

## **Antecedents of Export Performance of Small and Medium Scale Enterprises (SMEs) In Sri Lanka: The Role of Entrepreneur Behavior and Experience and the Moderation Role of Industry Context**

**D. M. Mudalige**

Lecturer

Department of Management of Technology

University of Moratuwa, Sri Lanka

Email: [dharshanadm@uom.lk](mailto:धारशानादम@uom.lk)

### **Abstract**

*A number of scholarly researchers have explored the benefits of engaging in international activities in increasing sustainability of SME sector. However, SMEs offer a poor contribution to export income of Sri Lanka compared to other countries. Although research has shown that the entrepreneur characteristics are associated with enhanced export success, past research has failed to identify the entrepreneur characteristics that are most influential in SME export success in Sri Lankan context. Much of the research in Sri Lanka has focused on external or institutional factors and barriers for exports with little attention to entrepreneur behaviour. Few studies have focused on studying internal barriers and export success. This study aimed to fill this research gap by testing the relationship between entrepreneur characteristics and export performance from a capabilities perspective. This study argues that entrepreneurial orientation, social capital and human capital are important capabilities of the entrepreneur which lead to successful export performance. These capabilities are known to play a synergic and complementary role which allows the entrepreneur to develop a dynamic stance that is essential in the international market. This research followed quantitative research methodology using non-disguised questionnaire. A randomly selected sample of 197 export SMEs in Sri Lanka was analyzed. The results were analyzed using Partial Least Squares Structured Equation Modelling (PLS-SEM) method. This study established that entrepreneur capabilities namely entrepreneurial orientation, social capital and human capital have a significant positive influence on the export performance of SMEs. Further, using Multi-Group Analysis (MGA), it was found, that industry context which the SME operates has a moderation effect on the relationship. The outcome of this research will enhance our understanding of success factors of SME export performance.*

**Key words:** *Entrepreneurship, Export Performance, Human Capital, SME, Social Capital.*

## **Introduction**

### **Background**

Small and Medium-sized Enterprises (SMEs) make up over 95% of businesses worldwide and 50 to 60% of global employment (Organization for Economic Co-operation and Development, 2015). Beck, Demirguc-Kunt and Levine (2005) argued that SMEs enhance economic growth in market driven economies to a significant extent. Empirical research has emphasized the need to develop a high performing SME sector in order to promote the economic and social development of any country (Dalberg, 2011; Omar, Arokiasamy & Ismail, 2009; Griffin & Ebert, 2006). Around 45% of total employment is provided by formