). This means that SMEs adopt a low-cost/low-control entry strategy by associating with a local firm (Luo and Chen 1995). As Evans et al. (2008) observed “low- cost” and “low control” would involve a sharing of management functions with local firms and would reduce the risk associated with psychic distance. These are in line with Gatignon and Anderson (1988) and Kogut and Singh (1988) who said firms prefer lower commitment mode (joint venture) to more controlled commitment (wholly owned subsidiary) when they enter a culturally distant market. Shenkar

(2001) mentioned that these contradictory results can be partially attributed to the nature of firms, i.e. service vs. manufacturing. Hence we propose that,

**Hypothesis 9a:** *Higher the impact of institutional psychic distance, the less likely that firm will use a high commitment mode*

**Hypothesis 9b:** *Higher the impact of socio-cultural psychic distance, the less likely that firm will use a high commitment mode*

### 10.2.10. Learning capability → mode of entry

The behavioural models argue that the lack of knowledge about foreign markets limits the ability of firms to evaluate and understand foreign contexts, its opportunities and risks. This might create an uncertainty among them because they tend to overstate risks and underestimate returns from international markets (Blomstermo, Sharma and Sallis, 2006). The process model (Johanson and Vahlne, 1977) states that (organizational) experimental learning increases (market) knowledge which then leads the firm to increased (market) commitment. Studies show that learning provides knowledge related to market, product, R&D, and internationalisation activities to the firms (Zahra et al., 2000; Yli Renko et al., 2002; Petersen et al., 2003), which helps enhance their capability, facilitates their internationalisation and positions them as global players (Zahra et al., 2000). As firms gain experience they gain confidence, and attain better knowledge about risks and opportunities, and opt for high control entry modes (Blomstermo et al., 2006). Hence,

***Hypothesis 10a****: Higher the potential learning capability, the more likely that firm will use a high commitment mode*

***Hypothesis 10b:*** *Higher the realized learning capability, the more likely that firm will use a high commitment mode*

## 10.3. Analysis and results

### 10.3.1. Measurement and validation

Internal reliability and exploratory factor analysis was conducted to ensure the validity of the measures. The result of this analysis was presented in chapters 6, 7, 8, 9 and 10. A confirmatory factor analysis was conducted for learning capability and impact of psychic distance using AMOS 18 to verify the unidimensionality aspects of these variables. The confirmatory factor analysis results are presented in Appendix 6. For the purpose of SEM analysis, the four categories of 'international commitment mode' are treated as a scale variable. Pearson correlations were run to check the convergent validity (Tables 10.1 and 10.2). The correlation coefficients show that, except for impact of psychic distance and entry mode, most of the items were significant and correlated.

Table: 10.1. Pearson correlation for British companies

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Personal social capital | 1 | | | | | | | | |
| 2 | International commitment mode | -.11 | 1 | | | | | | | |
| 3 | Potential learning capability | .01 | .24* | 1 | | | | | | |
| 4 | Realized learning capability | .22* | .15 | .71** | 1 | | | | | |
| 5 | Impact of institutional PD | -.16 | .09 | -.30** | -.38** | 1 | | | | |
| 6 | Impact of socio-cultural PD | -.20 | .04 | -.23* | -.35** | .62** | 1 | | | |
| 7 | Social capital with partner | .29** | .33** | .37** | .27** | -.27** | -.51** | 1 | | |
| 8 | Managers' previous experience | .79** | .03 | .22* | .36** | -.23* | -.28** | .32** | 1 | |
| 9 | ICT used | -.04 | .23* | .35** | .38** | -.24* | -.33** | .34** | .14 | 1 |
| Mean | | 2.85 | 2.62 | 3.87 | 3.82 | 2.69 | 2.37 | 3.40 | 3.44 | 3.98 |
| Standard deviation (SD) | | 1.07 | 0.93 | 0.53 | 0.62 | 0.71 | 0.65 | 0.63 | 1.36 | 0.56 |

*p<.05, **p<.01, ***p<.001

Table: 10.2. Pearson correlation for Indian companies

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Personal social capital | 1 | | | | | | | | |
| 2 | International commitment mode | .60** | 1 | | | | | | | |
| 3 | Potential learning capability | .01 | .07 | 1 | | | | | | |
| 4 | Realized learning capability | .34** | .42** | .28** | 1 | | | | | |
| 5 | Impact of institutional PD | -.36** | -.35** | .03 | -.26** | 1 | | | | |
| 6 | Impact of socio-cultural PD | -.26** | -.18 | -.01 | .12 | .50** | 1 | | | |
| 7 | Social capital with partner | .42** | .47** | -.14 | .18 | -.45** | -.57** | 1 | | |
| 8 | Managers' previous experience | .59** | .43** | .14 | .25* | -.26** | -.12 | .16 | 1 | |
| 9 | ICT used | .58** | .60** | .11 | .52** | -.52** | -.27** | .54** | .40** | 1 |
| Mean | | 2.91 | 1.89 | 3.96 | 3.91 | 2.25 | 1.81 | 3.62 | 3.20 | 4.28 |
| Standard deviation (SD) | | 1.10 | 0.99 | 0.32 | 0.36 | 0.47 | 0.43 | 0.67 | 1.06 | 0.53 |

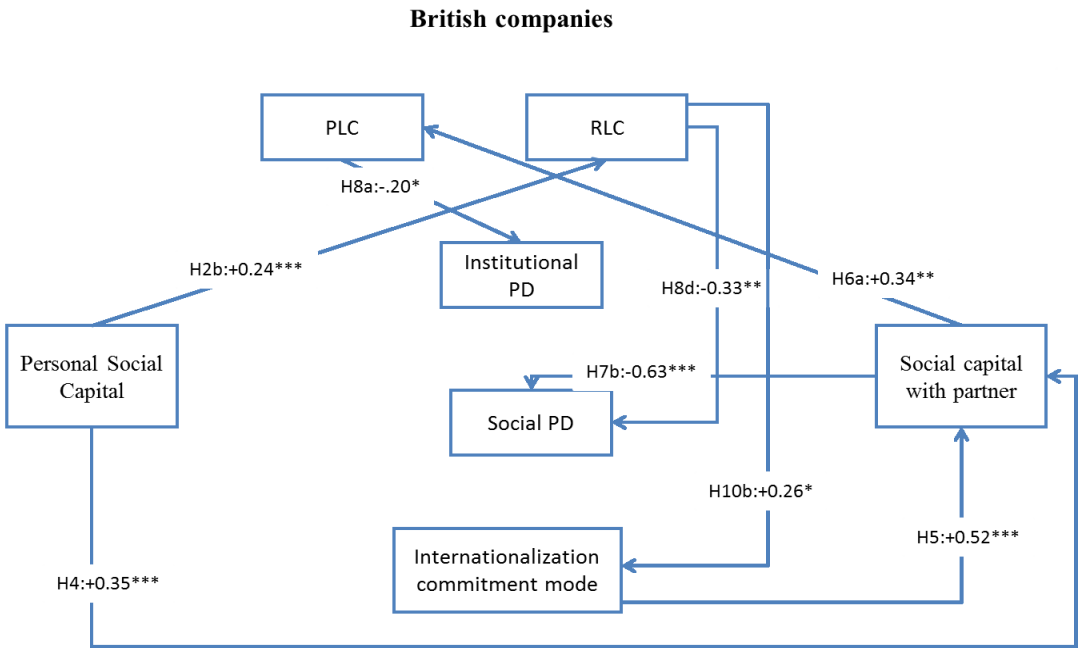
*p<.05, **p<.01, ***p<.001

### 10.3.2. Path analysis

The composite model was tested using structural equation modeling (path analysis). We used the AMOS 18 programme for this purpose. The testing of the model showed poor fit for both the UK and Indian data. However, for each sample the model was then revised according to the modification indices and the significance level of parameters shown in AMOS. The model for British companies was modified by excluding hypotheses 3a,3b, 8c and 10a. Similarly, Indian model is also revised by excluding hypothesis 6b. The modified models then showed good fit for both UK and indian data. The chi-square p value, ratio of chi-square to degrees of freedom, CFI, RMSEA, RMR and GFI are all within an acceptable range, which satisfies the model fit criteria.The standardised parameter estimates and the model fit for the UK and Indian companies are provided in Tbles 10.3 and 10.4 respectively (see pages 310-311 and 317-318).

### 10.3.2.1. British companies

Figure: 10.2. Modified model for British companies




#### 10.3.2.1.1. Testing of main hypotheses

Hypotheses 1 to 4 concerning the relationship between personal social capital and international commitment mode, learning capability, impact of PD and social capital with partner showed mixed result. Only, Hypothesis-2b, which postulates a relationship between personal social capital and realized learning capability, and hypothesis 4, which concerns the association between the personal social capital and social capital with partner, are supported. Hypotheses 1 (personal social capital and entry mode) and 2a (personal social capital and potential learning capability) are not supported. Hypothesis 5 on the relationship between entry mode and social capital with partner is supported.

Hypotheses 6 - 7 concern the relationships of partner social capital with learning capability and impact of psychic distance, respectively. The results indicate support for hypotheses 6a

and 7b, whereas 6b and 7a are not supported. So the data support the hypothesis that firms' potential learning capability will be higher if the social capital with partner is high. Similarly, there is a negative relationship of social capital with partner and the impact of socio-cultural psychic distance. Hypotheses 8a to 8d postulate a negative relationship between learning capability and impact of psychic distance. Out of three hypotheses (8c was excluded from the model) hypothesis 8a that explains the relationship between potential learning capability and impact of institutional psychic distance, and hypothesis 8d between realized learning capability and impact of socio-cultural psychic distance supported. However, hypothesis 8b (Potential leaning Capability →Socio-cultural PD Impact) is not supported because the coefficient is non-significant.

Hypotheses 9a and 9b, which concern the relationship between impact of institutional and socio-cultural psychic distance, respectively, and entry mode, are non-significant. So we conclude that there is no relationship between impact of psychic distance and entry mode. In the case of hypothesis 10b, there was a significant positive relationship between realized learning capability and entry mode. However potential learning capability is not significantly associated with entry mode (hypothesis 10a).

#### 10.3.2.1.2 Moderating effects of managers' previous experience

As Zhao and Cavusgil (2006) suggested the sample was split into two groups according to the mean score of managers' experience to evaluate its moderating effect on hypotheses 1, 2a, 2b and 4. The data above the mean value were categorized as high experience and below the mean value as low experience. We used a two group AMOS model to check if or not there was any significant difference in structural parameters between the high experience group and

less experience group. We then conducted two analyses to find the chi-square difference. In the first analysis, the parameter from personal social capital and entry mode was constrained to be equal. In the following analysis, we kept the parameter unconstrained. The difference in the chi-square values between these two models helped us to decide whether experience moderates the relationship between personal social capital and international commitment mode. The results are summarised in table 10.3b. The table shows that chi-square difference is significant but the coefficient values are negative. So we conclude that hypothesis 1a -- experience strengthens the relationship between personal social capital and international commitment mode -- is not supported.

The same procedure was adopted to analyse the moderating effect of experience on the relationship between personal social capital and potential learning capability (hypothesis 2a1). Similar to the above result, the chi square difference is significant. However, the coefficient values are negative. Therefore, we conclude that experience does not strengthen the relationship between personal social capital and potential learning capability. The chi-square difference is non-significant for hypotheses 2b1 and 4a. This means managers' previous experience does not strengthen the relationship between personal social capital and realized learning capability. Similarly, hypothesis 4a postulating that experience strengthens the relationship between personal social capital and social capital with partner is not supported.

#### 10.3.2.1.3. Moderating effects of use of ICT

The results of the test are summarized in table 10.3b. As mentioned above, the variable use of ICT is separated into two groups. The mean values above and below are separated as high ICT use and low ICT use, respectively. Chi-square difference and its significance are

calculated by analysing the constrained and unconstrained models. The results presented in table 10.3b show that hypothesis 2b2 -- the ICT use strengthens the relationship between personal social capital and realized learning capability-- shows a significant chi-square difference but the coefficient values are negative. Hence, we conclude that the hypothesis is not supported. Since the chi-square difference is not significant, hypotheses 1a, 2b2 and 4a are not supported.

Table: 10.3. Assessment of hypothesis for British companies

A. Test main hypotheses -British companies

| Paths | Hypotheses | Path coefficients (Standardized) | Supported |
|---|---|---|---|
| Personal Social Capital – International commitment mode | H 1 | -.08 | No |
| Personal Social Capital – Potential learning Capability | H 2a | -.09 | No |
| **Personal Social Capital – Realized learning Capability** | **H 2b** | **.24*** ** | **Yes** |
| Personal Social Capital – PD Impact | H 3a | | |
| Personal Social Capital – PD Impact | H 3b | | |
| **Personal Social Capital – Social capital with partner** | **H 4** | **.35*** ** | **Yes** |
| **Mode of entry – Social capital with partner** | **H 5** | **.52*** ** | **Yes** |
| **Social capital with partner - potential leaning Capability** | **H 6a** | **.34** ** | **Yes** |
| Social capital with partner - realized leaning Capability | H 6b | -.10 | No |
| Social capital with partner - Institutional PD Impact | H 7a | .09 | No |
| **Social capital with partner - Socio-cultural PD Impact** | **H 7b** | **-.63*** ** | **Yes** |
| **Potential leaning Capability- Institutional PD Impact** | **H 8a** | **-.20* ** | **Yes** |
| Potential leaning Capability- Socio-cultural PD Impact | H 8b | .19 | No |
| Realized leaning Capability- Institutional PD Impact | H 8c | | |
| **Realized leaning Capability- Socio-cultural PD Impact** | **H 8d** | **-.33** ** | **Yes** |
| Institutional PD Impact - International commitment mode | H 9a | .16 | No |
| Socio-cultural PD Impact - International commitment mode | H 9b | .31 | No |
| Potential Learning Capability- International commitment mode | H10a | | |
| **Realized learning Capability-** International commitment mode | **H 10b** | **.26* ** | **Yes** |

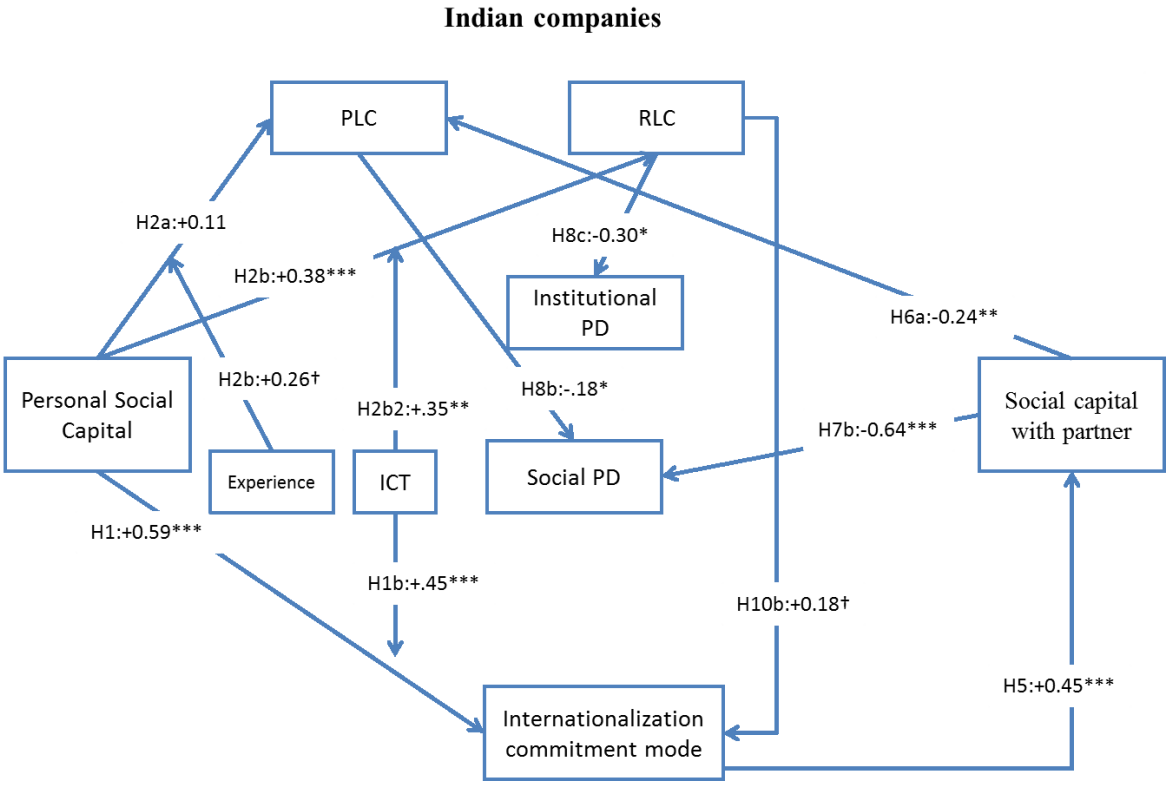
10.3. B. Test moderating effect- British companies

| Paths | Moderator | Hypotheses | Path coefficients (Standardized) | $\chi^2$ difference |
|---|---|---|---|---|
| Personal Social Capital – International commitment mode | High Experience | H1a | *-0.31* | 17.31*** |
| | Less Experience | | *-1.37* | |
| Personal Social Capital – Potential learning Capability | High Experience | H2a1 | -0.58** | 8.13** |
| | Less Experience | | -0.48 | |
| Personal Social Capital – Realized learning Capability | High Experience | H2b1 | .03 | 3.95 |
| | Less Experience | | .23 | |
| Personal Social Capital – Social capital with partner | High Experience | H4a | *.68*** | 3.3 |
| | Less Experience | | *0.09* | |
| Personal Social Capital – International commitment mode | Higher ICT use | H1b | -.14 | .6 |
| | Low ICT | | 0.06 | |
| Personal Social Capital – Potential learning Capability | Higher ICT use | H 2a2 | -.14 | .3 |
| | Low ICT | | -0.03 | |
| Personal Social Capital – Realized learning Capability | Higher ICT use | H 2b2 | -.13 | 30.2*** |
| | Low ICT | | .52*** | |
| Personal Social Capital – Social capital with partner | Higher ICT use | H 4b | .44** | .9 |
| | Low ICT | | .33* | |

Overall Model Fit Indices: $\chi 2$ (20) = 21.02; CFI= .998; RMSEA = 0.01; p-value for test of close fit (RMSEA < 0.05) =0.93; RMR= 0.02; NNFI=.99; GFI= .98. †significant at 0.1; *significant at p<0.05; ** significant at 0.01; ***significant at 0.001.

### 10.3.2.2. Indian companies

Figure: 10.3. Modified model for Indian companies.




#### 10.3.2.2.1. Testing of main hypotheses

The standardised parameter coefficients for Indian data are summarized in table 10.4. Hypothesis 1 concerns the relationship between personal social capital and mode of entry shows a positive significant correlation. Therefore, we conclude that the higher the personal social capital, the more likely that a firm opts for a higher commitment mode. Hypotheses 2a and 2b analyses the relationship between personal social capital and potential and realized learning capability, respectively. There is a significant positive association between personal social capital and realized learning capability, supporting Hypothesis 2b. However, hypothesis 2a is not supported. There are no significant relationships between personal social capital and

impact of institutional psychic distance (hypothesis 3a), and impact of socio-cultural psychic distance (hypothesis 3b).

Hypothesis 4; the relationship between personal social capital and social capital with partner is not supported because the values are non-significant. However, the relationship between mode of entry and social capital with partner (hypothesis 5) shows a positive significant correlation. So we conclude that the higher the mode of entry, the higher the social capital with partner. Similarly, for hypothesis 6a, the higher the social capital with partner, the higher the potential learning capability, there is a significant correlation. However, the coefficient is negative, which means higher the partner social capital, lower the potential learning capability. Hence, we conclude that H6a is not supported. As mentioned earlier, we have excluded the hypothesis 6b to achieve an acceptable model fit. Hypotheses 7a and 7b, which analyze the relationship between social capital with partner and impact of institutional and socio-cultural psychic distance, respectively, show negative coefficient values. However, 7a is non-significant while 7b shows a significant correlation. Hence, we conclude that the higher the social capital with the partner, the lower the impact of socio-cultural psychic distance.

The relationship between learning capability and impact of psychic distance (hypotheses 8a-8d) shows significant negative correlations for hypotheses 8b and 8c only. Hypothesis 8b shows that impact of socio-cultural psychic distance reduces by .30 standard deviations when potential learning capability increases by 1 standard deviation. Hypothesis 8c postulates that the higher the realized learning capability, the lower the impact of institutional psychic distance. However, hypothesis 8d that concerns the relationship between realized learning capability and impact of socio-cultural psychic distance shows a significant positive

correlation. Therefore, we conclude that hypothesis 8d is not supported. On the other hand, the hypothesis 8a is not supported because it shows non-significant coefficient value. Hypotheses 9a and 9b, which explains the relationship between impact of institutional and socio-cultural psychic distance, respectively, shows non-significant coefficient values. Hence, the hypotheses are not supported.

The relationship between realized learning capability and international commitment mode (hypothesis 10b) is significantly positive. Therefore, we summarize that the higher the realized learning capability, the more likely that firms will use a higher commitment mode. However, hypothesis 10a concerning the relationship between potential learning capability and international commitment mode is not supported because the coefficient value is non-significant.

**10.3.2.2.2. Moderating effects of experience**

As mentioned earlier, we split experience into high experience and low experience and used a two-group AMOS model to explore the relevance of experience as a moderator of the relationship between personal social capital and endogenous variables such as international commitment mode, learning capability, impact of psychic distance and social capital with partner. Subsequently, we analysed the difference in chi-square values for each relationship by running constrained and unconstrained models in AMOS18. The difference in chi-square models determined if the variable experience has any moderating effect on the relationships mentioned above.

The results of the test are summarized in table 10.4b. They show that only hypothesis 2a1 shows significant chi-square difference. So we conclude that experience strengthens the relationship between personal social capital and potential learning capability. However, hypotheses 1a, 2b1, 3a1, 3b1, 4a show non-significant chi-square differences. Therefore, we conclude that these hypotheses are not supported for Indian companies.

**10.3.2.2.3. Moderating effects of use of ICT**

As in the case of the other moderators, we split ICT use into high ICT use and low ICT use. We used AMOS two group-model to analyse hypotheses 1b, 2a2, 2b2, 3a2, 3b2 and 4b. The differences in chi-square values are calculated to determine the moderating effect of ICT use. The results of the analysis are summarized in Table 10.4b. Hypothesis 1b, which explicates the moderating effect of ICT on the relationship between personal social capital and international commitment mode, shows a significant chi-square difference. Moreover, high ICT use shows a higher value when compared to low ICT use. Hence we conclude that hypothesis 1b is supported; i.e. ICT use strengthens the relationship between personal social capital and international commitment mode. Hypothesis 2b2 also shows significant chi-square difference. The path coefficients show a positive value for high ICT use whereas low ICT use shows a negative coefficient. Hence we predict that ICT use strengthens the relationship between personal social capital and realized learning capability. However, the moderating effects of ICT on the relationships between personal social capital and potential learning capability (hypothesis 2a2), impact of institutional psychic distance (hypothesis 3a2), impact of socio-cultural psychic distance (hypothesis 2b2) and social capital with partner (hypothesis 4b) show non-significant chi-square difference. Hence, the hypotheses are not supported.

Table: 10.4. Assessment of hypotheses for Indian companies

A. Test main hypotheses - Indian Companies

| Paths | Hypotheses | Path coefficients (Standardized) | Supported |
|---|---|---|---|
| **Personal Social Capital – I**nternational commitment mode | **H 1** | **.59*** ** | **Yes** |
| Personal Social Capital – Potential learning Capability | H2a | .11 | No |
| **Personal Social Capital – Realized learning Capability** | **H2b** | **.38*** ** | **Yes** |
| Personal Social Capital – Institutional PD Impact | H3a | -.12 | No |
| Personal Social Capital – Socio-cultural PD Impact | H3b | -.10 | No |
| Personal Social Capital – Social capital with partner | H4 | .14 | No |
| **Mode of entry – Social capital with partner** | **H5** | **.45** ** | **Yes** |
| Social capital with partner - potential leaning Capability | H6a | -.24* | No |
| Social capital with partner - realized leaning Capability | H6b | | |
| Social capital with partner - Institutional PD Impact | H7a | -.40 | No |
| **Social capital with partner - Socio-cultural PD Impact** | **H7b** | **-.64*** ** | **Yes** |
| Potential leaning Capability- Institutional PD Impact | H8a | .11 | No |
| **Potential leaning Capability- Socio-cultural PD Impact** | **H8b** | **-.18*** | **Yes** |
| **Realized leaning Capability- Institutional PD Impact** | **H8c** | **-.30*** ** | **Yes** |
| Realized leaning Capability- Socio-cultural PD Impact | H8d | .32*** | No |
| Institutional PD Impact - **I**nternational commitment mode | H9a | -.09 | No |
| Socio-cultural PD Impact - **I**nternational commitment mode | H9b | .15 | No |
| Potential Learning Capability- **I**nternational commitment mode | H10a | .08 | No |
| **Realized learning Capability- I**nternational commitment mode | **H10b** | **.18†** | **Yes** |

B. Test moderating effect- Indian companies

| Paths | Moderator | Hypotheses | Path coefficients (Standardized) | $\chi^2$ difference |
|---|---|---|---|---|
| Personal Social Capital – International commitment mode | High Experience | H1a | .40** | 3.6 |
| | Less Experience | | .80*** | |
| Personal Social Capital – Potential learning Capability | High Experience | H2a1 | .26 | 5.81* |
| | Less Experience | | -.25 | |
| Personal Social Capital – Realized learning Capability | High Experience | H2b1 | .29* | 3 |
| | Less Experience | | .23† | |
| Personal Social Capital – Institutional PD Impact | High Experience | H3a1 | -.09 | .3 |
| | Less Experience | | -.15 | |
| Personal Social Capital – Socio-cultural PD Impact | High Experience | H3b1 | .04 | 1.2 |
| | Less Experience | | -.14 | |
| Personal Social Capital – Social capital with partner | High Experience | H4a | .41* | 4.4 |
| | Less Experience | | -.19 | |
| Personal Social Capital – International commitment mode | Higher ICT use | H1b | .45*** | 6.4* |
| | Low ICT use | | .13 | |
| Personal Social Capital – Potential learning Capability | Higher ICT use | H2a2 | -.08 | 1 |
| | Low ICT use | | .37* | |
| Personal Social Capital – Realized learning Capability | Higher ICT use | H2b2 | .35** | 12.6*** |
| | Low ICT | | -.47** | |
| Personal Social Capital – Institutional PD Impact | Higher ICT use | H3a2 | .009 | 1.62 |
| | Low ICT use | | .10 | |
| Personal Social Capital – Socio-cultural PD Impact | Higher ICT use | H3b2 | -.16 | .2 |
| | Low ICT use | | -.10 | |
| Personal Social Capital – Social capital with partner | Higher ICT use | H4b | .02 | 1.7 |
| | Low ICT use | | -.19 | |

Overall Model Fit Indices: $\chi 2$ (5) = 9.88; CFI= .991; RMSEA = 0.06; p-value for test of close fit (RMSEA < 0.07) =0.34; RMR= 0 .007; GFI=.99; †significant at 0.1; *significant at p<0.05; ** significant at 0.01; ***significant at 0.001.

## 10.4. The composite model: comparison of results

This section provides a comparative summary of the hypotheses testing results for the British and Indian samples (Table 11.4). It shows mixed results; some hypotheses are supported for both countries, while others show divergent results.

Table: 10.5. A comparative summary of hypotheses

| **Hypotheses supported for both samples** | |
|---|---|
| H2b | The greater the personal social capital, the higher the realized learning capability. |
| H5 | The higher the foreign commitment mode, the higher the social capital with the foreign partner. |
| H7b | The higher the social capital with the partner, the lower the impact of socio-cultural psychic distance. |
| H10b | Higher the realized learning capability, the more likely that firm will use a high commitment mode. |
| **Hypotheses supported for British Companies** | |
| H2b | The greater the personal social capital, the higher the realized learning capability. |
| H4 | The higher the entrepreneurs' personal social capital, the greater his/her social capital with partner. |
| H5 | The higher the foreign commitment mode, the higher the social capital with the foreign partner. |
| H6a | The higher the social capital with the partner, the greater the firms' potential learning capability. |
| H7b | The higher the social capital with the partner, the lower the impact of socio-cultural psychic distance. |
| H8a | The higher the potential learning capability, the lower the impact of institutional psychic distance. |
| H8d | The higher the realized learning capability, the lower the impact of socio-cultural psychic distance. |
| H10b | Higher the realized learning capability, the more likely that firm will use a high commitment mode. |
| **Hypotheses supported for Indian Companies** | |
| H 1 | The higher the entrepreneurs' personal social capital, the more likely that firm will use a high commitment mode. |
| H1b | The greater the use of advanced ICT, the stronger the relationship between personal social capital and international commitment mode. |

| | |
|---|---|
| H2a1 | The higher the entrepreneurs' experience, the stronger the relationship between personal social capital and potential learning capability. |
| H2b | The greater the personal social capital, the higher the realized learning capability |
| H2b2 | The greater the use of ICT, the stronger the relationship between personal social capital and realized learning capability. |
| H5 | The higher the foreign commitment mode, the higher the social capital with the foreign partner. |
| H7b | The higher the social capital with the partner, the lower the impact of socio-cultural psychic distance. |
| H8b | The higher the potential learning capability, the lower the impact of socio-cultural psychic distance. |
| H8c | The higher the realized learning capability, the lower the impact of institutional psychic distance. |
| H10b | Higher the realized learning capability, the more likely that firm will use a high commitment mode. |
| **Hypotheses not at all supported** | |
| H1a | The higher the entrepreneurs' experience, the stronger the relationship between personal social capital and commitment mode. |
| H2a | The greater the personal social capital, the higher the potential learning capability. |
| H2b1 | The higher the entrepreneurs' experience, the stronger the relationship between personal social capital and realized learning capability. |
| H2a2 | The greater the use of ICT, the stronger the relationship between personal social capital and potential learning capability. |
| H3a | The higher the personal social capital, the lower the impact of institutional psychic distance. |
| H3b | The higher the personal social capital, the lower the impact of socio-cultural psychic distance. |
| H3a1 | The higher the entrepreneurs' experience, the stronger the negative relationship between personal social capital and impact institutional psychic distance. |
| H3b1 | The higher the entrepreneurs' experience, the stronger the negative relationship between personal social capital and impact socio-cultural psychic distance. |
| H3a2 | The greater the use of ICT, the stronger the negative relationship between personal social capital and impact of institutional psychic distance. |
| H3b2 | The greater the use of ICT, the stronger the negative relationship between personal social capital and impact of socio-cultural psychic distance. |
| H4a | The higher the entrepreneurs' experience, the stronger the relationship between his/her personal social capital and social capital with partners. |
| H4b | The greater the use of advanced ICT, the stronger the relationship between personal social capital and social capital with partner. |
| H6b | The higher the social capital with the partner, the greater the firms' realized learning capability. |

| | |
|---|---|
| H7a | The higher the social capital with the partner, the lower the impact of institutional psychic distance. |
| H9a | Higher the impact of institutional psychic distance, the less likely that firm will use a high commitment mode. |
| H9b | Higher the impact of socio-cultural psychic distance, the less likely that firm will use a high commitment mode. |
| H10a | Higher the potential learning capability, the more likely that firm will use a high commitment mode. |

Hypothesis 1, which states that the higher the personal social capital, the more likely that firm will use a high commitment mode, is supported for Indian companies. On the other hand, it is not supported for British companies. However, hypothesis 2b, the greater the personal social capital, the higher the realized learning capability, is supported for both countries. It confirms decision makers' role in realized learning, i.e. in transforming and integrating acquired and assimilated knowledge to firms' existing knowledge base.

The British results support hypothesis 4, which says the higher the personal social capital, the higher the social capital with partner. The Indian data do not support this hypothesis. Both British and Indian data support hypothesis 5, i.e. the higher the foreign commitment mode, the higher the social capital with partner. Hypothesis 6a, the higher the social capital with partner, the greater the firms' potential learning capability is supported for British companies. However, the Indian results show a negative relationship between partner social capital and potential learning capability. Hence, H6a is not supported for Indian companies. It shows that British firms', which are mainly involved in importing or outsourcing products or services from India, seek help from their partners in India for specialized technological and product related knowledge. Both British and Indian results support hypothesis 7b: the higher the social capital with the partner, the lower the impact of socio-cultural psychic distance. This is

consistent with our qualitative findings that trustworthy partners help overcome the issues of culture, business practice, business ethics, and the like.

Hypotheses 8a-8d produced divergent results for British and Indian companies. Hypotheses 8a, the higher the potential learning capability, the lower the impact of institutional psychic distance, and 8d, the higher the realized learning capability, the lower the impact of socio-cultural psychic distance are supported for British companies. However, the Indian results are totally different. They do not support hypotheses 8a and 8d but support 8b, the higher the potential learning capability, the lower the impact of socio-cultural psychic distance, and 8c, the higher the realized learning capability, the lower the impact of institutional psychic distance. This is consistent with the findings reported in Chapter 7 that British and Indian decision makers' perceptions of psychic distance differs greatly.

Hypothesis 10b, the higher the realized learning capability, the more likely that firm will use a high commitment mode, is supported for both country results. It means firms adopt higher level of commitment mode such as joint venture or wholly owned subsidiary, when they possess firms' capability to internalize and integrate acquired and assimilated knowledge would provide them help understand about risks and opportunities, and give confidence to do business with international companies. Therefore, we conclude that firms with higher realized learning capability opt for high control entry modes.

The hypotheses related to moderating effect of experience reveal that hypothesis 2a1, the decision maker's experience strengthens the relationship between personal social capital and potential learning capability, is supported for Indian companies. However, decision makers experience does not show any moderating effect for British companies.

The use of ICT strengthens the relationship between personal social capital and mode of internationalisation (H1b), and also personal social capital and realized learning capability (H2b2) for Indian data. However, British result does not support any of the hypotheses. It means managers experience and ICT facilitate Indian companies' internationalisation, which is consistent with our qualitative findings.

## 10.5. Summary

The relationships emerging from the composite models may be summarized as follows.

The hypothesis testing shows that British companies depend more on their partners in India than vice-versa for their internationalization. They depend on their personal social capital and their relationship with partner in India to overcome the issues related to internationalization. However, entrepreneurs' personal social capital and experience are the key facilitating factors for Indian companies' internationalization. Furthermore, they make more extensive use of ICT, which is consistent with our qualitative findings.

Both the British and Indian results show that firms' social capital with their partners helps to reduce the impact of psychic distance (socio-cultural) and facilitates a greater level of commitment to the foreign market. Similarly, entrepreneurs' personal social capital, by providing increased learning (realized learning), adds to their level of international commitment

In contrast to the results of the qualitative study, the survey does not show entrepreneurs' personal social capital to have any influence on the impact of psychic distance for both the UK and Indian companies, even if they are highly experienced and using advanced information and communication technologies.

# CHAPTER 11
# DISCUSSION

## 11.1. Introduction

In order to explore the internationalization of British and Indian SMEs to each other's' market, this study has adopted mixed methodology and an innovative approach: the mirror method. The mixed methodology combined qualitative case research, through face-to-face interviews with decision-makers of 60 British and Indian SMEs, with a quantitative survey among 200 British and Indian decision-makers. The mixed methodology was supplemented by a mirror method in the qualitative study, which involved inter-partner perceptions, namely the collection of mutual perceptions of partners involved in the internationalization process, and the responses of independent British and Indian companies in the survey research. This approach provided a comprehensive picture of the process of internationalization between British and Indian SMEs. As a new approach in internationalization research, this offers fresh insights about issues such as internationalization strategies, psychic distance, social capital, learning capability and the role of ICT.

In this chapter, we return to our original research questions and discuss our findings in relation to them; and qualify, extend and or challenge existing literature. The original research questions were:

1. What are the factors that influence British and Indian SMEs decision to internationalize to each other's market?
2. What is the role of psychic distance and its business impact on the internationalization of British and Indian SMEs and how do they cope with these issues?

3. How do SMEs manage social capital in terms of its initiation, development, and maintenance?
4. How do SMEs develop the learning capability required for their internationalization?
5. What is the role of information and communication technologies [ICTs] in the SME internationalization process?

## 11.2. Research question # 1:

### What are the factors that influence British and Indian SMEs decisions to internationalize to each other's market?

The qualitative findings identified two broad categories of factors influencing internationalization of the decision-makers of British and Indian SMEs. Based on its characteristics they were named as **economic** and **social factors**. The Economic factors reflect the economic approach to international business (c.f. Vernon, 1966; Hymer, 1976 (1960); Buckley & Casson, 1976, 2003, 2009; Buckley, 1988; Casson, 1982; Melin 1992; Chen, 2004; Rugman and Verbeke, 2003; Almor et al., 2006). Similarly, the social factors are associated with the behavioural approach (c.f. Johanson and Vahlne, 1977, 2003, 2006, 2009; Bilkey & Tesar, 1977; Luostarinen, 1979; Cavusgil, 1980), to the network perspective (c.f. Johanson and Mattason, 1988; Rao & Naidu, 1993; Coviello & Munro, 1995; Ellis, 2000) and to international new venture perspectives (c.f. Oviatt & McDougall, 1994; Shrader, Oviatt & McDougal, 2000; Zahra 2005).

However, the factors that respondents emphasized as motives for internationalizing to the target country (Britain or India) are different for each country. The economic factors for British companies include "demand for products", "economic growth of the foreign country",

“cost-effectiveness” and “availability of resources”. On the other hand, the economic factors for Indian companies are “demand for products”, “limited opportunities in the local market” and “profitability”. The item, ‘demand for products’ was mentioned by SME respondents in both countries. This is consistent with Hymer’s (1976: 33) view that “some firms have advantages in a particular activity, and they may find it profitable to exploit these advantages by establishing foreign operations”. The differences between the two sets of responses suggest that market- and resource-related factors “pull” British SMEs to India whereas domestic market constraints “push” Indian SMEs to the UK.

The differences between the UK and Indian responses are related to their pattern of business. The company characteristics show that 100% of Indian companies in the case study research and survey are selling their products to the UK market. Only 43% (case study) and 55% (survey) of the British companies are selling to India. The British firms are mainly importing or outsourcing from India due to its low cost and resource availability advantages. These are in line with the location advantage in Dunning’s (1988: 4) paradigm. He argued that productive factors present in a particular geographical area such as cost advantages, and availability of resources influence firms’ internationalization decision. On the other hand, Indian firms export to the UK mainly due to limited opportunities in the local market and profitability. These reasons are consistent with Boisot (2004), Child and Rodrigues (2005) and Bonaglia et al.’s (2007) observations on emerging market firms’ internationalization. So we attribute these contrasts in motivation to internationalize mainly to the fact that most Indian firms were exporting and most UK firms were importing.

Like the economic factors, social factors are also different for both countries. The findings from British and Indian SMEs indicate that the social factors are related to entrepreneurs’

experience in the form of previous network connections and the ethnic/national links of the decision-makers. The first aspect supports the central arguments of process theories (c.f. Johanson and Vahlne's, 1977), network perspectives (c.f. Johanson and Mattsson, 1988; Chetty and Patterson, 2002; Coviello and Munro, 1995, 1997) and international new ventures (c.f. Oviatt & McDougall, 1994; McDougall and Oviatt, 2000; Oviatt and McDougall, 2005a; Zahra 2005). The significance of ethnic and nationality links have been identified in the literature on emerging country firms (c.f. Hitt et al., 2000; Child et al., 2002; Kapur and Ramamurti, 2001; Child and Rodrigues, 2005; Gaur and Kumar, 2009). The respondents from firms in both countries firms mentioned the role of ethnic Indians. Indian respondents mentioned network links to their ethnic origin partners in the UK whereas in the case of British companies these links were to Indian owners or senior managers. This can be compared with the "return migration" concept (c.f. Cassarino, 2004; Wright, Buck, Liu and Filatotchev, 2008; Prashantham and Dhanraj, 2010) because, as Filatotchev, Liu, Buck and Wright (2009, p. 1006) discussed, our case study results reveal that only the firms from knowledge intensive industries (ICT, financial and legal and oil and gas) mentioned the ethnicity of manager (UK firms) or partner (Indian firms) as a motivating factor. However, in contrast to the "return migration" concept, none of these entrepreneurs have relocated back to India. Instead, in order to benefit from low cost and resource availability advantages, they built their production or outsource centres in India through equity partnerships with Indian firms.

On the other hand, in addition to the above mentioned factors, the respondents from the Indian textile companies mentioned their prior business links with agents and customers as the social factors facilitating internationalization. These were facilitators mainly because the availability of information and communication technologies was very limited at the time of

their internationalization in the mid and late 1980s. Moreover, in these cases Indian firms took initiatives to build business relationships with British firms in order to exploit the advantages of selling in that market. Due to their limited experience and lack of networks in the foreign market, seeking the support of mediators such as agents and distributors in either the domestic market or the foreign market was the easiest and available option at that time. This is consistent with Child and Rodrigues (2011) argument that organizations like SMEs, which have limited power and resources, and incur a high liability of smallness, rely on third parties (mediators) to overcome environmental complexity in a foreign market rather than directly engaging with it.

Overall, our findings reveal that the factors influencing SMEs internationalization decisions are economic and social in nature. This supports Coviello and McAuley's (1999) and Bell et al.'s (2003) view that a theoretical integration of economic and sociological perspectives is needed to explain the complexities of SMEs internationalization.

As mentioned earlier, British companies developed relationships mainly through their own personal network, which is consistent with previous studies showing that entrepreneurs' personal networks facilitate new market entry (e.g. Loane and Bell, 2006), provide knowledge of international entrepreneurial opportunities, reduce risks and uncertainty (e.g. Ellis, 2000; Ellis and Pecotich, 2001; Sharma and Blomstermo, 2003; Ellis, 2010). Our findings are also consistent with the business network literature. Some entrepreneurs said their companies' prior business relationships with customers, suppliers and institutions helped them to learn (e.g. Coviello and Munro, 1995, 1997; Holmlundand Kock, 1998) and identify the opportunities (e.g. Johanson and Vahlne, 2006, 2009) available in India. But

these business relationships were characterized by high levels of personal bonding through friendship and ethnic ties.

Overall, these findings confirm the importance of the network perspective. However, the business relationships were characterized great level of personal bonding. This supports the claims of social network theorists that social networks are more important than business networks (c.f. Chetty and Wilson, 2003; Sharma & Blomstermo, 2003; Ellis, 2000, 2010; Ellis and Pecotich, 2001) in the internationalisation of SMEs. It suggests:

**Proposition 1:** *Social networks facilitate the entry of SMEs into a new market more than do business networks.*

Apart from the above-mentioned social factors, Indian respondents mentioned other two factors as well - foreign education and the motives of gaining the reputation of being an international company. These factors are seen mainly among emerging or developing country SMEs (Junior, 2010). Foreign education provides greater familiarity with the particular country apart from providing network relationships. It reduces the issues of psychic distance as well (Child et al., 2002). Internationalization to achieve reputation is consistent with Junior's (2010) social recognition aspect, which helps achieve international recognition and differentiation in the domestic market. Based on these views we can argue that the ability to compete in a foreign market is based on differentiation.

However, the interpretations of British and Indian SME decision makers reveal that although socially related factors are very important as facilitators, the primary motive behind their internationalization are economic and relate to opportunities available in foreign markets. While this is consistent with the view of economic theories and the international

entrepreneurship literature, the facilitating role of social factors accords with behavioural network and INV perspectives. So we conclude that a single theory is not sufficient to explain the complexities of the internationalization process of SMEs. Moreover, it also indicates that theories based on multinational firms cannot be applied to the internationalization of SMEs (Buckley 1989; Ahokangas, 1998; Coviello and McAuley, 1999; Child and Rodrigues, 2008). It supports the view of O'Farrell and Wood (1998), Coviello and McAuley (1999) and Child and Rodrigues (2008) that integrating different perspectives in international business are required to account for the internationalization of SMEs.

The quantitative findings also support those of the qualitative study that the factors influencing the internationalization of the British and Indian companies differ significantly. This is mainly because of the difference in the pattern of their business. The British companies are mainly importing or outsourcing from India whereas Indian companies are exporting to the UK market. This difference is consistent with Lewin and Volberda's (2011) observation that western economies have practiced various modes of offshoring, both manufacturing and service, for at least 50 years. This is not only to benefit from low cost advantages (Nayyar, 1978) but also reflects the availability of professional talents (Ward, 2004), and quality of work and services (Martinez-Noya & Garcia-Canal, 2011). Therefore, Lewin and Volberda (2011) mentioned that efficiency seeking is an important initial motivation for the internationalization (inward oriented) of these firms.

On the other hand, Indian firms that are seeking and selling in the UK market are outward oriented (Welch and Luostarinen, 1993). The needs of an international market to gain the economies of scale and scope by selling in wider markets and to offset the limited opportunities in the home market are the main intentions informing their internationalization

(Kogut, 1985; Zhao et al., 2007).

Therefore, we can argue that the pattern of business (export/import) is directly associated with factors influencing internationalization, specifically economic related factors. Hence,

**Proposition 2**: *The pattern of business (export/import) is directly related to the factors motivating internationalization.*

The difference in the pattern of business may also be attributable to national factors (developed vs. emerging) because the studies that analysed the links between inward and outward internationalization found that inward operations often precede outward operations in small and medium companies (Welch and Luostarinen, 1993; Björkman and Kock, 1997; Korhonen, 1999). Welch and Luostarinen (1993) mentioned that inward internationalization provides an initial opportunity to learn about and understand foreign markets, technologies and foreign ways of conducting business, and hence position them to undertake outward internationalization. Until liberalization in 1991, India as a coordinated market economy (Hall and Soskice, 2001), allowed only restricted foreign investment, and was relatively unfamiliar to foreign firms. Therefore, in order to benefit from the low cost and skilled work force advantage, and to overcome the unfamiliarity of Indian market, most British firms preferred inward internationalization. On the other hand, Indian entrepreneurs are more familiar with the UK market due to its open policies and sophisticated institutions. Furthermore, post-colonial migration, education in the UK and family ties have also provided knowledge and awareness that have facilitated their internationalization.

The responses of British and Indian companies were different for seven out of total fifteen factors influencing internationalization. The differences in the pattern of business and the

factors influencing internationalization supports arguments that the internationalization of emerging-market firms are not exactly the same as that of developed-country firms (c.f. Wesson, 1999; Child and Rodrigues, 2005; Mathews, 2006; Bonaglia et al., 2007; Gaur and Kumar, 2009).

Factor analysis of the survey data produced two broad factors influencing internationalization: motives for internationalization and managers' personal attributes. These factors matched the qualitative findings because motives for internationalization are broadly economic in nature, while the factor personal attributes is social in nature. Although the economic motives were the major reason for the firms to internationalize, the type of motive changes according to the pattern of business and also between countries. By contrast, mangers personal attributes such as experience and network involvement are important for most companies in both markets. The testing of hypothesis 1 and 1a also showed that managers' personal social capital and experience influences internationalization mode of Indian companies such that the greater the experience and network involvement, the higher will be the level of commitment in the British market. On the other hand, these factors do not have any direct impact on British companies' mode of internationalization (c.f. figure 10.2).

Personal social capital influences their internationalization mode indirectly. It increases their learning (realized learning) capability which then influences their mode of internationalization. There is a further link in that personal social capital provides increased social capital with the partner (H4), which enhances their firms potential learning capability (H6a) and reduces the impact of psychic distance (H7b, H8a), so facilitating their internationalization. Similarly, hypotheses testing for Indian firms also show that personal social capital and experience enhances their learning capability (H2a and H2b) and then

influences their mode of internationalization. These links point to the importance of social networks as argued by researchers on international business (e.g. Ellis, 2010; Loane and Bell, 2006) and on international entrepreneurship (e.g. McDougall and Oviatt, 2000; Zahra and George, 2002b; Oviatt and McDougall, 2005; Zahra 2005). Based on these findings we may also assume that although the economic motive associated with internationalization is the major reason for internationalization, personal social capital and experience (social factors) acts as the main facilitating factor for both British and Indian companies. The latter influences a firm's commitment mode in a foreign country (e.g. Bell, 1995; Coviello and Munro, 1997; Loane and Bell, 2006). These conclusions suggest:

**Proposition 3:** *Economic factors are of primary importance in accounting for the motives to internationalize, whereas socially related factors are significant in enabling internationalization*

Table 11.1 compares the conclusions of previous studies with our findings on the factors influencing internationalization.

Table: 11.1. Comparison of Findings with Previous Studies: Factors Influencing Internationalization

| Previous studies | Findings of previous study | Findings of present study | Comment |
|---|---|---|---|
| Hymer (1976: 33) | Some firms have advantages in a particular activity, and they internationalise to exploit these advantages | Demand for product stimulated internationalization (Both British and Indian SMEs) | **Consistent** with Hymer's (1976) argument that firm specific advantages bring demand for product, which motivates firms internationalisation decision |
| Dunning (1988: 4) | The productive factors present in a particular geographical area such as cost advantages, and availability of resources influence firms' internationalization decision | The economic growth, cost-effectiveness and availability of resources in India influenced British companies internationalization decision | As Dunning suggested, this study also **confirms** that the productive factors present in a particular geographical area influence theinternationalization decision. (mainly seen among developed country firms) |
| Boisot (2004), Child and Rodrigues (2005), Bonaglia et al. (2007) | The findings from emerging countries such as China, Mexico and Turkey suggest that firms move to developed countries mainly with the aim of entring a profitable market and offset their limited opportunity and fierce competition in the domestic market. | Some Indian respondents mentioned about the limited opportunity in their domestic market and higher profitability of doing business in the UK | Our findings from Indian companies are **consistent** with this literature on emerging country firms' internationalisation |
| Johanson and Vahlne. (1977) | Highlighted the role of experience in internationalization | Our findings indicate that the important socially related factors for both the innovative and traditional companies sampled are prior experience, network involvement | Our findings **support** the process, network, INV and emerging economies perspectives.<br><br>We argue that **each approach cannot be seen as a separate** |
| Johanson and Mattsson (1988), Coviello and Munro (1995, 1997), Chetty and Patterson (2002), Ellis (2000, 2010). | Emphasized the importance of network in the internationalisation process | | |

| | | | |
|---|---|---|---|
| Oviatt & McDougall (1994), McDougall and Oviatt (2000), Zahra and George, (2002), Oviatt and McDougall (2005a), Zahra 2005) | Highlighted the role of the entrepreneur's (experience and network) | and ethnicity of managers. | **perspective** in the internationalisation of SMEs.<br><br>The role of entrepreneur and social network perspective is important not only for innovative firms but also for traditional firms as well. |
| Hitt et al. (2000), Kapur and Ramamurti (2001), Child and Rodrigues (2005), Gaur and Kumar (2009) | Highlighted the importance of ethnic/ national links | | |
| Child and Rodrigues (2011) | SMEs cope with complexity in their foreign environments through using mediators | Only traditional SMEs (SMEs from low technology sector) from India used mediators. | Our findings from traditional Indian SMEs **support** Child and Rodrigues (2011) arguments about the role of mediators in coping with foreign environments but the findings from other innovation oriented companies which are recently internationalised **does not support** this argument. Mediators are not common among the British companies studied. |
| Ellis (2000), Ellis and Pecotich (2001), Sharma and Blomstermo (2003), Loane and Bell (2006), Ellis (2010) | Highlighted the importance of social network in internationalisation | Both social and business networks trigger internationalization. | Our findings **support** the network perspective regarding both business and social networks, in the internationalisation of SMEs. However, they point to the importance of the social network |
| Coviello and Munro (1995, 1997), Holmlundand Kock, (1998), Johanson and Vahlne (2006, 2009) | Emphasized business networks | | |
| Ahokangas (1998), Coviello and McAuley (1999), Child and Rodrigues (2008) | Highlighted the limitations of a single approach to understanding the complex process of SME internationalisation. | Factors influencing internationalisation reflect all major approaches in internationalisation. | **Support** the case for theoretical integration and a more holistic approach to the internationalisation of SMEs. |

| | | | |
|---|---|---|---|
| | Highlighted the need for theoretical integration | | |
| Wesson (1999), Child and Rodrigues (2005), Mathews (2006), Bonaglia et al. (2007), Gaur and Kumar (2009) | Internationalization of emerging economy firms is not the same as that of developed-country firms. | The UK and Indian companies' patterns of business are different, and that has reflected on their needs in internationalisation<br><br>The responses of British and Indian companies were different for seven out of total fifteen factors influencing internationalization | The difference between the UK and Indian responses relate to the nature of their business (Export vs. Import sector)<br><br>These differences **support** the arguments that internationalisation of emerging market firms are not the same as developed country firms.<br><br>We **suggest an extension** to existing theories on internationalization, which would incorporate the nature of business as well as national origin. |

## 11.3. Research question # 2:

**What is the role of psychic distance and its business impact on the internationalization of British and Indian SMEs and how do they cope with these issues?**

The findings of the case studies reveal a mixture of similar and disparate responses concerning psychic distance, its impact and coping methods from the leaders of SMEs in the two countries. Moreover, there were diversified results for some dimensions both within the same country and even the same sector. This supports the view that the perception of psychic distance between two countries can vary considerably among business people (Stottinger and Schlegelmilch, 1998; Ellis, 2000; Ellis, 2008). For example, due to regulatory restrictions in sectors such as real estate and legal services a quarter of the UK respondents view the difference in Indian regulations as the main challenge for their business. This factor does not apply to other sectors. Overall, there was less variation among the Indian respondents. Both the qualitative interviews and rating scale measurement reveal that Indian respondents consider the regulatory environment in both countries to be more or less the same and, in general supportive to their business.

The results also question the appropriateness of assessing psychic distance at the national level as has been done by Eriksson et al. (2000), Fletcher and Bohn (1998), Kogut and Singh (1988), Sethi, Guisinger, Phelan and Berg (2003), Shoham and Albaum (1995), who measured psychic distance by assessing differences in national level culture. For example, respondents from both countries observed that dimensions such as logistics and political systems in India vary between different states and are linked to the level of bureaucratic corruption at the state level. This supports Child et al.'s (2009) view that the logistics and

political systems dimensions are institutionally embedded. These findings also support O'Grady and Lane's (1996, p. 313) view that "measuring distance at the national level may overlook regional differences within the countries; cultural and structural differences that may exist by industry; and individual differences and experiences". For instance, it appears that the decision-makers' experience (individual or firm level) and the institutional difference between different states in India (regional level) are key factors in determining the impact of psychic distance on the internationalization of British SMEs to India.

The findings also confirm that perceived difference between countries does not necessarily predict the impact of psychic distance in the internationalization of SMEs, which is consistent with Child et al.'s (2009) view that perceived difference is not a measure of its impact. Both the UK and Indian data reveal that the perceived differences of geographic distance and culture between the UK and India are high, whereas their impact on SME business is seen as considerably less. It was only the decision makers from young companies who observed that geographic distance reduces face-to-face communication with their partners/ clients and affects their network building. This is consistent with the liability of newness thesis (Cafferata, Abatecola and Poggesi, 2010), because these firms had not yet established the close contacts that could compensate for geographical distance. Moreover, decision makers in younger Indian service companies stated that they had some issues with the UK's economic downturn, while the older Indian service sector companies said these economic issues have not affected their business. These findings suggest the following general proposition:

**Proposition 4***: The level of psychic distance does not necessarily indicate the level of its impact on doing business in the other country, especially for firms that already have experience of conducting such business.*

In addition, the study offers an insight into how SMEs cope with the impact of psychic distance. Social capital, through external networking, figures prominently in their coping behavior. Both British and Indian SMEs tend to cope with psychic distance dimensions such as culture, logistics and political systems, in which considerable difference is perceived, through relying on partners, agents or local employees. The contingency mode of coping, which also involves the use of external third parties, is invariably directed at the institutional aspects of perceived national difference. These findings are consistent with the Child and Rodrigues (2011) argument that organizations such as the SMEs, which have limited power and resources, and incur a high liability of smallness, rely on third parties (mediators) to overcome environmental complexity rather than directly engaging with it. These considerations suggest that the impact of psychic distance on doing business in a foreign country is moderated by the firm's ability to cope. Systematic testing of how the impact of psychic distance is moderated by different coping mechanisms is a promising topic for further research. In other words:

**Proposition 5**: *The ability of SMEs to adopt coping mechanisms reduces the impact of psychic distance dimensions on their business with a foreign country.*

Both absorption and contingency coping modes rely on external social capital, although the roles performed by that capital are different. In the absorption mode, social capital is primarily a source of learning about a foreign environment. In the contingency mode, it is primarily a means of handling a difficulty at arm's length. The two coping modes differ in the extent to which they integrate an SME with a foreign business environment. There are several ways in which social capital is accessed to assist coping with the challenges of psychic distance. These include establishing trustworthy partnerships, employing local people, employing experienced executives from the host country in the head office, using the

experience and networking capabilities of top managers, hiring an agent, and developing communication, understanding and learning about each other. These findings are consistent with Arenius's (2005) view that social capital helps to overcome the barriers posed by the liability of newness and the impact of psychic distance in internationalization. They also suggest a theoretical extension namely that in future we need to adopt a more discriminating view as to the functions of social capital. In other words:

**Proposition 6***: The modes of coping with psychic distance are differentiated by the extent to which they integrate SMEs with a foreign business environment.*

Our research also indicates that psychic-distance dimensions are socially or institutionally embedded. It reveals that the socially embedded psychic-distance dimensions have lesser impact and are easier to cope than is the case with the institutionally embedded dimensions. Dimensions such as logistics, regulations, and political systems are institutionally embedded, and in some cases the decision makers were unable to cope with them. By contrast, socially rooted dimensions, such as culture, language, business practice, and ethics are more easily manageable through the SMEs' social capital and personal adaptation. Consequently, these dimensions exhibit a relatively low impact, despite the perception of high psychic distance. This gives rise to:

**Proposition 7***: The institutional and political aspects of psychic distance present a greater challenge to SMEs than do the social aspects.*

SME decision-makers drew attention to the role of information and communication technology (ICT) in reducing psychic distance. They believe that ICT enables regular communication between companies, which in turn enhances trust between them. It reduces the gap between countries through the aid of the latest technologies such as

videoconferencing, the internet, mobile and other telecommunications that facilitate easy communication with anyone almost anywhere in the world. It also reduces traveling expenses and guarantees an immediate response between companies besides facilitating product transaction and payment. However, some respondents took a different view and criticized the pervasiveness of ICT and blamed it for reducing personal relationships and trust between parties.

As mentioned earlier, in the survey questions were asked only on psychic distance and its impact. The results of the survey also support the view that psychic distance is a multidimensional construct. The British respondents scored psychic distance highly relative to the Indian respondents. This is consistent with the conclusion drawn from the qualitative findings that Indian decision makers are more aware of the British environment than is the other way round. Unlike the qualitative findings, the quantitative results of psychic distance and its business impact for the British and Indian data could not be classified into social and institutional dimensions. The survey respondents appeared to regard institutional and socio cultural factors as more tightly coupled in the UK and India. This could be because the qualitative data is collected from only five sectors whereas the survey data is collected from wide variety of sectors for which there is a greater similarity in both institutional and socio-cultural factors.

Like the qualitative findings, in the survey the impact of psychic distance for both British and Indian responses is generally lower than the scores for psychic distance per se. The descriptive statistics for the impact of psychic distance in the British data show that the impact of logistics and infrastructure is above the midpoint, whereas the mean values of all dimensions are below the scale midpoint for Indian data. As mentioned earlier this difference

appears to reflect the Indian decision makers' familiarity with British market through education, migration and family ties.

Our findings show mixed results for British and Indian companies' perceptions of the impact of psychic distance and of coping strategies. As mentioned earlier, these are likely to be due mainly to differences in our samples. The British companies are mainly importing or outsourcing goods or services from India whereas Indian firms are mainly exporting to the UK. Therefore, our result supports Ellis's (2008) view that psychic distance is asymmetrical between buyer and seller, and its effects are context specific.

The analysis for both countries shows that the impact of psychic distance – institutional and socio-cultural—does not have any influence on firms' international commitment mode. This contradicts Padmanabhan and Cho's (1996) argument that the higher the psychic distance, the higher the international commitment mode. Also, it does not support Luo and Chen's (1995), Barkema et al.'s (1997), or Barkema and Vermeulen's (1998) view that psychic distance is associated with a lower level of commitment. Previous studies indicate that firms prefer an entry strategy which minimizes resource commitment and shares management control in the foreign affiliate when entering a psychically distant market that has high levels of risk. Higher levels of control help reduce the potential risk; they also help to reduce information barriers and difficulties in transferring competencies (Li and Guisinger, 1992). Similarly, Evans et al. (2008) observed that "low cost" and "low control" would involve a sharing of management functions with local firms and would reduce the risk associated with psychic distance. These views are in line with Gatignon and Anderson (1988) and Kogut and Singh (1988) who said firms prefer a lower commitment mode (joint venture) to a more controlled commitment (wholly owned subsidiary) when they enter a culturally distant market.

However, unlike the above-cited studies that examined the relationship between psychic or cultural distance and commitment mode, we have measured the *business impact* of psychic distance in SMEs' internationalization. Psychic distance was found to affect SME decision-makers to their internationalization whereas impact becomes the more relevant once they have internationalized.

Similar to Child et al. (2009), our qualitative study also revealed that SME decision-makers' ability to cope with the aspects of difference reduces their impact. So, the impact of psychic distance is relatively less than the perceived difference between countries. Hence it appears that that the impact of psychic distance does not influence a firm's decision to internationalize, although it could affect an SME's entry into a new market and its performance there if due attention is not paid to them. Therefore we propose that,

**Proposition 8***: Psychic distance has a greater effect on decisions to enter a new foreign market than it does on post-entry business.*

Table 11.2 summarizes how the findings of the present research on psychic distance, its impact on international business and coping methods compare with those of previous studies.

Table: 11.2. Comparison of Findings with Previous Studies: Psychic distance, its business impact and coping methods

| **Previous studies** | **Findings of previous study** | **Findings of present study** | **Comment** |
|---|---|---|---|
| Stottinger and Schlegelmilch (1998), Ellis (2000), Ellis (2008) | The perception of psychic distance between two countries can vary considerably among business people | The findings show a mixture of similar and disparate responses concerning psychic distance, its impact and coping methods not only between the two countries but for some dimensions both within the same country and even the same sector. | Our findings **support** the multidimensionality of psychic distance |
| Dow (2000), Child et al. (2002), Dow and Karunarathna (2006), Child et al. (2009) | Highlighted the multidimensional nature of psychic distance | | |
| Eriksson et al.(2000), Fletcher and Bohn (1998), Kogut and Singh (1988), Sethi et al. (2003), Shoham and Albaum (1995) | Measured psychic distance by assessing national level cultural difference | Our findings show that dimensions such as logistics and political systems in India vary between different states and are linked to the level of bureaucratic corruption at the state level | The results **question** the appropriateness of assessing psychic distance at the national level and **support** Child et al. (2009) and O'Grady and Lane's (1996). |
| Child *et al*. (2009), O'Grady and Lane (1996) | Measuring distance at the national level may overlook regional differences within the countries, cultural and structural differences that may exist industry, and individual differences and experiences | | |
| Child et al. (2009) | The PD impact cannot be measured by just assessing the perceived difference | Both the UK and Indian data reveal that the perceived differences of geographic distance and culture between the UK and India are high, whereas their impact on SME business is considerably less. | **Support** Child et al. (2009) argument that perceived difference is not a measure of its impact. |

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| Cafferata, Abatecola and Poggesi (2010) | Their conceptual paper concludes that "liability of newness" affects the integration between parties. | The decision makers from young companies observed that geographic distance reduces face-to-face communication with their partners/clients and constrains their network building. | We **suggest** that psychic distance has a greater effect on decisions to enter a new foreign market for less experienced companies. |
| Child and Rodrigues (2011) | Organizations such as the SMEs, which have limited power and resources, and incur a high liability of smallness, rely on third parties (mediators) to overcome environmental complexity rather than directly engaging with it. | Both British and Indian SMEs tend to cope with psychic distance dimensions such as culture, logistics and political systems, in which considerable difference is perceived, through relying on partners, agents or local employees. | **Support** Child and Rodrigues (2011) argument that SMEs use the help of mediators to overcome environmental complexity rather than directly engaging with it. |
| Arenius (2005) | Social capital helps to overcome the barriers posed by the liability of newness and the impact of psychic distance in internationalization | Both absorption and contingency coping modes rely on external social capital, although the roles performed by that capital are different. These include establishing trustworthy partnerships, employing local people, employing experienced executives from the host country in the head office, using the experience and networking capabilities of top managers, hiring an agent, and developing communication and understanding about each other. | Our findings partly **support** Arenius (2005) view that social capital help cope with the impact of psychic distance (support only among UK respondents).<br><br>We also **suggest** a theoretical extension that in future we need to adopt a more discriminating view as to the functions of social capital. |

| | | | |
|---|---|---|---|
| Child *et al*. (2009) | Psychic distance dimensions can be broadly classified into socio-cultural and institutional dimensions. | The study also indicates that psychic-distance dimensions are socially or institutionally embedded. Dimensions such as logistics, regulations, and political systems are institutionally embedded, and in some cases the decision makers were unable to cope with them. By contrast, socially rooted dimensions, such as culture, language, business practice, and ethics are more easily manageable through the SMEs' social capital and personal adaptation. | Our study **supports** Child et al.'s (2009) observation that psychic distance can be broadly classified into socio-cultural and institutional dimensions.<br><br>Also, we **propose** that the institutional and political aspects of psychic distance present a greater challenge to SMEs than do the socio-cultural aspects. |
| Child et al. (2002) and Child et al. (2009) | The decision makers' personal relationships, experience and ethnicity help offset the impact of psychic distance to a great extent. | The findings also reveal that managers' personal attributes have a negative influence on the impact of psychic distance dimensions for the UK and Indian data. | This **confirms** Child et al. (2002) and Child et al. (2009) argument that entrepreneurs' personal relationships offset the impact of psychic distance to a great extent. It also **supports** the arguments of the social network thesis (Ellis, 2010). |
| Ellis (2010) | Highlight the importance of social network in overcoming the uncertainty and risk associated with the internationalization of SMEs | | |
| Ellis (2008) | Psychic distance is asymmetrical between buyer and seller, and the effects are context specific | Impact of psychic distance on British and Indian firms' internationalization differs. | **Support** Ellis's (2008) view that Psychic distance is asymmetrical between buyer and seller, and the effects are context specific |

| | | | |
|---|---|---|---|
| | | Our findings show that Indian firms are mainly exporting to the UK whereas the UK firms are importing from India | |
| Padmanabhan and Cho (1996) | The higher the psychic distance, the higher the mode of foreign market commitment. | Both the UK and Indian data do not support hypothesis 9a and 9b that psychic distance influences international commitment mode | **Contradict** Padmanabhan and Cho (1996), Luo and Chen(1995), Barkema et al. (1997), Barkema and Vermeulen's (1998) view that psychic distance influences level of commitment |
| Luo and Chen(1995), Barkema et al. (1997), Barkema and Vermeulen (1998) | Psychic distance is associated with lower level of commitment | | |

## 11.4. Research question # 3

### How do SMEs manage social capital in terms of its initiation, development, and maintenance?

The three stages of social capital building process we have identified – initiation, development and maturity – are comparable to Child, Faulkner and Tallman's (2005) three key stages in trust development—calculation, mutual understanding and bonding. *Initiation* involves the process of identification and selection of a business relationship, which as they suggested is the process of preparing to do business together. This stage is primarily concerned with the structural dimension of social capital (Granovetter, 1992; Nahapiet and Ghoshal, 1998) because it characterizes the connection between firms, such as who and how firms are connected (Burt, 1992).

The social capital *development* process involves communicating and understanding about each other's strengths, weaknesses and the benefits of partnership, and this increases mutual understanding (Child et al., 2005). Consistent with Child et al. (2005), we also believe that this stage forms the operative phase of social capital. The final stage, *maturity*, as they observed, involves high level of interpersonal relationship and personal bonding. Since these two latter stages are characterized by growing inter personal trust, shared language, norms, mutual understanding and adaptation we can assume that these are associated with increases in the relational and cognitive dimensions of social capital (Nahapiet and Ghoshal, 1998). Hence:

***Proposition 9:*** *Social capital related to the internationalization of firms evolves through discrete stages, namely (1) identification and selection of a business relationship (initiation), (2) communicating and understanding about each other (development) and (3) interpersonal relationship and personal bonding (maturity).*

The social capital initiation associated with the internationalization of British and Indian SMEs involves creating a new relationship or using their existing relationships. More than 60 percent of the companies in this study used their existing relationship in the form of prior experience, network and common ethnicity to initiate the social capital relevant for their internationalization. This is consistent with the behavioral, network, INV and the emerging economies internationalization perspectives.

The process of initiation using existing relationships utilizes managers' prior experience, ethnicity and network relationship such as personal, commercial and institutional connections. It is consistent with the survey findings presented in chapter 10 that personal social capital influences commitment mode either directly or indirectly. Apart from the business network, all other methods support the social network perspective that relationships provide resources such as information, finance, access to other networks (c.f. Chetty and Wilson, 2003; Lechner and Dowling, 2003), facilitate new market entry (c.f. Loane and Bell, 2006), provide knowledge of international entrepreneurial opportunities, reduce risks and uncertainty (c.f. Ellis, 2000; Ellis Pecotich, 2001; Sharma and Blomstermo, 2003; Zain and Ng, 2006; Ellis, 2010) and help in strategic decision-making of the firm (c.f. Harris and Wheeler, 2006).

Initiation through creating a new relationship is characterized by a low level of commitment such as export/import or outsourcing. More than 80 percent of the Indian manufacturing firms that internationalized in the 1980s initiated their social capital through trade fairs in which they could enter into new relationships with agents in the UK market. The Indian textile products enjoyed a huge demand in the UK market during that period but due to the limitations in transportation, communication, experience and other resources, direct foreign market entry and dealing with clients were difficult for these companies. So they adopted the 'piggy back' approach of supplying to already established firms or distributors in the UK market (c.f. Young, 1990; Terpstra and Yu, 1990; Jones, Wheeler and Young, 1992; Child and Rodrigues, 2008). These relationships helped Indian SMEs to offset their limitations to a great extent and provided access to foreign market. However, these firms were highly dependent on their British counterpart. As a result, despite being in a business relationship for 25 to 30 years, these firms could not take the business relationship forward to a more mature and stable state. Nonetheless, they were able to develop it from its initial highly formal status to a more informal relationship.

Overall, the result supports Child and Rodrigues (2011) observations that due to their limited power and resources, SMEs incur a high liability of smallness. So they rely on third parties (mediators) to overcome environmental complexity rather than directly engaging with it. On the other hand, 10 percent of SMEs in both the national samples, mainly service sector companies, initiated relationship through using latest ICT facilities. This is consistent with the view that Internet and web access accelerates SMEs internationalization by reducing the initial costs associated with marketing and communication activities, providing an opportunity to directly interact with partners, reducing the role of intermediaries, and enhancing a fast and easy learning process (c.f. Quelch and Klein, 1996; Chattell, 1998;

Petersen et al, 2002; Bell and Loane, 2010). ICT provides serendipitous orders (Chrysostome and Rosson, 2004) and facilitates the whole networking process (Mathew and Healy, 2008). However, consistent with Petersen et al. (2002), we believe that a local presence or direct personal face-to-face relationship is very important to sustain the relationship even if it is initiated using latest technologies. For example, respondents said an initial trial order may come through the internet in response to advertising in a website. Follow up orders, requiring greater supplier commitment or adaptation, would then benefit from face-to-face discussion and trust building. It is also consistent with Williamson's (1975) argument that greater supplier commitment to customers may mean greater asset specificity and hence risk on the part of the supplier. So the firms show greater commitment if there is greater level of trust between parties. This leads to,

**Proposition 10***: Personal or face-to-face communication is essential to sustain the social capital initiated either through creating a new relationship or using an existing relationship.*

The stage of social capital development that firms are likely to have reached varies according to the social capital initiation mode. Generally, firms that create a new relationship for their internationalization find the process much lengthier and difficult compared with firms that use their existing social capital. The level of trust between the firms influences the nature and patterns of interactions between them (Madhok, 2006). These draw attention to the relational dimension aspect of social capital (c.f. Granovetter, 1992; Nahapiet and Ghoshal, 1998), which characterizes trust and closeness (Moran, 2005). The presence of an existing relationship ensures greater level of closeness between partners and that facilitates the development of trust and norms (c.f. Granovetter, 1992; Coleman, 1990).

**Proposition 11:** *The stage of social capital development that firms are likely to have reached varies according to the social capital initiation mode.*

As mentioned earlier, social capital development involves increasing levels of interaction and mutual understanding between partners. The decision-makers' responses indicate that these interactions can take a number of forms such as communication, personal relations, socializing, and it is facilitated by hiring ethnic origin people, training and having compatible goals. Another characteristic of this stage is the exchanging of contracts following the development of a relationship. These help offset the issues of uncertainty and psychic distance and ensure greater level of communication and between partners. These help them to learn and understand about each other, develop personal relationship and increase the trust level between them.

The importance of trust in social capital development became clear. This is consistent with Dasgupta (1988) and Hardy et al.'s (1998) view that trust exists as a result of frequent interactions and previous trusting relationships. In line with the views of Thorelli (1986) and Madhok (1995), we defined trust as a firm's expectation of their partner's goodwill, integrity and competence. Our results revealed that integrity and competence are vital for the development phase of social capital. Since goodwill trust characterizes stability in a relationship, it is associated with the maturity stage of social capital. The decision-makers point out that lack of integrity and competence would lead to the end of a relationship. Trust is the basis of cooperative behaviour (Barney, 1991) and will help lower transaction costs by reducing the extent of opportunism by one or more of the transacting parties (Williamson, 1993). So trust ensures a high level of mutual interdependence, which according to Coleman (1990) and Nahapiet and Ghoshal (1998) is essential for the development of social capital. There is a circular mutually reinforcing process here.

The maturity stage is characterized by stable relationships, which are of high quality interpersonal and informal relationship. As Bourdieu (1986) mentioned, this stable stage shows considerable accumulation of goodwill trust in the form of identifying each another's interests and emotions. The stability ensures continuity in relationships that augment mutual obligations between firms as mentioned by Misztal (1996) and further development of trust and cooperation. Considering its nature, we argue that relational and cognitive social capitals characterize the maturity stage of international business partnering. This suggests

**Proposition 12***: Relational and cognitive social capital both increase as such capital develops from initiation to development to maturity.*

The firms in the survey reported relatively high inter-partner trust and cognitive social capital. This is consistent with Chen and Hambrick's (1995) and Yu's (2001) view that the flexibility SMEs have to create and manage external relationship always helps to create a strong trust based relationship. However, inter-partner trust expressed by the Indian entrepreneurs is higher than among the UK companies. Similarly, respondents in the Indian companies report closer relationships than do those in the British companies. This is consistent with the literature on emerging country firms' internationalization (Hitt et al., 2000; Ramamurti, 2001; Child and Rodrigues, 2005; Gaur and Kumar, 2009), which suggests that firms develop high level of commitment through linking with people or firms with similar ethnic origin or with people in their existing network. The closer relationships reported by the Indian respondents may reflect their greater familiarity with the British market than vice versa mainly due to their ties based on immigration, family and education in the UK.

Hypotheses testing revealed that the relationship between personal social capital and learning (potential and realized) capability produced divergent results for British and Indian companies. In the case of the Indian sample, personal social capital is positively related to both potential (H2a) and realized learning capability (H2b). However, the results for British SMEs results support only hypothesis 2b, i.e. the higher the personal social capital, the higher the realized learning capability. The British data support the relationship between social capital with partner and learning capability. They support hypothesis 6a that the higher the social capital with partner, the higher the potential learning capability. This suggests that firms use their partnerships to get external knowledge, which as March and Levitt (1999), Lane and Lubatkin (1998) and Hitt et al. (2000) mention helps to generate rare and inimitable resources and ensures competitive advantage. By contrast, the Indian data do not support the relationship between social capital with partner and learning capability (H6a and 6b). This contradicts Hitt et al.'s (2000) observation that emerging country firms are more dependent on their partner for learning than the developed country firms because they lack absorptive capacity. Table 11.3 summarizes our findings on social capital with those of previous studies.

Table: 11.3. Comparison of Findings with Previous Studies: Social Capital Building

| **Previous studies** | **Findings of previous study** | **Findings of present study** | **Comment** |
|---|---|---|---|
| Child et al. (2005) | Identified three key elements in trust development—calculation, mutual understanding and bonding. | The three stages of social capital building process are initiation, development and maturity. | Shows **similarity** with Child et al.'s (2005) trust development stages. |
| | Calculation is the process of preparing to do business together | The initiation involves the process of identification and selection of business relationship. | Initiation **is in line with** Child et al.'s (2005) 1st stage of trust development-calculation. |
| | The second stage of trust development is mutual understanding. | The social capital development process involves communicating and understanding about each other's strengths, weaknesses and the benefits of partnership. This stage forms the operative phase of social capital building process. | Development stage is **comparable** to Child et al.'s (2005) second stage, mutual understanding. |
| | The final stage of trust development is bonding, which involves personal bonding and informal relationships. | The maturity stage characterizes high level of interpersonal relationship and personal bonding. | The maturity stage of social capital building process is **consistent** with Child et al.'s (2009) final stage - bonding- of trust development. |
| Granovetter (1992) | Drew attention to interpersonal and inter-group relationships in society | The initiation of social capital characterizes the connection between firms, such as who and how firms are connected. | The findings are **consistent** with network development (Burt, 1992, Granovetter, 1992), which Nahapiet and Ghoshal (1998) classified as structural social capital. So we **argue** that the initiation stage is primarily concerned with the structural dimension of social capital. |
| Burt (1992) | He defined social network as the sum of relationships linking one person with other people. | | |
| Nahapiet & Ghoshal (1998) | Structural social capital characterizes the connection between firms, such as who and how firms are connected. | | |

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|---|---|---|---|
| Johanson & Vahlne (1977) **Behavioural perspective** | Drew attention to the contribution of experiential knowledge. | Social capital initiation is associated with the internationalization of British and Indian SMEs. It involves entrepreneurs creating a new relationship or using their existing relationships. More than 60% of the companies in this study used their existing relationship in the form of prior experience, network and ethnicity to initiate the social capital relevant for their internationalization. | Social capital initiation stage is **consistent** with the behavioural, network, international entrepreneurship and the emerging economies internationalization perspectives. |
| Johanson & Vahlne (2003, 2006, 2009), Johanson & Mattason (1988), Coviello & Munro, (1995, 1997), Ellis (2000), Chetty & Patterson (2002), Ellis (2010) **Network perspective** | Analysed importance of network relationship in the internationalisation of firms. | | |
| Oviatt & McDougall (1994); Shrader, Oviatt & McDougal (2000); Zahra & George (2002); Oviatt & McDougall (2005a); Zahra (2005). **INV and international entrepreneurship perspectives** | Highlighted the role of entrepreneurs in the rapidly internationalising innovative firms. | | |
| Child et al. (2002); Child & Rodrigues (2005) | Observed that the ethnic ties are important for the internationalisation of **emerging country** firms. | | |
| Chetty & Wilson, (2003), Lechner & Dowling (2003) | Social or personal relationships provide resources such as information, finance and access to other networks. | The process of initiation using existing relationships utilizes managers' prior experience, ethnicity and personal, commercial and institutional network connections. | Apart from the commercial network, all other methods support the social network perspective. Our findings are **consistent** with the importance of social network perspectives in internationalization. |
| Loane & Bell (2006) | Social networks facilitate new market entry. | | |
| Ellis (2000), Ellis & Pecotich (2001), Sharma & Blomstermo | Social network provide knowledge of international entrepreneurial. | | |

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|---|---|---|---|
| (2003), Zain & Ng (2006) Ellis (2010) | opportunities, reduce risks and uncertainty. | The survey result also highlight the importance of managers' prior experience, ethnicity and network relationship. | |
| Harris & Wheeler (2006) | Social networks aids firms' strategic decision-making. | | |
| Young (1990), Terpstra & Yu (1990), Jones, Wheeler & Young, (1992), Child & Rodrigues (2008) | Mentioned about the 'piggy backing' approach to reduce initial risk associated with entering a new market. This is the process of supplying to already established marketing organizations such as agents or distributors to enter into a new market rather than directly dealing with it. | More than 80% of the Indian manufacturing firms that internationalized in the 1980s initiated their social capital through trade fairs by creating new relationships with agents or distibutors in the UK market. | The firms, which initiated through creating a new relationship is characterized by a low level of commitment with agents and distributors such as export/import or outsourcing. It is **consistent** with the piggy backing approach. |
| Child & Rodrigues (2011) | Firms that internationalize with the support of mediators tend to rely too much on them. It could have a negative impact on their future growth in a new market. | The Indian textile firms were highly dependent on their British counterpart. As a result, despite being in a business relationship for 25 to 30 years, these firms could not take their presence in the UK market forward to a more mature state. | **The findings are consistent with** Child and Rodrigues (2011) that mediators can have a negative impact on firms' future growth. |
| Quelch & Klein (1996), Chattell (1998), Petersen et al. (2002), Bell & Loane (2010) | Internet and web access facilitate internationalization of SMEs by reducing the initial costs associated with marketing and communication activities, providing an opportunity to directly interact with partners, reducing the role of intermediaries, and enhancing a fast and easy learning process. | 10% of SMEs in both the national samples, mainly service sector companies, initiated relationship through latest ICT facilities. | It is **consistent** with the view that Internet and web access accelerates SMEs internationalization. |

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|---|---|---|---|
| Chrysostome & Rosson (2004) | ICT provides serendipitous orders. | | |
| Mathew & Healy, 2008 | ICT facilitates the whole networking process. | | |
| Petersen et al. (2002) | A local presence or direct personal face-to-face relationship is very important to sustain the relationship even if it is initiated using latest technologies. | Respondents said an initial trial order may come through the Internet in response to advertising in a website. Follow up orders, requiring greater supplier commitment, adaptation, may then benefit from face-to-face discussion and trust building. | **Consistent with** Petersen et al. (2002) and Williamson (1975) view that inter personal relationship and greater level of trust is important for developing and sustaining a business relationship. |
| Williamson (1975) | Argued that greater supplier commitment to customers may mean greater asset specificity and hence risk on the part of the supplier. So the firms show greater commitment if there is greater level of trust between parties. | | |
| Madhok (2006) | The level of trust between the firms influences the nature and patterns of interactions between them. | Social capital development varies according to the social capital initiation mode. Generally, firms that create a new relationship for their internationalization find the process much lengthier and difficult compared with firms that use their existing social capital. | The findings are **consistent** with Granovetter (1992), Coleman (1990) and Madhok (2006). |
| Granovetter (1992), Coleman (1990) | The existing relationship ensures greater level of closeness between partners and that facilitates the development of trust and norms. | | |
| Child et al. (2005) | High level of interaction between partners offset the issues of uncertainty. | The decision-makers' interpretations show that high level of interaction ensures mutual understanding between partners and increase the trust level between them. It also reduces uncertainty, psychic distance and ensures greater level of learning between partners. | The findings are **consistent** with Bourdieu, 1986, Dasgupta (1988), Granovetter, 1992, Hardy et al. (1998), Child et al., 2005 and Child et al., 2009 high of interactions ensures mutual understanding. |
| Child et al. (2009) | Mutual understanding between partners reduces psychic distance. | | |
| Bourdieu (1986) | Interactions and communications between partners help them to learn and understand about each other. | | |

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| Granovetter (1992) | Mutual understanding between partner helps develop personal relationship. | | |
| Dasgupta (1988) and Hardy et al. (1998) | Interactions between partners increase the trust level between them. | | |
| Misztal (1996) | Stability ensures continuity in relationships that augment mutual obligation between firms. | The maturity stage is characterized by stable relationships, which are of high quality interpersonal and informal relationship. High level of goodwill trust is an attribute of maturity stage . | The findings **support** Misztal (1996), Granovetter (1985), Arregle et al. (2007), Bourdieu (1986) and Child et al. (2005) that stability characterize high level of interpersonal relationship, which ensure further development of trust and cooperation. |
| Granovetter (1985), Arregle et al. (2007) | Stability ensures further development of trust and cooperation. | | |
| Bourdieu (1986) and Child et al. (2005) | The stable stage shows considerable accumulation of goodwill trust in the form of identifying with each another's interests and forming emotional bonds. | | |
| Chen & Hambrick (1995), Yu (2001) | SMEs flexibility to create and manage external relationship always helps to create a trust based relationship. | The firms in the survey reported relatively high inter-partner trust and cognitive social capital. | The findings are **consistent** with Chen and Hambrick (1995) and Yu (2001). |
| Hitt et al. (2000), Ramamurti (2001), Child & Rodrigues (2005), Gaur and Kumar (2009). | Emerging country firms develop high level of commitment through tying up with people or firms with similar ethnic origin or with people in their existing network. | Indian companies possess closer relationships than British firms because they developed relationship with ethnic Indians in the UK. | Our results are **consistent** with Hitt et al. (2000), Ramamurti (2001), Child and Rodrigues (2005), Gaur and Kumar (2009). The findings show that immigration, education and family ties have a positive influence on Indian firms' network building process. |

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| Parkhe (1993), Lyles & Baird (1994), Inkpen & Currall (1997), Johanson & Valhe (2003), Madhok (1995, 2006). | Trust and inter partner relationships facilitates firms' learning. | Inter-partner trust and closeness of relationship with partner have a positive association with SMEs' learning capability. | **Support** the arguments that trust and inter partner relationship have a positive impact on learning. |
| Hitt et al. (2000) | Observed that emerging country firms are more dependent on their partner for learning than the developed country firms because they lack absorptive capacity. | The variables---inter-partner trust and closeness of relationship with partner—of British firms have a positive impact on the SMEs' learning capability (both potential and realized) whereas these variables are related to only potential learning capability for the Indian data. | Our findings **contradict** Hitt et al.'s (2000) observation about emerging country firms learning. |
| Hitt et al. (2000) | Observed that developed country firms seek unique capabilities from their partners whereas emerging country firms seek tacit knowledge related technologies. | The firms from the UK seek firm-specific capabilities from their partners.<br>Indian firms use partnership mainly to learn tacit knowledge related to market and latest technologies, meaning know how rather than know what. | These findings **support** Hitt et al. (2000). |

## 11.5. Research question # 4:

### How do SMEs develop the learning capability required for their internationalization?

As mentioned earlier, we analyzed learning capability through the absorptive capacity construct of Cohen and Levinthal (1990) and Zahra and George (2002). So the learning process is seen to involve knowledge acquisition, assimilation, transformation and exploitation. In line with Zahra and George (2002), we called the first two stages that are related to external knowledge "potential learning capability", and the last two stages, which deal with knowledge internal to the organization "realized learning capability".

Consistent with previous literature (See chapter 3, section 3.3), our findings confirm that learning starts at the individual level (c.f. Cohen and Levinthal, 1990; Autio et al., 2000). Findings from 60 percent of the companies (both British and Indian) in our qualitative study shows that only the entrepreneur or key entrepreneurs are involved in the acquisition and assimilation of knowledge (potential learning) that are external to the firm. This is consistent with Kolb's (1984) experiential learning cycle which focuses on individual's experience as the key source of learning and development. The findings (section 9.1.2) show that apart from entrepreneurs' experience and their network with customers, partners and institutions, employees, and ICT are the other sources of firms' learning process. However, their replies indicate that managers' involvement in all these sources is crucial for their firms' learning process, whether this comes through negotiating with customers, encouraging employees to share knowledge, or getting knowledge from partners or institutional sources, or collecting information through ICT. The role of decision makers is equally important in the knowledge assimilation mechanisms adopted in the British and Indian SMEs. They interpret the

knowledge acquired from external sources through various mechanisms (unsystematic or highly formalized). This is consistent with Reagans and McEvily (2003) and Volberda et al.'s (2010) observation that managers' capability to absorb and assimilate knowledge is crucial element of learning.

The findings reveal that the role of entrepreneur is very important in realized learning (transformation and exploitation of knowledge) as well. Through their personal experience and network, the entrepreneurs transform new knowledge into their firms' knowledge base and decide when and where to use it. The main transformations mechanisms are meetings, presentations, training. These support the underlying principle of absorptive capacity or learning that prior experience and prior related knowledge would enhance the overall learning of a firm (c.f. Cohen and Levintahl, 1990; Lyles and Salk 1996; Lane and Lubatkin 1998; Autio et al., 2000; Reagans and McEvily, 2003; Volberda et al., 2010). Overall, we could say, learning in SMEs depends heavily on the "entrepreneur" mainly because its leadership may be focused on him or her. These findings confirm the role of entrepreneurs in learning capability or absorptive capacity, and that address one of the gaps existing literature cited by Zahra (2005).

**Proposition 13***: In an SME, entrepreneur is the main vehicle in organizational learning because its leadership is focused on him or her.*

The findings supported Reagans and McEvily's (2003) view that there is a link between the type of knowledge acquired and network relationships. The firms absorbed or learned complex and tacit knowledge related to product/service or new technologies mainly through their decision makers' personal networks with partners, employees or high trustworthy customers. However, firms acquired simple market and client related knowledge through

formal relationships or though Internet searches. The interpersonal relationship not only helps potential learning but also realized learning, for which tacit knowledge transfer is particularly important (Reagans and McEvily, 2003). Interpersonal relationships or networks facilitate a free flow of information and ensure a greater level of support in the form of training and advice. This contributes to rapid knowledge dissemination (c.f. Reagans and McEvily, 2003). Interpersonal relationships increase the communication and trust between people within the firms as well, which as Jansen et al. (2005) mentioned, reduces conflict regarding goals and implementation, and facilitates realized learning. Thus,

**Proposition 14***: The type of knowledge acquired is related to the type of network relationship, such that acquisition of tacit knowledge is facilitated by inter-personal trust-based relationships whereas the acquisition of explicit and codified knowledge is mainly facilitated through formal relationships and internet searches.*

The firms use ICT facilities such as the internet or firm specific intranets for potential and realized learning, which as Quelch and Klein (1996), Chattell (1998), Petersen, Welch and Liesch, (2002), Bell and Loane (2010) mentioned provide fast and easy information. These facilities enhance communication with the external environment, and between the members within the organization as well, which enhances their learning capability (c.f. Hamill and Gregory, 1997; Bell and Loane, 2010). These are used mainly to learn simple knowledge related to market or clients, which is consistent with Reagans and McEvily (2003) opinion that simple and codified knowledge can be transferred even if the firm does not have strong network relationship.

Our findings reveal that 21 British companies and 18 Indian companies do not have a formal or systematic knowledge management system. It is mainly because most firms included in

this study are small and relatively young, and have limited resources to implement a systematic knowledge management system. However, both British and Indian decision-makers stated that having a formal systematic knowledge management system is better for their companies' further development. This is consistent with Jansen et al's (2005) view that formalization ensures more structured and organized individual behaviour, well designed and codified standardized procedures, which capture prior experiences that may enable employees to acquire and assimilate new external knowledge, and also speed up the exploitation and implementation (Lin and Germain, 2003; Jansen et al., 2005). Our findings show that Indian companies use formalized knowledge management systems more than their counterparts in the UK mainly because they have more employees, and also because the flow of latest knowledge/information is highly crucial in the software development centers.

The survey results compliment the qualitative findings and the responses of the UK and India are generally similar. This is mainly because learning is one of the main intentions of internationalization of SMEs (c.f. Nachum and Zaheer, 2005; Petersen et al., 2008). Complementing our qualitative findings, factor analysis applied to the survey data separated the dimensions of learning capability into potential learning capability (learning related to external knowledge) and realized learning capability (learning related internal knowledge) (c.f. Zahra and George, 2002).

The analysis of relationship between social capital (personal social capital and social capital with partner) and learning capability (H2a, 2b, 6a and 6b) shows mixed results for the UK and Indian companies (c.f. section 11.4). The contrasting result may be mainly because, as Child and Faulkner (1998) observed, the configuration of objectives is likely to be different for emerging country and developed country firms. Also, as mentioned earlier, 100 percent of

the Indian respondents in the survey are exporting their products to the UK market. So they mainly need market access and knowledge. However, as our qualitative findings indicated, acquiring market knowledge and accessing market are done mainly thorough decision makers' personal social capital and experience. This is consistent with Hitt et al.'s (2000) observation that emerging market firms tend to place less emphasise on market knowledge/access compared with developed market firms. On the other hand, only 55 percent of the UK companies are selling products in India. So their learning requirement is different. They are dependent on their partner in India mainly for the provision of some unique competencies such as software design, which is consistent with Hitt et al. (2000) argument that developed country firms seek from their partners firm-specific capabilities that are difficult to transfer. They might require their partners' support not only for knowledge acquisition and assimilation but also for transforming it into their existing knowledge base. This suggests that the difference in the pattern of business has more influence than country difference in firms' learning process (what and how firms learn), such as British firms that are importing from India seek more complex firm specific unique technology that needs close relationship with partner. However, Indian firms that are exporting to the UK look for simple market or technological trends use their personal experience and social capital. Table 11.4 summarizes the findings of the present research on learning capability with those of previous studies.

Table: 11.4. Comparison of Findings with Previous Studies: Development of learning capability

| **Previous studies** | **Findings of previous study** | **Findings of present study** | **Comment** |
|---|---|---|---|
| Cohen and Levinthal (1990), Autio et al. (2000) | Learning starts at the individual level. | 60% of the companies (both British and Indian) in our qualitative study mentioned that only the decision maker or key decision makers are involved in the acquisition and assimilation of knowledge (potential learning), which is external to the firm. | Our findings are **consistent** with Cohen and Levinthal (1990) and Autio et al.'s (2000) view that learning starts at the individual level.<br><br>This **Supports** Kolb's (1984) individual learning. |
| Kolb (1984) | Experiential learning cycle emphasizes that individual's experience are the key source of learning and development. | | |
| Reagans and McEvily (2003), Volberda et al. (2010) | Decision makers through various mechanisms (unsystematic or highly formalized manner) interpret the knowledge acquired from external sources. | The role of decision makers is very important in the knowledge assimilation mechanisms adopted in the British and Indian SMEs. | **Support** Reagans and McEvily (2003) and Volberda et al.'s (2010) view on the role of decision maker or entrepreneur in knowledge assimilation. |
| Cohen and Levintahl (1990), Lyles and Salk (1996), Lane and Lubatkin (1998), Autio et al. (2000), Reagans and McEvily (2003), Volberda et al.( 2010) | The underlying principle of absorptive capacity or learning is that prior experience and prior related knowledge would enhance the overall learning of a firm. | Decision maker through their personal experience and network help transform the new knowledge in to firms' knowledge base and decide when and where to use it. | Organizational learning depends heavily on the "entrepreneur" in an SME because its leadership may be focused on him or her. So our findings **support** the literature. |

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| Reagans and McEvily (2003) | Interpersonal relationships not only help in potential learning but also in realized learning as well, which is very important for tacit knowledge transfer.<br><br>Interpersonal relationships or networks guarantee free flow of information and ensure greater level of support in the form of training and advice. | The firms absorbed or learned complex and tacit knowledge related to product/service or new technologies mainly through decision makers' personal networks with partners, employees or high trustworthy customers. However, firms acquired simple market and client related knowledge through formal relationships or though Internet searches. | Our findings **support** Reagans and McEvily (2003) view that there is a link between the type of knowledge and type of network relationships. |
| Jansen et al. (2005) | Interpersonal relationships increase the communication and trust between the members within the firms, which reduce the conflict regarding goals and implementation, and facilitate realized learning. | | |
| Quelch and Klein (1996), Chattell (1998), Petersen, Welch and Liesch, (2002), Bell and Loane (2010) | ICT facilitates easy and rapid learning. | Firms use ICT such as internet and intranet for communicating within and outside the organization.<br><br>These are used mainly to learn simple knowledge related to market or clients. | **Support** the view that ICT facilitates easy and rapid learning by enhancing better communication. Our findings also **support** Reagans and McEvily (2003) observation that simple and codified knowledge can be transferred even if there is no personal relationship between parties. |
| Hamill and Gregory, 1997; Bell and Loane, 2010 | Enhance communication and ensure greater leaning capability. | | |
| Reagans and McEvily (2003) | Simple and codified knowledge can be transferred even without any personal relationship between parties. | | |

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| Jansen et al. (2005) | Formalization ensures more structured and organized individual behavior. Well designed and codified standardized procedures capture prior experiences that may enable employees to acquire and assimilate new external knowledge, and also speed up the exploitation and implementation. | More than 65% of British and Indian companies do not have a formal or systematic knowledge management system. Our findings show that Indian companies use formalized knowledge management systems more than their counterpart in the UK mainly because they have more employees, and also the flow of latest knowledge/information is highly crucial in software development centers. | Our findings **support** Jansen et al.'s (2005) view that formalized knowledge management system is important if the knowledge to be transferred is complex. |

## 11.6. Research question # 5

### What is the role of information and communication technologies [ICTs] in the SME internationalization process?

The role of ICT in various activities of internationalization was discussed in sections 11.2, 11.3, 11.4 and 11.5. This section is concerned with the perceptions of decision makers about the importance of different ICT facilities in maintaining the business with partners and the use of ICT in different functional activities.

The Indian firms tended to attach greater importance to different ICT facilities as a support for their business with partners. This is mainly because emerging country SMEs will have limited resources and moderate investment compared to developed country firms, and as Arnott and Bridgewater (2002) mentioned, the internet significantly assists their internationalization. The SME respondents from both countries emphasized that internet applications are important for communicating with partners (Appendix 9). This is consistent with Quelch and Klein (1996), Hamill and Gregory (1997), Chattell (1998), Coltman et al. (2002), Petersen et al. (2002), Bell and Loane (2010). Moreover, Arenius, Sasi and Gabrielsson (2006), Katz & Murray (2002), Fletcher, Bell, & McNaughton (2004), Bell and Loane (2010) all observed that ICT facilitates product and financial transactions as well. Hence:

**Proposition 15***: ICT facilities accelerate SMEs internationalization by facilitating communication, as well as product and financial transactions between partners.*

Overall, our findings are consistent with Mathews and Healey's (2008) view that ICTs help improve the transactional and communicational capabilities of SMEs, which in turn facilitate

their international expansion. Hypothesis testing for the UK SMEs revealed that ICT does not have great influence on their internationalization. However, the Indian results show that ICT strengthens the positive relationship between personal social capital and mode of entry (H1b), and personal social capital and realized learning capability (H2b2). This is also consistent with our qualitative findings that Indian firms use ICTs more than the UK firms. The findings for the UK and India show that ICT does not have any direct influence on psychic distance. Similarly, the testing of hypothesis 4b showed that for both countries the use of ICT does not moderate the relationship between personal social capital and social capital with the foreign partner. This is because the SMEs are using ICT mainly to deal with customers and suppliers, where the trust level is relatively low. For Indian companies, ICT moderates the relationship between personal social capital and realized learning capability (H2b2). This suggests that the use of ICT is better at transferring information and knowledge than network building (c.f. Mathews & Healey, 2008).

As mentioned earlier, the testing of hypothesis 2b2 for Indian companies reveals that ICT moderates the relationship between personal social capital and realized learning capability. However, the British data does not support this hypothesis. This is mainly because, as we have seen, 58 percent of the Indian firms included in this study are export oriented, and they seek simple and codified information related to market and access. It is consistent with our earlier conclusion (section 11.5) that ICT facilities are mainly used to learn simple and codified knowledge related to market or client, which can be easily learned (Reagan and McEvily, 2003). On the other hand, British companies that are mainly involved in importing and outsourcing activities with India seek complex product or technological knowledge. Similarly, they are less familiar to India so they might seek tacit market related knowledge from their Indian partner. These, as Cohen & Levinthal (1990), Autio et al. (2000), and

Reagan & McEvily (2003) observed, requires personal relationships. Table 11.5 compares the conclusions of previous studies with our findings on the role of ICT in the SMEs internationalization process.

Table: 11.5. Comparison of Findings with Previous Studies: Role of ICT in the SMEs internationalization process

| **Previous studies** | **Findings of previous study** | **Findings of present study** | **Comments** |
|---|---|---|---|
| Arnott & Bridgewater (2002) | Internet significantly assists SMEs internationalization. | The importance of different ICT facilities to maintain the business with partners is seen more among Indian firms. It is mainly because emerging country SMEs will have limited resources and moderate investment compared to developed country firms. | Our findings **support** Arnott and Bridgewater (2002) that Internet applications assist the internationalization of SMEs that lacks resources. |
| Quelch & Klein (1996), Hamill & Gregory (1997), Coltman et al. (2002), Petersen et al. (2002), Bell & Loane (2010) | Internet facilitates SMEs communication with their partners. | The SME respondents from both countries highlighted that internet applications are important for communication and product and financial transactions.<br>The findings (hypothesis 9) show that ICT does not have any influence on psychic distance (c.f. section 11.4). Similarly, the testing of hypothesis 10 for the UK companies' shows that ICT use and inter-partner trust are not related. On the other hand, the Indian result for ICT use and partner relationships and inter-partner trust shows a positive relationship, mainly because partnership relationships are trust-worthy relationship. However, similar to the UK result, ICT in customer/supplier relationship for Indian data does not show any relationship with inter-partner trust. | The findings are **consistent** with the literature that internet applications facilitate SMEs communication and transactional capabilities.<br><br>Similarly, our findings **support** Petersen et al.'s (2002) view that ICT alone is not sufficient enough to develop a trustworthy relationship. |
| Arenius et al. (2006), Katz & Murray (2002), Fletcher et al. (2004), Bell & Loane (2010) | Internet aids quick and easy product and financial transaction. | | |
| Mathews & Healey (2008 | ICTs help improve the transactional and communicational capabilities of SMEs. | | |
| Petersen et al. (2002) | Local presence or direct personal face-to-face relationship is very important for developing inter-personal relationship. | | |

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| Anderson, Bikson, Law & Mitchell (2001:249) | They observed that email allows deliberate and reflective but still interactive, conversational dialogs. | The findings show that Indian firms use the telephone relatively less for their internationalization. They use Internet based ICT applications more to maintain the business with partner in the UK. This is mainly because of the difficulty in verbal communication. | Our findings are **consistent** with Anderson, Bikson, Law & Mitchell (2001:249). Indian decision makers, who lack international exposure prefer email conversation, which allows deliberate and reflective but still interactive dialogs. |
| Cohen & Levinthal, (1990), Autio et al. (2000), Reagan & McEvily (2003) | Inter-personal relationships are important for learning complex knowledge.Simple and codified knowledge can be transferred even through ICT facilities. | Hypothesis 2b2 that ICT strengthens the relationship between personal social capital and realized learning capability is supported for Indian companies. | Our findings are **consistent** with the literature that simple and codified knowledge can be transferred even if there is no personal relationship. |

# CHAPTER 12
# THEORETICAL IMPLICATIONS AND FUTURE RESEARCH

## 12.1. Theoretical implications

The findings of this study suggest several implications of theoretical relevance.

*1. Need for a multi theory approach*

The qualitative and quantitative findings identified two broad categories of factors influencing internationalization of the decision-makers of the UK and Indian SMEs. These factors are related to different internationalization theories such as, economic, behaviour, network and international new ventures. This supports the argument that a single theory is not sufficient to explain the complexities of the internationalization process of SMEs and that theories derived from the study of large multinational firms cannot be applied to the internationalization of SMEs (c.f. Buckley 1989; Coviello and McAuley, 1999; Child and Rodrigues, 2008). The range of factors found to be relevant also supports the view that theoretical integration is needed to explain SME internationalization (c.f. O'Farrell and Wood, 1998; Coviello and McAuley, 1999; Bell et al., 2003; Child and Rodrigues, 2008).

2. *Economic factors are primary motivators whereas social networks act as the facilitators of SMEs internationalization.*

The mixed methods and mirror method result shows that the economic related factors are the primary motives for the internationalization of both manufacturing and service sector SMEs. However, SME entrepreneurs also emphasized the importance of social networks, especially in terms of their personal attributes such as their experience, personal networks, and ethnicity. They these as facilitating the internationalization process as a whole. This highlights the importance of social network (c.f. Ellis, 2000; Loane and Bell, 2006; Ellis, 2010) and international entrepreneurship perspectives (c.f. McDougall and Oviatt, 2000; Zahra and George, 2002; Oviatt and McDougall, 2005; Zahra 2005) in internationalization. It is consistent with Chetty and Stangl (2010) that the network relationships influence the type of internationalization by providing diversified knowledge. Greater levels of knowledge promote knowledge intensity, which is a major source of international competitive advantage (Coviello and McAuley, 1999; Bell et al., 2003). This leads to suggest that

3. *Internationalization pathways are influenced by unique firm specific characteristics and its specific external environment rather than the sectors to which they belong.*

Our findings also support Evers's (2011) observation that entrepreneur's personal attributes influence a firms' internationalization pattern regardless of the sectors they represent. They challenge Luostarinen and Gabrielsson's (2006) argument that INV firms are high-tech, hi-design, hi-service, hi-know-how or hi-system businesses and support Andersson (2000) and Wickramasekera and Bamberry's (2001) argument that low technology firms can also follow INV path. Overall, these findings are consistent with Bell et al.'s (2003) view that irrespective of the type of firms, the actual internationalization pathways are individualistic, situation specific and unique.

4. *Support the perceptual assessment of psychic distance.*

Most studies have failed to explore the perceptual aspect of psychic distance despite its fundamentally cognitive nature (Stottinger and Schlegelmilch, 2000). We offer a perceptual perspective of the psychic-distance concept that addresses one of the methodological challenges related to psychic distance studies. The findings show diversified results not only between the countries but with the same country and same sector. This challenges O'Grady and Lane (1996), Lee (1998), Dow (2000), Evans and Mavondo (2002), Dow and Karunarathana (2006), who operationalised the concept by measuring the national-level distance between countries using quantitative data.

5. *Confirm that SME decision makers' ability to cope with aspects of psychic difference reduces their impact.*
6. *Support the claim that psychic distance is a moderating factor for an SME's decision to internationalize and its choice of foreign market rather than providing the underlying rationale*

Although recent contributors have highlighted the multidimensional nature of psychic distance (c.f. Child et al. 2009; Dow and Karunarathana 2006; Evans and Mavondo 2002; Sousa and Bradley 2006), there has been less investigation into Child et al.'s (2009) observation that some dimensions of psychic-distance could be perceived to be more consequential for business than others. These dimensions could affect an SME's entry into a new market and its performance there if due attention is not paid to them. Our findings indicate that SME decision makers' ability to cope with aspects of difference reduces their impact, and this is consistent with the conclusions Child et al. (2009) drew from their study of British SMEs internationalization to Brazil. We therefore conclude that psychic distance is a

moderating factor (Ellis 2008) for an SME's decision to internationalize and its choice of foreign market rather than providing the underlying rationale. In short, there is support for the multidimensionality of psychic distance and confirmation that some psychic distance dimensions are more consequential to business than others.

7. *Overall, this study supports the view that psychic distance remains a valid and valuable concept in international business theory.*

The factors moderating the relationship between psychic distance and its impact vary between British and Indian responses. The social capital between partners and learning capability of the firm moderate the relationship between psychic distance and its impact for British companies whereas it does not for the Indian companies. The entrepreneurs' personal attributes, especially previous experience and network contacts, have considerable influence on the impact of psychic distance for both countries. This is consistent with Arenius's (2005) and Ellis's (2010) argument that social networking can reduce uncertainty and psychic distance in international business. Overall, findings indicate that SME entrepreneurs' ability to cope with aspects of difference reduces their impact. Therefore we conclude that some dimensions of psychic distance can affect an SME's internationalization if due attention is not paid to them.

8. *One of the first investigations of how SMEs build the social capital required for their internationalization*

Despite its basic importance in international business not much is known about how SMEs social capital evolves over time. The existing literature has focused mainly on how social capital initiates and fosters internationalization (c.f. Johanson and Mattsson 1988, Chetty and Agndal, 2007). However, considering the difficulties in building social capital in unknown

markets -- even if they are experienced players -- we have explored how the SMEs initiated, developed and maintained their social capital, and how a relationship reaches its maturity stage. The study provides one of the first investigations on how the SMEs build the social capital required for their internationalization.

*9. Three stage social capital building process involves initiation, development and maturity*

Our findings reveal that **initiation** of social capital involves the process of identification and selection of a business relationship. The social capital **development** process involves communicating and understanding about each other's strengths, weaknesses and the benefits of partnership. This constitutes the **operative** phase of social capital. The **maturity** stage, characterized by highly stable relationships, exhibits a high level of interpersonal relationship and personal bonding. These stages parallel Child et al.'s (2005) three-stage trust development process in terms of calculation, mutual understanding and bonding.

*10. Support for the argument that learning is one of the main intentions of internationalization of SMEs*

Both the qualitative and quantitative studies indicate that the process of learning in British and Indian SMEs is largely similar. This is consistent with the two major perspectives on international business, internationalization process theories and international new ventures. These emphasize the importance of learning in internationalization and also identify knowledge as one of the key resources required for it. Entrepreneurs from both countries included in the case studies mentioned that internationalization involves learning, such as learning about new markets, trends, products and technological developments, without which they cannot survive. Similarly, the descriptive statistics also show that the mean values of all learning activities are above the midpoint, which indicates that companies perceive they have

the capability to learn and apply the information required for their internationalization. One can interpret this as indicating that learning is a very important requirement for internationalization so the firms try to develop their learning capability prior to, or in the initial stages of, their internationalization. SMEs executives are making a conscious effort to learn using available sources. This also supports the argument that learning is one of the main intentions of internationalization of SMEs (e.g. Nachum and Zaheer, 2005; Petersen et al., 2008).

*11. Our research confirms that the entrepreneur plays the central role in SMEs learning process; both potential and realized learning.*

Our research confirms the importance of the entrepreneur in both potential and realized learning. This means the decision maker not only facilitates the acquisition and assimilation but also the transformation and exploitation of knowledge. It is mainly because most of the SMEs in this study, due to their limited resources, do not have a formal knowledge management system. Moreover, entrepreneurs in these companies are able to control the whole learning process because they are small firms. The findings also revealed that decision makers' involvement is important even if it is disseminated through other media such as internet or intranet.

*12. Type of learning is related to type of relationship.*

We also believe that there is a link between the type of learning and type of network relationships that are appropriate (c.f. Reagans and McEvily, 2003). For example, firms absorbed or learned complex and tacit knowledge related to product/service or new technologies mainly through decision makers' personal networks with partners, employees or high trustworthy customers. Managers' interpersonal relationships or networks guarantee free

flow of information and assures rapid learning (Reagans and McEvily, 2003). Rapid learning involves effective potential and realized learning. Therefore, we conclude that interpersonal relationships not only help in potential learning but also in realized learning as well.

13. *We propose that formalized systems for knowledge management ensures effective learning*

Our findings show that a more formalized system for knowledge management ensures more effective learning if the firm is medium rather than micro sized and the knowledge are more complex and tacit. Formalization ensures more structured and organized individual behaviour, well designed and codified standardized procedures, which capture prior experiences that may enable employees to acquire and assimilate new external knowledge, and also speed up the exploitation and implementation (Lin and Germain, 2003; Jansen et al., 2005). I.e. formal systems assist the process of transferring tacit to explicit knowledge and standardization –what Nonaka and Takeuchi (1995) call articulation and combination respectively.

14. *ICT is mainly useful for learning simple or codified knowledge than more tacit and complex knowledge.*

Our findings highlight the importance and advantages of using ICT facilities such as Internet or firm specific intranet for potential and realized learning. The entrepreneurs believe that ICT facilities enhance the communication with external environment, and also between the members within the organization as well, which ensure their learning capability (c.f. Hamill and Gregory, 1997; Bell and Loane, 2010). However, they also mentioned that ICT mainly useful for learning simple or codified knowledge related to market or clients (c.f. Reagans and McEvily, 2003). Nonetheless, the findings reveal that managers' involvement is crucial

for assimilation and transformation if the knowledge is complex and tacit, which once again confirm the entrepreneur's role in the learning process.

SMEs and their internationalization are receiving increasing attention from researchers. However, the development of theory on this subject is still at an early stage. Most of theorizing on the internationalization of SMEs draws from established theories relating to multinationals (MNEs). It accounts for the specifics of SME internationalization to a certain extent. However, we believe that the development of a distinct theory of SME internationalization would be relevant and make an important contribution.

Our study shows that the nature of internationalization of SMEs differs considerably from that of MNEs. This is mainly due to the limitations experienced by SMEs in terms of size, financial and human resources, and power to influence external markets. They also often have an entrepreneurial involvement and a reliance on network support that is typically lacking or of less significance in MNEs. A theory of SME should take account of such distinctive characteristics. As we have seen, entrepreneurship, social network or social capital and learning are key features of the "international new venture perspective (INV)". However, its focus is mainly on specific types of firms, mainly high-tech, that undertake rapid internationalization. The present study indicates that these features are crucial influences on SME internationalization regardless of their sector.

The study shows that entrepreneurs play the central role in the internationalization of SMEs. They influence internationalization strategies, market-entry decisions, and take initiatives to cope with the issues of psychic distance. Their personal relationships support the development of SMEs' social capital and the learning capability, both of which are crucial for

their internationalization. We also found that due to their limited power to influence or control external market complexities, SMEs often avoid dealing directly with the external market. Rather, they seek external support through networking with other firms or institutions. These features highlight the entrepreneurial involvement in SME internationalization. However, we also found that despite their personal networks and use of the latest communication technologies, some entrepreneurs could not cope with the complex institutional features of foreign markets. Therefore, we would advocate that a theory of SME internationalization should take account of the challenge of socio-institutional factors in host markets in relation to the capacity of the firms to cope with these and the means they adopt for this purpose.

Our investigation indicates that Indian firms are more familiar with the British market than British firms are with the Indian market. This partly reflects the nature of their business. Indian firms mainly export their products to the UK; whereas British firms mainly import or outsource from India. Studies that have analysed the links between inward and outward internationalization found that inward operations often precede outward operations in small and medium companies because these provide an initial opportunity to learn and understand foreign markets and foreign ways of conducting business, and hence position them to undertake outward internationalization. We believe that this difference in pattern of business can be attributable to national differences. The UK, as a "liberal market economy", is more open and has more sophisticated policies and institutions. On the other hand, India, which was a "coordinated market economy" until 1991, is still relatively unfamiliar to foreign firms. Furthermore, colonization, increased migration and family ties have facilitated internationalization for the Indian firms. The Indian entrepreneurs had a greater familiarity with the UK, since it is a favoured destination for education and because of the considerable

inward migration of Indians. By contrast, India is a relatively unfamiliar market for British entrepreneurs because of its business-unfriendly policies and complex institutional set-up. Hence, as a preliminary step, and to take advantage of its growing economy and low-cost labour, British firms are involved in inward internationalization activities such as importing and outsourcing. These contrasts suggest that national differences are of considerable relevance for SME internationalization and need to be incorporated into theorizing on the subject.

Hence, we conclude that the revised theory of internationalization of SMEs has to take into account factors such as entrepreneurial involvement in network building, learning-capability development, the challenges of socio-institutional factors in host markets in relation to the capacity of the firms to cope with these and the means they adopt for this purpose, the national difference (developed Vs. emerging) and the nature of SMEs business (inward/outward).

## 12.2. Limitations and future research

As with any study, ours has certain limitations. While measures were taken to build rigour into this study, there are some limitations that need to be recognized because they have some impact on the findings and also expose gaps that suggest avenues for further research. Some of these limitations have already been mentioned in the relevant chapters, but this section will highlight some major limitations that, we think, impacted our findings---in fact, this is done to suggest directions for future research.

This study has adopted a holistic approach towards analyzing the process of internationalization of SMEs, which include entry-mode strategies, issues of psychic distance, social capital development, learning capability and the role of ICT. Like other similar studies, we believe that the depth of the study has been compromised to some extent by the range of this study. However, considering the scope of this study, which explains the process of internationalization of SMEs from a developed country and an emerging economy, we consider that it is justifiable to compromise the depth of study to some extent. Nonetheless, we believe that a future research can enhance the contribution to knowledge by making an in-depth analysis of the role of the above-mentioned variables in the internationalisation of SMEs

We have adopted a cross-sectional research to analyse internationalisation of SMEs, specifically to measure how the firms internationalized, what were the issues of psychic distance during the initial stages and how they cope with those issues, how the SMEs built their social capital and developed their learning capability, and the role of ICT in initiating and maintaining their relationship. Considering the evolutionary nature of this research, we

have adopted a retrospective perspective. Cross-sectional and retrospective nature of this research could be considered as the other major limitation of this study. Cross-sectional research cannot provide the same richness of data offered by a longitudinal study, which by collecting data at different intervals, observes the actual changes and collects up-to-date information rather than collecting retrospective information. The rigour of retrospective enquiry is dependent on the respondents' ability to recall the information regarding the evolution of their firms' internationalization. Such information can be biased and can affect the validity of the study. We have adopted this method mainly due to time and financial restrictions and the difficulty in accessing companies on more than one occasion.

However, we have endeavoured to minimize the issues associated with the retrospective nature of the data collection. We have selected only the founder or the key people directly involved in the initial internationalization of the SMEs. We have mentioned this requirement very clearly in the covering letters used to contact the respondents for the qualitative and quantitative research. Fifty-six out of 60 respondents in our qualitative study (both British and Indian) and 165 out of 200 respondents (both British and Indian) in the quantitative study are the founders of their firms. The other respondents, four in the qualitative and 35 in the quantitative study, while not founders, were involved in the initial internationalization of their company. Nevertheless, we believe that a longitudinal study could better clarify causal, sequential and parallel processes and would have provided far more intensive information to strengthen our contribution. Therefore, we believe a longitudinal study analyzing entry-mode strategies, issues of psychic distance at different stages, social capital initiation, development and maturity, learning capability and the role of ICT in initiating and maintaining a relationship would enhance the overall quality of the research.

Another limitation of our study lies in the sample selection for the qualitative study. It relied on samples from a restricted number of industries and the sample size varied across industries. The results reveal clear differences between manufacturing and service-sector companies. Therefore, we believe an equal and larger sample of companies from both sectors should provide more definitive conclusions on the differences between them. Also, we believe that a study which investigated interpretations and meaning in greater depth may unravel some further uncertainties, for example, around psychic distance, social capital and learning.

The quantitative survey method adopted in this research is also not free of limitations. We had a reasonably good sample size of 100 SMEs each from the UK and India. This was sufficient for factor analysis and to test hypotheses using multivariate, bivariate analysis and simple path analysis. However, it is not large enough to conduct a full structural equation modelling (structural regression model technique) (Hair et al., 2006) that permits the simultaneous examination of several variables and their interrelationships by considering both manifest and latent variables. The sample size affects the normality of the data (Schreiber et al., 2006) and the statistical power of the model (McQuitty, 2004). There has been disagreement between researchers about the minimum sample size required for conducting full structural equation modelling (SEM). However, a minimum sample size of 200 is considered to be the most widely accepted criteria (Garver and Mentzer, 1999; Hoe, 2008). Given that some factor profiles turned out to differ as between the Indian and UK samples, we could not combine the sample and use the total sample size of 200 for full SEM. So we suggest a study with sample size more than 200 that permit the use of full structural equation modelling (SR model), which is superior to simple path analysis because its

capability to test hypotheses about both structural (path) and measurement relations (CFA) within a single model affords considerable flexibility (Kline, 2010).

Although we have adopted a mirror-method approach to collecting inter-partner perceptions for our qualitative case research, we could not adopt the same approach for our survey data. This was mainly due to the issues associated with time, finance, and accessibility. However, we believe that a survey collecting inter partner perceptions would have been more effective to generalise the case research results.

This study analysed the perceptions of the SME leaders and their partners just across two countries. A study of decision-makers from a wider range of countries would help generalise the process of internationalization of smaller companies. So we suggest that future research should focus on a wider range of countries to compare the process of internationalisation between them.

# CHAPTER 13
# IMPLICATIONS FOR BUSINESS PRACTITIONERS AND POLICY MAKERS

## 13.1. Implications for business practitioners

Our research identifies a number of possible implications for managers of small and medium enterprises (SMEs). It provides a comprehensive depiction of the process of British and Indian SMEs internationalization into each other's market. It acts as a guideline for SME decision makers in both countries on issues such as that factors influencing and facilitating internationalization, issues of psychic distance, the social capital building process, the development of learning capability and the role of ICT in the internationalization. Specific guidelines on each of these aspects are described in the following paragraphs.

The economic-related factors are the most important motivating factors for the UK and Indian SMEs. However, the findings show decision makers' personal attributes such as experience, network relationships or ethnicity have facilitated their internationalization. This suggests that firms should not internationalize only with the intention of taking advantage of economic opportunities and benefits but should ensure that they have enough support to facilitate their internationalization. Rather than following the conventional path of conducting market research, SME decision makers should try to exploit their experience, personal network or ethnic support to aid their internationalization. If they do not have any prior experience and network, they can hire a person of local origin with sound knowledge of the market during the initial stage to learn and build their client base. Otherwise, SMEs can use a mediator, such as an agent, distributor or a consultant, to overcome environmental complexity rather than trying to deal with it directly.

This study supports the view that psychic distance remains a valid and valuable concept in international business theory. As we mentioned earlier, our study revealed that psychic distance does not influence a firm's decision to internationalize whereas our multi-dimensional assessment shows that some dimensions are more consequential than others. So we argue that psychic distance factors could affect an SME's entry into a new market and its performance there if due attention is not paid to them. It would also help SME decision makers to understand the fact that psychic distance could moderate an SME's decision to internationalize and its choice of foreign market. Furthermore, our findings indicate that SME decision makers' ability to cope with the aspects of difference reduces their impact. So SME decision makers are recommended to assess the dimensions of distance systematically and then to assess the likely impact of its different dimensions. They should also conduct a thorough appraisal of where and how a target market differs from what they are used to, and then consider how they might cope with those aspects that could cause problems for doing business. They can access various published indicators on institutional problems (world bank's "Doing Business" indicators) competition data, business climate, risks (Economist Intelligence Unit) and so on. We also suggest that they can use the psychic distance measurement of our study as a management tool.

We have provided a comprehensive discussion about the psychic distance coping methods adopted by the British and Indian companies (section 7.1.4). This could help decision makers in both the UK and India to take necessary conscious actions prior to their internationalization, to facilitate SME's entry into a new market and its performance. Firms were found to cope with psychic distance impact using three different approaches, namely the absorption mode, contingency mode and pragmatic mode. Both absorption and contingency

coping modes rely on external social capital, although the roles performed by that capital are different. In the absorption mode, social capital is primarily a source of learning about a foreign environment. In the contingency mode, it is primarily a means of handling a difficulty at arm's length. Social capital-based methods include establishing trustworthy partnerships, employing local people, employing experienced executives from the host country in the head office, using the experience and networking capabilities of top managers, hiring an agent, and developing communication, understanding and learning about each other. Some SMEs adopt some practical *ad hoc* ways to overcome the problems in situations where they cannot cope using the above-mentioned two methods. This is classified as the pragmatic coping mode (e.g. hiring local employees, use of arbitration, side stepping regulations, cash in advance, and so on). This information regarding methods of coping with unfamiliar and different host country conditions can be a basic instructive manual for the SMEs to prepare themselves to cope with the issues of psychic distance. Tables 12.1 and 12.2 indicate the relevance of different coping methods in terms of (1) the significance of the PD dimensions' impact on the SMEs business abroad and (2) the ease of governing/controlling its international business.

Table: 12.1. Table indicating relevance of different coping methods ------ British companies

| **Significance of PD dimensions impact on the SMEs business abroad** | **Coping methods** | **Specific actions** |
|---|---|---|
| Culture is very different | Experience and network of managers | Experience and network help learn and understand about tacit knowledge related to culture |
| Logistics and infrastructure issues. | Partnerships | To learn about the differences in logistics and infrastructure between cities. *It is better in certain cities...developments are slow in some places...I learn about it through my partner.* |
| Distribution of the product in India | | Transferring these issues to partners help overcome distribution issues |
| Regulatory restriction in India prevent British firms from investing directly in India | Rely on partnership | *A respondent said: We depend our partner [property developer] in India a lot...he helps me overcome the regulatory restrictions.* |
| Issues such as slowness and corruption in the bureaucracy | Rely on partner/local employee | Avoid bureaucracy by passing it to partners or employees in India. For example, *I just avoid it and pass it to my people in India. They deal with the issue for me.* |
| Corruption is political system | Rely on agent | Importing goods through an agent circumvents direct interaction with Indian political system. Agents deal with these issues. |
| Getting details about Indian companies markets is very difficult | ICT | Illustrative quote from an interview was: *We were seeking help from various institutions but were never getting complete up-to-date information. Now we use latest technologies...we have more options...it's easy, cheap and quick.* |
| Distance has a negative impact on personal interaction and culture. | | Overcome culture/distance issues through frequent interactions using latest technologies such as video conferencing and email |
| Language is an issue at lower level | Hiring local employees | Sort the language issues. For example, *I hired a staff member who could speak Hindi and other Indian languages...he helped me sort these issues to a great extent.* |
| Indian legal systems are extremely slow | Use of Arbitration | Help avoid Indian legal systems. |
| Regulatory restrictions in legal sectors | Side-stepping regulations | Overcoming regulatory issues by hiring local Indian partners (LLP firms). |
| Nonpayment issues | Payment in Installments | Reduce risk. A typical response: *Half of the agreed amount is paid after signing the contract and the rest is paid at the time of product delivery.* |
| | Letter of credit | We use letter of credit to avoid the risks associated with non-payment for goods supplied. |

Table: 12.2. Table indicating relevance of different coping methods ------ Indian companies

| **Significance of PD dimensions impact on the SMEs business abroad** | **Coping methods** | **Specific actions** |
|---|---|---|
| Cultural difference | Decision maker's experience | Learning/understanding about culture. For example, *"I have around 25 years' experience in dealing with people in the UK".* |
| Market is sporadic and technology changes quite often | Trustworthy partnership | Tacit knowledge about latest technological developments. For example, *They tell us about the new technologies, machineries and other technical aspects. They are more aware of it than us.* |
| Understanding technical issues during the initial stages are difficult | | Training and development. For example, *We had some difficulties in understanding technical issues initially. So people from the UK came here and trained our people* |
| Selling and marketing in the UK market are very difficult for Indian firms | | *My partner in the UK looks after the sales and the commercial side. They helped us survive this economic downturn.* |
| Infrastructural and logistics support | Rely on agent | Agent deals with all logistics and infrastructure issues in the UK. |
| Lack of communication hinders the understanding. | ICT | Understanding the needs. For example, *I use all the latest facilities to communicate with them...I do it whenever needed. That is how we understand each other's needs* |
| Payment delay | | Online transfer and premium forward banking is done through electronic medium. It is quick and secure. |
| Outsourcing companies work is mainly managed through email and telephone. | | Overcoming geographic distance/culture. For example. *Most of our work is through email and telephone...If there is any problem in understanding the technical specifications or any other internal issues we sit at video conferencing and sort it out.* |
| Non-payment issues | Cash in advance | Safeguard against non-payment for goods supplied. For example, *We take 100% payment before the delivery (50% paid at the time of signing the agreement and the other 50% on delivery).* |
| | Letter of credit(LC) | Payment protection. LC helps reduce the risk. |
| The time difference between countries | Change of office hours | Adjust the time difference. For example, *We have problem with time difference. We reach office late and sit extra hours in the evenings to adjust to the time difference.* |

We have seen that the network and social capital of decision makers are important for the internationalization of SMEs because they provide resources such as information, finance, access to other networks, facilitate new market entry, provide knowledge of international entrepreneurial opportunities, reduce risks and uncertainty and help in the firm's strategic decision making. However, how SMEs can build their social capital is not wholly recognized by the decision makers. How the UK and Indian SME built their social capital relevant for their internationalization to each other's market are elaborated in the following two paragraphs.

Our social capital building process provides a detailed explanation to the business practitioners on the initiation, development and maturity stages of social capital. Initiation requires identifying and selecting a new business relationship, which is the process of preparing to do business together. SMEs can use their existing relationship or create a new relationship to initiate their social capital. Creating a new relationship is achieved through attending trade fairs or through information from the internet. Creating a new relationship through trade fairs is seen among traditional firms that internationalized during the 1980s. Indian firms, who initiated through this method adopted a 'piggy back' approach of supplying to already established distributors in the foreign market. Initiating a relationship through ICT can reduce the initial costs associated with marketing and communication activities, and can provide an opportunity to interact directly with partners and ensure a fast and easy learning. However, face-to-face and personal interaction is important to sustain the relationship. Respondents reported that while an initial trial order may come through the internet in response to advertising on a website, follow-up orders, requiring greater supplier commitment and adaptation, will then benefit from face to face discussion and trust building.

Use of an existing network involves decision makers' prior experience, network or ethnicity. The social capital development process involves communicating and understanding about each other's strengths, weaknesses and the benefits of a partnership. We have seen that social capital development varies according to its mode of initiation, Firms that initiated a new business relationship through creating a new relationship, find the process much more lengthy and difficult compared with firms that initiated it using their existing social capital. It is mainly because existing relationships ensure greater closeness between partners and that facilitates the development of trust and norms. This emphasizes the point that trust building is the main intention of the social capital development stage. The final stage, maturity, involves high level of interpersonal relationship and personal bonding. It characterizes stable relationships, which ensures continuity in relationships that augment mutual obligation between firms and further development of trust and cooperation. Frequent interactions and communication between partners are essential for building and maintaining trust. So it is likely to be worthwhile to keep one's social capital active (to maintain) even when it is not being used.

We believe that these three progressive stages, initiation, then development, and then maturity, offer the basis on which the SME decision makers can build the social capital required for their internationalization.

Our findings emphasize the importance of entrepreneurs in the learning process as well. It shows not only that learning starts at with individuals but also that dissemination is facilitated by decision makers. This is mainly achieved through their experience and network with customers, employees, partner, and institutions. It not only helps them identify, select and interpret the knowledge, and facilitate acquisition and assimilation but also help knowledge

transformation and exploitation by increasing the communication and trust between the members within the firms and reducing the conflict regarding goals and implementation. Therefore business practitioners should be encouraged to enhance their experience and increase their inter-personal network since it is the major activity of entrepreneurs. It means learning depends on who we are relating with. So the implication is that executives need to be stringent about their choice of partner and other relationships that might assist the SME.

Our findings show that more than 65% of British and Indian companies do not have a formal or systematic knowledge management system. However, they indicate that a more formal system is needed if the knowledge is complex and if the firm size is relatively high. It ensures more structured and organized individual behaviour, which capture prior experiences that may enable employees to acquire and assimilate new external knowledge. Similarly, it provides a well-designed and codified standardized procedure that would speed up the exploitation and implementation. The decision makers' from Indian software companies that are outsourcing to the UK and have more than 150 employees said they implemented a formal learning process and knowledge management system to make the learning more effective. This suggests that business practitioners from medium sized companies and who deal with more complex knowledge should try to develop a more formalized system of knowledge management.

## 13.2. Implications for national policy makers

Our findings and contributions highlight the importance of entrepreneurs in the internationalization of smaller firms. We have realized that the decision makers are important in activities such as identifying and selecting market, initiating and developing a relationship, learning and for the effective overall internationalization process. However, our interview with decision makers of SMEs reveal that the policy makers in both countries have not recognized decision makers' importance in SMEs internationalization. Therefore, we recommend that the agencies in both countries that are aiding SMEs internationalization, to design programmes specifically to support the SME decision makers, such as helping them to find partners and develop network abroad rather than providing general country specific statistics.

Another important concern that the decision makers raised is the assessment of potential foreign partners' credibility. The SMEs in both countries consider it as the major risk because they cannot get credible information. Most of these companies are adopting a trial and error method and this delays their further development, and sometimes leads to the failure of a relationship. So we recommend the trade promotion agencies in both countries aid SMEs internationalization by providing not just market or general country related information but also information regarding the credibility and performance of the potential partners they would like to do business with.

One of the major difficulties that confront firms in the UK and India is to identify partners in each other's country. The decision makers from firms in both countries mentioned that none of the government or trade departments have official databases of companies doing business

in different sectors. They believe that a detail database of companies, their specializations, capabilities and contact details would facilitate and enhance SMEs initial market entry by simplifying the searching and identifying potential partners. Similarly, a database of other supporting agencies such as agents, distributors, or advisers or other supportive institutions such as chambers of commerce and business associations would also enhance the whole internationalization process.

The findings reveal that ethnicity is a major source of social capital for some firms. However, there is no systematic procedure to link the ethnic communities with the SMEs in either country. So we recommend the trade agencies in both countries to organize forums to bring ethnic Indians in the UK into contact with SMEs that are seeking to establish business in each other's market. They would be able to help SME internationalization by providing a boundary spanning and counseling role, at least to assist initial market entry.

SME decision makers from both countries mentioned that the business culture, environment, policies and legislation in India vary between different states. Some states have better infrastructure and business friendly policies whereas some other states are much more corrupt and have a hostile business atmosphere. Identifying the states that are supportive to international firms is very difficult for British firms. So we recommend the policy makers in the UK and India to help the international SMEs aiming to enter India by providing detail information regarding the business culture, environment and the legislative policies in different states.

Manufacturing firms in both countries mentioned that the institutional dimensions of psychic distance such as logistics and infrastructure, political systems, legal systems and regulations

in India have greater impact when compared to socio-cultural dimensions. According to Indian decision makers, these are mainly because Indian manufacturing firms receive poor governmental support compared to the service sector companies, most of which are in special economic zones and business clusters that have world class infrastructure and are protected from external socio-political interference. However, the manufacturing sector does not receive any of this kind of support. This has not only affected internationalization but also the survival of manufacturing sector SMEs in India. So we recommend policy makers in India to take necessary steps to support the small and medium manufacturing companies in India, particularly textile firms. This assumes that such firms can continue to compete against textile firms in even lower-cost countries such as Bangladesh, sub-Saharan Africa. So the support might have to include help to improve their design quality. Although lower value-adding compared to ICT firms, textile firms are labor intensive and can therefore provide useful employment.

The findings also show that sectors such as real estate and legal services impose regulatory restrictions on foreign companies in India. These limit the free functioning of foreign companies. These companies can enter Indian market only through linking with an Indian company. The decision makers of these companies perceive it as the major challenge. These two sectors are also considered as priority sectors by the British government for doing business with India. In order to enhance the internationalization of these firms, British government and trade agencies need to negotiate with their counterpart in India to waive the existing regulatory restrictions.

The bureaucracy in India is the other major issue for both Indian and British firms. Indian firms to a great extent know how to deal with this issue but it is a major challenge for foreign

investors. They mentioned it as being corrupt and complicated. This delays the whole process, and some investors cannot cope with this issue. However, the decision makers mentioned that while the situation is better at the national level, it is much problematic at the state level. Nonetheless, they said this varies between different states. So we believe that there is a need for national level intervention to ensure an investor friendly climate across all the Indian states as well by providing arrangements such as single windows, special economic zones, and business clusters.

The slowness of the Indian legal system is mentioned as a major issue by many firms. However, this does not have any great impact on Indian firms because the decision makers there are aware of this issue and they adopt alternative solutions such as arbitration. Nonetheless, it is a concern for foreign firms investing in India and it creates a negative impression among foreign investors. So the policy makers in India should find a solution to bring a system to handle the cases related to foreign business much faster and in a more effective way.

These recommendations for business practitioners and policy makers have been offered mainly on the basis of the empirical evidence obtained. We have emphasized initiating, developing and maintain social capital, which we think is vital for effective internationalization of SMEs and bringing economic benefits of the firms. The recommendations for policy makers are mainly based on the issues raised by, and the expectations of, the British and Indian decision-makers.

# APPENDICES

## Appendix 1: Interview checklists

The ordering of questions could vary in the interview depending on how the discussion developed.

### *1. Profile*

***Interviewee***

1. Position in the company
2. Share of ownership
3. Qualification and work experience
4. International experience

***Company***

*Size and Activity*

1. Name of the firm
2. Year it was established
3. Nature of business
4. Year of first trading
5. Year of first overseas investment (if any)
6. Size of the firm:
    a. Employment
    b. Sales turnover
7. Internationalization history:
    a. Who owns the company?
8. *Degree of Internationalization*
    a. Ratio of foreign sales to total sales
    b. Proportion of employment outside the India to total employment

### *2. Internationalization*

***1. Internationalization strategy***

1. Does it have a person or department looking after internationalization initiatives?
2. What are/were the factors leading your company to develop relationship with the UK?

***2. Mode of internationalization to UK***

1. How did you start and develop your business with the UK?
2. Please explain the sequence of events, including the people involved in the process?
3. Did you have prior contacts at UK companies or people there?
4. What are the factors that influenced your choice of internationalization (entry) mode?
5. How do you organize your exports to/business done in/the UK (including any use of agents, etc, frequency of visits, arrangements for payment)?
6. What do you see as the advantages/disadvantages of the arrangements your company has made for its UK business?
7. Have external agencies had an impact on these arrangements? (e.g. through advice given; through introducing potential British partners)

***3. Perceived internationalization difficulties***

1. What are the potential difficulties do/did you have in the UK/India or with UK/Indian companies?
2. What are the uncertainties that you have/had regarding UK/India as a business environment?
3. What are the key elements of that perceived risk?

4. ***Relevance and impact of institutional factors***

1. Have government agencies, chamber of commerce, consultancies, embassies, or other outside bodies help you learn about UK/India?
2. What are the specific features in UK/India that make it difficult to do business there?

## 3. Social capital

1. If you think back to the time of your internationalization, what contacts did you or your colleagues have that were especially important for the company? How did these change over time?
2. How many different contacts do you have? Do the external partners know one another?
3. Describe the communication with external partners? (How? How often? What about?)
4. What makes this relationship work? How or from what source, does every partner know what to do?

**Trust**

*Goodwill*

1. How would you describe your relationship with your partner?
2. Do you think your partner has special concern about your company's welfare? If yes, please explain few examples.
3. Do you think your partner will help you in difficult situation? If yes, do you have any previous experience?

*Integrity*

1. Do you believe your partner has a strong sense of justice?
2. Does your partner always stick to their promise? If yes? Any previous experience
3. Does your partner give importance to the interests of the relationship? If yes, Could you please elaborate it?
4. Do you always keep the promise you made to your partner?
5. How do you rate your partner's values and principles?

*Competence*

6. 1. Do you think your partner is capable of performing in his job?
7. How capable and competitive is your partner in providing knowledge about the market and the product?
8. Do you think you and your partner are providing equal contribution to the relationship? What is your partner's contribution?
9. What is your contribution?
10. How confident you are about your partner's skills?
11. Do you think that your partner has some specialised capabilities to support you in UK? If yes, what?

## 4. Psychic distance

| Give your assessment to the following dimensions considering the questions left columns | *How much difference do you perceive between you and your partner in India according to the dimensions below* | *How much impact do you perceive that each dimension affects your business with your partner in India* | *How much do you think you can coupe with the dimensions below* |
|---|---|---|---|
| | Please evaluate the following using a scale of 1 to 5, where:<br>1 = No real difference<br>5 = Very Great difference | Please evaluate the following using a scale of 1 to 5, where:<br>1 = Does not impact on my business at all<br>5 = Impact on my business very much. | Please evaluate the following using a scale of 1 to 5, where:<br>1 = Not at all<br>5 = Always |
| Geographical difference | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Culture | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Language | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Level of education | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Level of technical development | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Level of economic development | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Logistics infrastructure | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Political systems | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Legal systems | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Regulations | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Accepted business practices | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |
| Business ethics | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ | ☐ ☐ ☐ ☐ ☐ |

Could you describe other possible factors that may affect your perception of geographical distance (i.e. differences and difficulties encountered in operating in a foreign environment)?

## 5. Learning capability

Acquisition

1. What are the different knowledge acquisition models?
2. How do you identify and acquire externally generated information that are crucial to your company's operations? How often do you do that? How long will it take?
3. Do the employees play any role in the company's knowledge acquisition? If yes, what and how?

Assimilation

4. How does the company organize acquired knowledge?
5. How do you analyse the acquired knowledge/information?
6. How do you interpret and understand information obtained from external sources?
7. What are the additional support company is ensuring in order to acquire and organize the knowledge?

Transformation

8. Do you internalise / combine the newly acquired knowledge with the assimilated knowledge? If Yes, How & Who do that?

Exploitation/ Retention

9. Do you incorporate this knowledge in your operation? How do you do that?
10. How often do you deploy the knowledge? Who is in charge of Knowledge/ resource deployment?

### 6. ICT Implications

1. What kind to technology do you use for your product/ service transactions?
2. How often do you use it?
3. Does it change over time?
4. How important ICT is in communicating with your clients abroad?
5. Is ICT a market intelligence tool? Do you use it?
6. How do you market and promote your product using ICT?
7. Do you use ICT to deliver your product? If 'Yes', how?
8. What is its implication on trust?

# Appendix 2: Survey Questionnaire

## Doing Business with India

### 1. Background and purpose of research

Trade between the UK and India is of growing significance. This provides opportunities for smaller firms in both countries. For this reason, we are investigating how British smaller firms can promote their business with India through initiating and maintaining suitable business relationships there.

We have already interviewed the managers of 30 UK firms as well as their partners in India. We are now planning to generalise these preliminary results by covering a much larger sample of companies. In view of your experience, your participation in this survey would greatly contribute to our knowledge of this subject, and it would be greatly appreciated. In return, each participating firm will receive a summary of the findings, which we believe will be of some benefit to you.

The research is being conducted according to strict academic protocols, which guarantee the anonymity and confidentiality of all the responses. No third party will be given access to any firm specific information.

We would appreciate you or an appropriate senior manager sparing some time to complete this survey questionnaire, which should take no more than 10 minutes. If you have any questions or comments on the questionnaire, please feel free to contact us.

Questionnaire general instructions

The questionnaire has been designed for ease of completion. In most cases alternative answers have been provided and you are required only to tick the appropriate boxes.
Not all sections of the questionnaire will be applicable to your firm. Please indicate where a section or question is not applicable and move on as appropriate.

Confidentiality

Individual firm responses will be treated with strictest confidentiality. Any result published will be aggregated across the sample of firms, and will make no mention of individuals or individual firms.

Thank you for your attention and time.

## Doing Business with India

### 2. Your Company's Profile

1. What is your position in the company?

2. When was your company established (legal incorporation)?

3. Please specify the location of your company headquarters

4. What is the nature of your business?

5. How many employees does your firm currently have on its payroll? (If a subsidiary, please specify only for your own organisation)

6. Please state the total turnover of your company in the last financial year (£)

7. Please indicate how your sales/business have been distributed in the last financial year:

Domestic sales/business (%) _____

Total foreign sales/business (%) _____

Total sales/business to India (%) _____

8. Do you have any employment abroad?

◯ Yes

◯ No

9. If yes to Q8,

where? _____

How many persons abroad? _____

10. Who looks after your company's international initiatives?

11. In which year did you first have any foreign business?

12. How many countries does your firm currently do business with?

# Doing Business with India

## 3. Mode of Internationalisation to India

The following questions apply to your principal partner in India

### 13. Where in India is your partner located?

### 14. Who initiated your business with India?

- ◯ Your company
- ◯ Indian partner
- ◯ Other (please specify)

### 15. Please indicate how you entered the Indian market

- ◯ Direct exporting (to foreign customer)
- ◯ Direct Importing
- ◯ Foreign Agent
- ◯ Foreign Distributor (sells on a regular basis)
- ◯ Foreign Subsidiary (wholly owned)
- ◯ Foreign Subsidiary (joint venture)
- ◯ Strategic Alliance (Non equity)
- ◯ Licensing
- ◯ Software development centre
- ◯ Other (please specify)

## Doing Business with India

**16. What factors motivated your decision to expand to India. Please evaluate each of the following**

| | Not Important at all | Unimportant | Somewhat Important | Important | Very Important |
|---|---|---|---|---|---|
| Need for long-term business growth | ◯ | ◯ | ◯ | ◯ | ◯ |
| Limited opportunities in domestic market | ◯ | ◯ | ◯ | ◯ | ◯ |
| Fast growing economy | ◯ | ◯ | ◯ | ◯ | ◯ |
| Knowledge of the language | ◯ | ◯ | ◯ | ◯ | ◯ |
| Managers' previous experience | ◯ | ◯ | ◯ | ◯ | ◯ |
| Managers Network in India | ◯ | ◯ | ◯ | ◯ | ◯ |
| Company's business links with India | ◯ | ◯ | ◯ | ◯ | ◯ |
| Links provided by leading customers, suppliers, or competitors | ◯ | ◯ | ◯ | ◯ | ◯ |
| Indian origin founding members | ◯ | ◯ | ◯ | ◯ | ◯ |
| Studied in India | ◯ | ◯ | ◯ | ◯ | ◯ |
| Create a reputation of being a company of international scope | ◯ | ◯ | ◯ | ◯ | ◯ |
| Unique product or technology | ◯ | ◯ | ◯ | ◯ | ◯ |
| Cost effectiveness (cheap production cost) | ◯ | ◯ | ◯ | ◯ | ◯ |
| Institutional support in the UK | ◯ | ◯ | ◯ | ◯ | ◯ |
| Institutional support in India | ◯ | ◯ | ◯ | ◯ | ◯ |
| Other | ◯ | ◯ | ◯ | ◯ | ◯ |

Other (please specify) _____

**17. Did your company have any international business links prior to its internationalisation to India?**

◯ Yes

◯ No

**18. If yes to Q17, please specify**

the kind of links _____

to which country _____

**19. If you have received any institutional (e.g. government, bank) support from the UK or India, please specify**

_____

## Doing Business with India

**20. Please evaluate the importance of networks, which are relevant to your company's internationalization to India.**

| | Not Important at all | Unimportant | Somewhat Important | Important | Very Important |
|---|---|---|---|---|---|
| Work colleagues | ○ | ○ | ○ | ○ | ○ |
| Agents/Distributors | ○ | ○ | ○ | ○ | ○ |
| Customers | ○ | ○ | ○ | ○ | ○ |
| Suppliers | ○ | ○ | ○ | ○ | ○ |
| Consultants | ○ | ○ | ○ | ○ | ○ |
| Other | ○ | ○ | ○ | ○ | ○ |

Other (please specify)

## Doing Business with India

### 4. Perceived differences between UK and India

**21. How much difference do you perceive between you and your partner in India according to the dimensions below? Please evaluate each of the following dimensions**

| | Not different at all | Not very different | Somewhat different | Considerably different | Extremely Different |
|---|---|---|---|---|---|
| Geographic distance | ○ | ○ | ○ | ○ | ○ |
| Cultural distance | ○ | ○ | ○ | ○ | ○ |
| Language difference | ○ | ○ | ○ | ○ | ○ |
| Level of education | ○ | ○ | ○ | ○ | ○ |
| Level of technical development | ○ | ○ | ○ | ○ | ○ |
| Level of economic development | ○ | ○ | ○ | ○ | ○ |
| Logistics and infrastructure | ○ | ○ | ○ | ○ | ○ |
| Political systems | ○ | ○ | ○ | ○ | ○ |
| Legal systems | ○ | ○ | ○ | ○ | ○ |
| Regulation | ○ | ○ | ○ | ○ | ○ |
| Accepted business practice | ○ | ○ | ○ | ○ | ○ |
| Business ethics | ○ | ○ | ○ | ○ | ○ |

## Doing Business with India

### 5. Perceived internationalization difficulties

**22. How difficult do you think following factors are for expansion to India? (Please evaluate each of the following)**

| | Extremely Difficult | Difficult | Neither Difficult Nor Easy | Easy | Extremely Easy |
|---|---|---|---|---|---|
| Identifying the right partners | ○ | ○ | ○ | ○ | ○ |
| Building a network | ○ | ○ | ○ | ○ | ○ |
| Bureaucratic regulations | ○ | ○ | ○ | ○ | ○ |
| Culture | ○ | ○ | ○ | ○ | ○ |
| Infrastructure in India | ○ | ○ | ○ | ○ | ○ |
| Obtaining UK government assistance/incentives | ○ | ○ | ○ | ○ | ○ |
| Obtaining assistance from Indian agencies | ○ | ○ | ○ | ○ | ○ |
| Corruption | ○ | ○ | ○ | ○ | ○ |
| Other | ○ | ○ | ○ | ○ | ○ |

Other (please specify) _____

**23. Please evaluate the uncertainties regarding India as a business environment**

| | Not important at all | Unimportant | Somewhat Important | Important | Very Important |
|---|---|---|---|---|---|
| Economic condition of the country | ○ | ○ | ○ | ○ | ○ |
| Political landscape of the country | ○ | ○ | ○ | ○ | ○ |
| Money exchange rate | ○ | ○ | ○ | ○ | ○ |
| Non payment for supplied goods/ services | ○ | ○ | ○ | ○ | ○ |
| Other | ○ | ○ | ○ | ○ | ○ |

Other (please specify) _____

# Doing Business with India

## 6. Relationship with Indian Partner

### 24. What best describes your present relationship with your partner?

- ◯ Purely business relationship
- ◯ Friendly but not very close
- ◯ Close friendship
- ◯ Family friends
- ◯ Almost like brother/ sister
- ◯ Other (please specify)

### 25. How long have you known your partner?

### 26. Please evaluate each of the following statements

| | Strongly disagree | Disagree | Neither agree nor disagree | Agree | Strongly agree |
|---|---|---|---|---|---|
| My partner has special concern for my company's welfare | ◯ | ◯ | ◯ | ◯ | ◯ |
| My needs are important to my partner | ◯ | ◯ | ◯ | ◯ | ◯ |
| My partner has a strong sense of justice | ◯ | ◯ | ◯ | ◯ | ◯ |
| My partner has high values and principles | ◯ | ◯ | ◯ | ◯ | ◯ |
| My partner provides sound knowledge about the market and the product | ◯ | ◯ | ◯ | ◯ | ◯ |
| My partner has some specialised capabilities to support me in India | ◯ | ◯ | ◯ | ◯ | ◯ |
| My partner makes an equal contribution to the relationship | ◯ | ◯ | ◯ | ◯ | ◯ |
| My partner has provided new client introductions in India | ◯ | ◯ | ◯ | ◯ | ◯ |

### 27. What makes this relationship work? Please evaluate each of the following statements

| | Not important at all | Unimportant | Somewhat important | Important | Very Important |
|---|---|---|---|---|---|
| Shared norms | ◯ | ◯ | ◯ | ◯ | ◯ |
| Coordination between partners | ◯ | ◯ | ◯ | ◯ | ◯ |
| Good understanding about each others' responsibility | ◯ | ◯ | ◯ | ◯ | ◯ |
| Good understanding about the benefit of this partnership | ◯ | ◯ | ◯ | ◯ | ◯ |
| Other | ◯ | ◯ | ◯ | ◯ | ◯ |

Other (please specify)

## Doing Business with India

### 7. Impact of perceived differences

**28. How much do each of the following differences between the UK and India affect your business with your partner in India? Please evaluate each of the following dimensions**

| | No impact at all | Not much impact | Some impact | Considerable impact | Very great impact |
|---|---|---|---|---|---|
| Geographic distance | ○ | ○ | ○ | ○ | ○ |
| Cultural distance | ○ | ○ | ○ | ○ | ○ |
| Language difference | ○ | ○ | ○ | ○ | ○ |
| Level of education | ○ | ○ | ○ | ○ | ○ |
| Level of technical development | ○ | ○ | ○ | ○ | ○ |
| Level of economic development | ○ | ○ | ○ | ○ | ○ |
| Logistics and infrastructure | ○ | ○ | ○ | ○ | ○ |
| Political systems | ○ | ○ | ○ | ○ | ○ |
| Legal systems | ○ | ○ | ○ | ○ | ○ |
| Regulation | ○ | ○ | ○ | ○ | ○ |
| Accepted business practice | ○ | ○ | ○ | ○ | ○ |
| Business ethics | ○ | ○ | ○ | ○ | ○ |

# Doing Business with India

## 8. Information Management

### 29. Please evaluate each of the following statements

| | Strongly Disagree | Disagree | Neither agree nor disagree | Agree | Strongly Agree |
|---|---|---|---|---|---|
| My company adapts its product in order to address opportunities in India | ○ | ○ | ○ | ○ | ○ |
| My company frequently scans the environment to identify new business opportunities | ○ | ○ | ○ | ○ | ○ |
| My company allocates its resources continuously to new promising areas of operation | ○ | ○ | ○ | ○ | ○ |
| My company is able to identify and acquire external (e.g., market) knowledge. | ○ | ○ | ○ | ○ | ○ |
| My company is able to identify and acquire relevant knowledge from inside the company. | ○ | ○ | ○ | ○ | ○ |
| My company is effective in developing new knowledge or insights that have the potential to influence product development. | ○ | ○ | ○ | ○ | ○ |
| My staffs play an important role in company's knowledge acquisition | ○ | ○ | ○ | ○ | ○ |
| We have adequate informal communications within the company to integrate information | ○ | ○ | ○ | ○ | ○ |
| My company has adequate routines to assimilate new information and knowledge. | ○ | ○ | ○ | ○ | ○ |
| My company successfully integrates its existing knowledge with newly generated knowledge. | ○ | ○ | ○ | ○ | ○ |
| My company is successful in converting new knowledge into useful applications. | ○ | ○ | ○ | ○ | ○ |

# Doing Business with India

## 9. Role of Information Communication Technology (ICT)

### 30. Please indicate the importance of each of the following technologies
Please select from the drop down menu

| | In the course of setting up your business in India | To maintain business with your Indian partner |
|---|---|---|
| Telephone | | |
| Email | | |
| Social networking sites (e.g., Facebook, LinkedIn) | | |
| Desktop audio conferencing (e.g., Skype, VOIP) | | |
| Video conferencing | | |
| Web based product transaction technologies | | |
| Electronic financial transactions | | |
| Other | | |

Other (please specify)

### 31. How important do you think ICT is in doing business abroad? Please evaluate each of the following activities

| | Not important at all | Unimportant | Somewhat important | Important | Very Important |
|---|---|---|---|---|---|
| Customer service | ○ | ○ | ○ | ○ | ○ |
| Communication with partners abroad | ○ | ○ | ○ | ○ | ○ |
| Supplier relationship | ○ | ○ | ○ | ○ | ○ |
| Sales and marketing | ○ | ○ | ○ | ○ | ○ |
| Information about foreign market | ○ | ○ | ○ | ○ | ○ |
| Product transactions | ○ | ○ | ○ | ○ | ○ |
| Financial transactions | ○ | ○ | ○ | ○ | ○ |
| Partnership building | ○ | ○ | ○ | ○ | ○ |
| Others | ○ | ○ | ○ | ○ | ○ |

Other (please specify)

### 32. Contact Details (for feedback only)

Name

Company Name

Email

# Appendix 3 Profile of survey respondents and firms

Appendix table: 3a. Profile of survey respondents

| Sectors | Number of Companies | |
|---|---|---|
| | Britain | India |
| Service sector | 69 | 68 |
| Manufacturing sector | 31 | 32 |
| Total | 100 | 100 |

Appendix table: 3b. Profile of firms- Survey

| Parameter | British firms | Indian firms |
|---|---|---|
| Employees | Range: 1-230 | Range: 4-245 |
| | Average: 15.56 | Average: 71.97 |
| Annual sales turnover (£m) | Range: 0.02-9.5 | Range: 0.01-3.00 |
| | Average: 2.22 | Average: 0.66 |
| Percentage of foreign sales | Range: 0-100 | Range: 2-100 |
| | Average: 25.0 | Average: 91.34 |
| Percentage of sales to India/Britain | Range: 1-35 | Range: 2-100 |
| | Average: 8.40 | Average: 52.11 |

The company profile (Appendix 3- Table. 5.3) reveals that the average number of employees in British SMEs is fewer compared with Indian companies. The average percentage of foreign sales to total sales is higher for Indian companies (91.3%) than for the British companies (25%), mainly because most Indian firms are 100% export units. The Indian companies primarily export to the UK (52% of total exports) and therefore the value of their exports to the UK is significantly higher than the value of British companies' exports to India (8.4%). These results indicate that British companies were mainly importing goods or services (like ICT) from India whereas Indian companies where mainly exporting to the UK.

# Appendix 4: Pearson correlation matrix of perceived psychic distance dimensions

Appendix table: 4a: Pearson correlation matrix of perceived psychic distance dimensions - British respondents (n=30). (Non-significant values are excluded)

| | ***Psychic distance Items*** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1** | Geographic Distance | 1.00 | . | | | | | | | | | | |
| **2** | Cultural Difference | 0.50** | 1.00 | | | | | | | | | | |
| **3** | Language Difference | | | 1.00 | | | | | | | | | |
| **4** | Level of Education | | | | 1.00 | | | | | | | | |
| **5** | Technical Development | | 0.40* | | 0.39* | 1.00 | | | | | | | |
| **6** | Economic Development | | | | | | 1.00 | | | | | | |
| **7** | Logistics and Infrastructure | | 0.45* | | | | | 1.00 | | | | | |
| **8** | Political Systems | | | | -0.39* | | | | 1.00 | | | | |
| **9** | Legal Systems | 0.42* | 0.40* | | | 0.48** | | | | 1.00 | | | |
| **10** | Regulations | | | | | | -0.52** | | | | 1.00 | | |
| **11** | Accepted Business Practices | 0.68** | 0.42* | | | 0.45* | | | | .54** | | 1.00 | |
| **12** | Business Ethics | 0.59** | 0.45* | | | 0.46* | | | | .52** | | **.93**** | 1.00 |

** $p < 0.01$; * $p < 0.05$ (2-tailed).

Appendix table: 4b: Pearson correlation matrix of perceived psychic distance dimensions - Indian respondents (n=30). (Non-significant values are excluded)

| | ***Psychic distance Items*** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1** | Geographic Distance | 1.00 | | | | | | | | | | | |
| **2** | Cultural Difference | | 1.00 | | | | | | | | | | |
| **3** | Language Difference | 0.40* | | 1.00 | | | | | | | | | |
| **4** | Level of Education | 0.38* | | 0.58** | 1.00 | | | | | | | | |
| **5** | Technical Development | | | 0.47** | 0.53** | 1.00 | | | | | | | |
| **6** | Economic Development | 0.37* | | -0.42* | | | 1.00 | | | | | | |
| **7** | Logistics and Infrastructure | | | | | | 0.60** | 1.00 | | | | | |
| **8** | Political Systems | | | | | | | | 1.00 | | | | |
| **9** | Legal Systems | 0.44* | | 0.49** | 0.50** | 0.47** | | | 0.42* | 1.00 | | | |
| **10** | Regulations | | | | | | | | | | 1.00 | | |
| **11** | Accepted Business Practices | | | | | | | | 0.55** | 0.40* | | 1.00 | |
| **12** | Business Ethics | 0.57** | | | 0.40* | 0.49** | | | 0.38* | 0.69** | | 0.66** | 1.00 |

** $p < 0.01$; * $p < 0.05$ (2-tailed).

# Appendix 5: Pearson correlation matrix of impact of psychic distance dimensions

Appendix table: 5a. Pearson correlation matrix of impact of psychic distance dimensions - British respondents (n=30). (Non-significant values are excluded)

| | PD Items | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1** | Impact of Geographic Distance | 1 | | | | | | | | | | | |
| **2** | Impact of Cultural Difference | | 1 | | | | | | | | | | |
| **3** | Impact of Language Difference | | | 1 | | | | | | | | | |
| **4** | Impact of Education | | | | 1 | | | | | | | | |
| **5** | Impact of Technical Development | | | | | 1 | | | | | | | |
| **6** | Impact of Economic Development | | | | 0.58** | | 1 | | | | | | |
| **7** | Impact of Logistics and Infrastructure | | | | | | | 1 | | | | | |
| **8** | Impact of Political Systems | | | | | 0.58** | | 0.50** | 1 | | | | |
| **9** | Impact of Legal Systems | | | | | 0.60** | | 0.79** | 0.63** | 1 | | | |
| **10** | Impact of Regulations | | | | | 0.60** | | 0.76** | 0.71** | 0.83** | 1 | | |
| **11** | Impact of Business Practices | | | | | 0.37* | | 0.43* | 0.55** | 0.44* | 0.43* | 1 | |
| **12** | Impact of Business Ethics | | | | | | | 0.44* | 0.54** | 0.67** | 0.53** | | 1 |

** $p < 0.01$; * $p < 0.05$ (2-tailed).

Appendix table: 5b. Pearson correlation matrix of impact of psychic distance dimensions - Indian respondents (n=30). (Non-significant values are excluded)

| | PD ITEMS | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1** | Impact of Geographic Distance | 1.00 | | | | | | | | | | | |
| **2** | Impact of Cultural Difference | | 1.00 | | | | | | | | | | |
| **3** | Impact of Language Difference | | | 1.00 | | | | | | | | | |
| **4** | Impact of Education | | | | 1.00 | | | | | | | | |
| **5** | Impact of Technical Development | | | | 0.39* | 1.00 | | | | | | | |
| **6** | Impact of Economic Development | | | | | 0.46* | 1.00 | | | | | | |
| **7** | Impact of Logistics and Infrastructure | 0.51** | 0.38* | | 0.39* | | 0.48** | 1.00 | | | | | |
| **8** | Impact of Political Systems | 0.54** | | | | 0.68** | 0.47** | | 1.00 | | | | |
| **9** | Impact of Legal Systems | | | | | | | 0.37* | | 1.00 | | | |
| **10** | Impact of Regulations | | | | | | | | | 0.50** | 1.00 | | |
| **11** | Impact of Business Practices | | | | | | | | | | | 1.00 | |
| **12** | Impact of Business Ethics | 0.36* | 0.50** | | | | | 0.50** | | | | | 1.00 |

** $p < 0.01$; * $p < 0.05$ (2-tailed).

# Appendix 6: Confirmatory factor analysis (CFA)

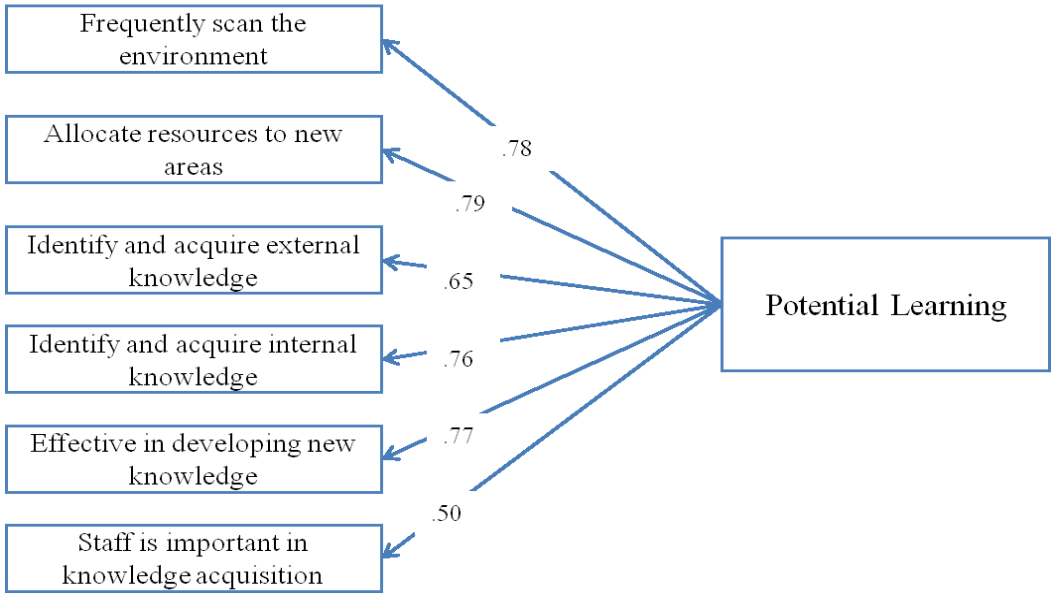
## Learning capability

### British companies

***Potential learning capability***

The confirmatory factor analysis for potential learning capability is presented in figure 6.1. The model shows good fit to the data and the factor loadings are above 0.5.

Appendix figure: 6.1. Confirmatory factor analysis for potential learning capability- British companies




Overall Model Fit Indices: $\chi 2$ (9) = 12.55, p > .05; CFI= .99; RMSEA = 0.06; RMR= 0.02; NNFI=.98; GFI= .96.

***Realized Learning Capability***

The confirmatory factor analysis for the items representing realized learning in the exploratory factor analysis (c f. 9.2.3.1) produced poor model fit. As indicated in the modification indices, the item convert knowledge to useful applications is removed. However, AMOS 18 would not give model fit results for 3 items CFA. Therefore, the internal reliability of the other items, informal internal communication to integrate the knowledge;

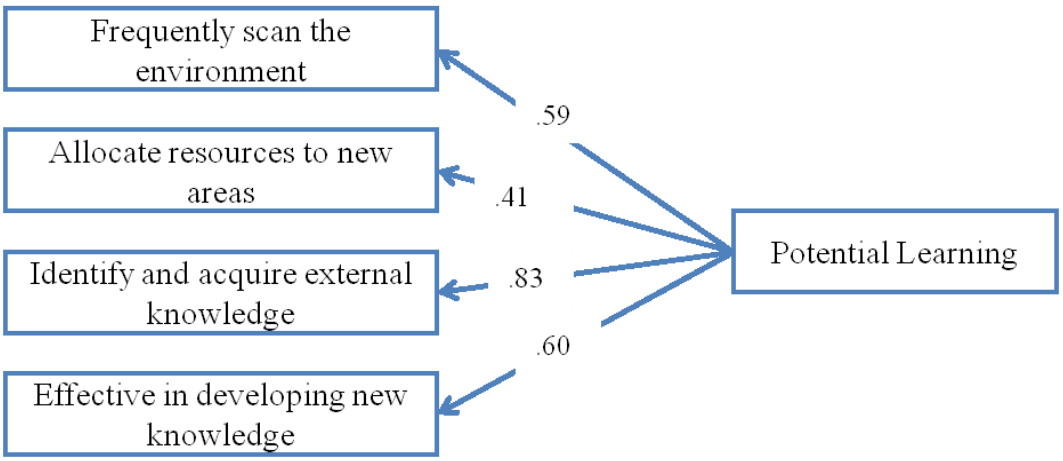
integrating existing knowledge; routines to assimilate knowledge are tested. The alpha (α) value is now 0.9 that confirms the unidimensionality. Hence, these items can be considered as a single variable in path analysis.

## Indian Companies

### *Potential Learning Capability*

The confirmatory factor analysis for potential learning capability is presented in Figure 6.2. The factor loadings are above 0.4 and model shows acceptable level of fit.

Appendix figure: 6.2. Confirmatory factor analysis for potential learning capability- Indian companies




Overall Model Fit Indices: $\chi 2$ (2) = 4.62. p>.05; CFI= .96; RMR= 0.01; NFI=.94; GFI= .98

### *Realized learning capability*

The confirmatory factor analysis produced poor model fit for 4 items related to learning within the firm. As indicated in the modification indices, the item informal internal communication to integrate the knowledge is removed. An internal reliability analysis is conducted for remaining the three items because AMOS 18 does not support three items CFA test. The three items, integrating existing knowledge; routines to assimilate knowledge; and

converting knowledge into useful applications, shown internal reliability of (α value) 0.9, which consistent with exploratory result as well. The unidimensionality is confirmed.

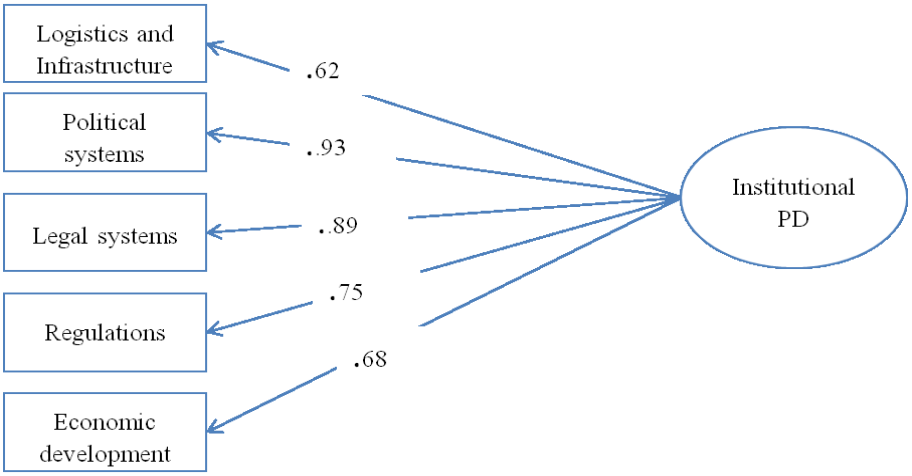
## Impact of Psychic distance

### British companies

#### *Impact of institutional psychic distance*

The CFA for Impact of institutional psychic distance is shown in Figure 6.3. The model shows acceptable level of fit. The factor loading are above 0.62.

Appendix figure: 6.3. Confirmatory factor analysis for impact of institutional psychic distance- British companies

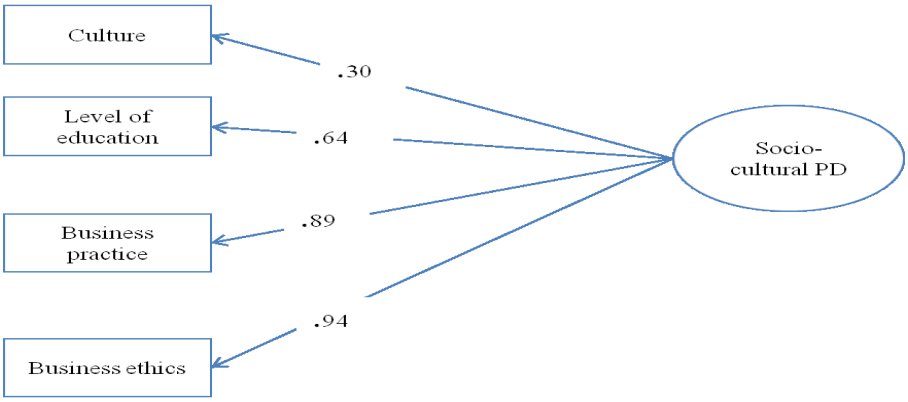



Overall Model Fit Indices: $\chi 2$ (5) = 7.9, p > .05; CFI= .99; RMSEA = 0.08; RMR= 0.02; NNFI=.98; GFI= .97.

***Impact of socio-cultural psychic distance***

The CFA for impact of socio-cultural psychic distance is presented in Figure 6.4. The model shows acceptable level of fit.

Appendix figure: 6.4. Confirmatory factor analysis for impact of socio-cultural psychic distance- British companies



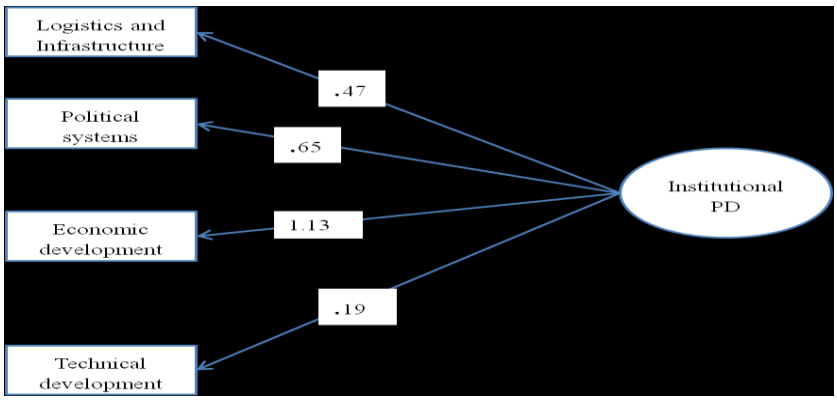

Overall Model Fit Indices: CFI= .96; RMR= 0.02; NFI=.95; NNFI=.9; GFI= .96.

## Indian Companies

***Impact of institutional psychic distance***

Confirmatory factor analysis shows acceptable level of fit and factor loadings (figure 6.5). The standardized estimate of economic development is greater than 1 (1.13), which according is Jőreskog (1999) is not problematic. He observed that structural coefficients can be greater than 1 in scale in the standardized solution.

Appendix figure: 6.5. Confirmatory factor analysis for impact of institutional psychic distance- Indian companies

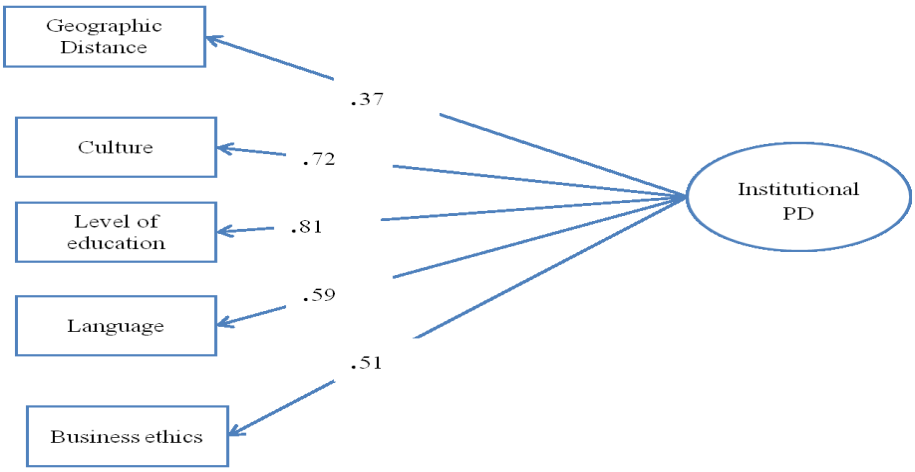



Overall Model Fit Indices: $\chi 2$ (2) = 4.38, p > .05; CFI= .98; RMR= 0.02; NNFI=.95; GFI= .98; NFI .96.

***Impact of socio-cultural psychic distance***

The confirmatory factor analysis for socio-cultural psychic distance shows a clustering of 5 items (figure 6.6). The model shows acceptable level of fit.

Appendix figure: 6.6. Confirmatory factor analysis for impact of socio-cultural psychic distance- Indian companies




Overall Model Fit Indices: $\chi 2$ (5) = 4.9, p > .05; CFI= 1.00; RMSEA = 0.00; RMR= 0.01; NNFI=1.00; GFI= .98.

# Appendix 7: Role of ICT in internationalisation

## Introduction

It has a great influence in the internationalization of companies, especially in their initial stages. Studies show that along with factors such as network; managers' international orientation and other resources (Coviello & McAuley, 1999; Knight & Cavusgil, 2004; Rialp et al., 2005), ICT also acts as a strong influencing factor for the internationalization of SMEs. ICT facilitates firms' market entry, product and financial transactions (Bell Loane, 2010). Also, it acts as an international sales channel (Arenius, Sasi and Gabrielsson, 2006).

## Importance of ICT facilities

An independent sample t test (table 10.1) was carried out to check the perceptions of decision makers about the importance of ICT facilities in maintaining the business with partners.

Table: 10.1. Independent sample t test on use of different ICT facilities in maintaining business with the UK/India (N =200)

| Importance of ICT facilities to maintain business with partners | Mean | | SE | | t-Value | p-Value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Telephone | 4.68 | 3.42 | .05 | .08 | 13.20(172.56) | .000 |
| Email | 4.77 | 4.97 | .05 | .02 | -3.60(119.57) | .000 |
| Audio conferencing | 3.92 | 4.13 | .08 | .11 | -1.56(185.97) | .122 |
| Video conferencing | 3.04 | 3.91 | .09 | .13 | -5.56(182.58) | .000 |
| Web based product transaction | 3.28 | 4.29 | .12 | .11 | -6.11(198) | .000 |
| Electronic financial transaction | 4.17 | 4.93 | .12 | .03 | -6.121(107.81) | .000 |

The findings show that responses from both countries are similar only on audio conferencing. Indian companies use facilities such as video conferencing, web-based product transaction and financial transaction, more than the UK companies. This supports our qualitative findings that entrepreneurs in Indian companies travel less frequently when compared with their UK counterparts and are dependent more on latest technologies.

**Internal reliability analysis**

*British Companies*

The internal reliability analysis (Cronbach's α) indicated a moderate but acceptable clustering between the 6 items (α = 0.66). So the use of different ICT facilities for British companies will be treated as a single variable for path analysis.

*Indian Companies*

Similar to the British result, the internal reliability analysis (Cronbach's α) indicated a moderate but acceptable clustering between the 6 items (α = 0.64). So the use of different ICT facilities for Indian companies will be treated as a single variable for path analysis.

## Use of ICT facilities

An independent sample t-test (table. 9.11) is conducted to check the difference between the UK and Indian SMEs ICT use.

Table: 9.11. Independent sample t test for ICT use of the UK and Indian companies (N =200)

| Importance of ICT in | Mean | | SE | | t-value | p-value |
|---|---|---|---|---|---|---|
| | UK | India | UK | India | | |
| Customer service | 4.26 | 4.35 | .06 | .06 | -1.00(198) | .318 |
| Communicating with partner | 4.51 | 4.63 | .05 | .05 | -1.59(198) | .113 |
| Supplier relationship | 4.13 | 3.49 | .08 | .09 | 5.45(197.66) | .000 |
| Sales and marketing | 4.37 | 4.14 | .08 | .07 | 2.21(194.07) | .028 |
| Info about foreign market | 4.27 | 4.13 | .07 | .05 | 1.57(175.35) | .119 |
| Product transactions | 4.00 | 4.24 | .09 | .10 | -1.79(194.97) | .075 |
| Financial transactions | 4.39 | 4.91 | .08 | .03 | -5.94(122.58) | .000 |
| Partnership building | 4.00 | 4.19 | .07 | .06 | -2.12(197.34) | .035 |

Degrees of freedom values are in parenthesis.

The use of ICT in activities such as supplier relationship, sales and marketing, financial transactions, and partnership building shows differences between the UK and Indian responses. The Indian companies use ICT less than the UK companies for supplier relationship (UK =4.13, India = 3.49), and sales and marketing (UK = 4.37, India = 4.14). In contrast, Indian companies use ICT more in activities such as financial transactions (UK = 4.39, India = 4.91) and partnership building (UK = 4.00, India = 4.19). This is because only 45 (15 manufacturing and 30 service sector companies) Indian companies have sales in domestic market whereas all Indian companies included in the study have sales in the UK. On the other hand, the UK findings show that only 55 companies are selling their products in India. This made us to assume that Indian companies depend on their partner in the UK for sales and marketing activities. That also reflected in high mean value for partnership building. This supports our qualitative findings that Indian companies depend on their partners' in the UK for sales and marketing activities. Moreover, they use ICT more than their counterparts in the UK to build their relationship with their partner. It is mainly because they believe that it was the easiest and cheapest option available to them. These companies use electronic

financial transaction to receive their payments, which is the main reason for high mean value for financial transactions for Indian companies.

**Internal reliability analysis**

*British Companies*

The internal reliability analysis (Cronbach's α) indicated a good clustering between the 8 items (α = 0.85). The Cronbach's alpha if item deleted indicate that none of the items here would increase the reliability if they were deleted because all values in this column are less than the overall reliability of 0.85. Nonetheless, the overall alpha value of 0.85 indicates good reliability.

*Indian companies*

A Cronbach's alpha reliability analysis was conducted to check the internal reliability of ICT usage of Indian companies. The alpha value for all 8 items was very weak (0.56), which is below the acceptable minimum. So a factor analysis is conducted to see if the items can be grouped into more than one category.

## Conclusion

The Indian companies use advanced ICT facilities such as product transaction, financial transaction, video conferencing and audio conferencing more than the UK companies. It is mainly because Indian companies are more like a production hub of their UK counterparts. So they not only depend on ICT for transfer of information, but also for financial and product-related transactions. ICT facilities will be treated as a single variable in any further analysis.

The results on the use of ICT revealed that the UK SMEs use ICT more than Indian companies in communicating with suppliers, customers or collecting market related information. However, Indian companies use ICT more to deal with their partners, for product transaction, financial transaction and communicating with partners.

# Appendix: 8 Common method bias

## Procedural remedy

**(1) Ensuring respondent anonymity and reducing evaluation apprehension:**

According to Podsakoff, MacKenzie, Lee and Podsakoff (2003), in order to reduce people's evaluation apprehension and decrease their tendency to make the response more socially desirable and lenient, respondents' answers were to be made anonymous and they were to be assured that there were no right or wrong answers. We have assured these issues in our covering letter. Besides, all questions on respondents' personal details were optional.

**(2) Improving scale items**

Podsakoff et al. (2003) mentioned that method biases can be reduced through careful construction of items. As mentioned in section 5.7.1.2, we took special care in developing our questionnaire, which is based on previous literature and the empirical results of our initial case study research. Also, we conducted an initial pilot study with 3 British and Indian companies to ensure the measures are consistent with the research questions and approach. The measures were revised based on their feedback and also in discussion with two experts.

**(3) Reducing item ambiguity:**

Careful selection of items' wording is important to reduce the items' ambiguity. We carefully avoided vague and technical terms to ensure that the questions are simple. For example, we used perceived difference instead of psychic distance and information management instead of learning capability. Also, as mentioned earlier, our pilot study and feedback from academic experts in the area helped identify and eliminate ambiguous words.

## Statistical remedy

### (1) Harman's single factor test

Harman's single factor test is one of the most widely used techniques to address the common method bias. Researchers using this method load all the variables in an exploratory factor analysis and examine the unrotated factor solution to determine the number of factors that are necessary to account for the variance in the variables (Podsakoff et al., 2003). They assumed that if a substantial amount of common method bias exists, either (a) a single factor will emerge or (b) one general factor will account for the majority of the covariance among the measures. Our unrotated principal component analysis for the British companies showed three factors with Eigenvalues greater than 1.0, which together accounted for 70 percent of the total variance. The largest factor accounted for only 37 percent of the total variance. Similarly, Indian data also showed three factors with Eigenvalues greater than 1.0 that together accounted for 69 percent. The largest factor accounted for only 36 percent of the total variance.

## Appendix: 9 Non-response bias

Appendix table: 9.1. t- test for non-response bias—British companies

| | t-Value(df) | p-Value |
|---|---|---|
| Personal social capital | 0.64(98) | .53 |
| Social capital with partner | -1.88 | .06 |
| Potential learning capability | 0.26 | .80 |
| Realized learning capability | 1.15 | .25 |
| Psychic distance | -1.54 | .13 |
| Impact of Psychic distance | -.75 | .46 |

Appendix table: 9.2. Test for non-response bias—Indian companies

| | t-Value(df) | p-Value |
|---|---|---|
| Personal social capital | -.39 (98) | .697 |
| Social capital with partner | -.20(98) | .842 |
| Potential learning capability | 1.15(98) | .254 |
| Realized learning capability | -.95(98) | .343 |
| Psychic distance | 1.78(98) | .079 |
| Impact of Psychic distance | .16(98) | .871 |

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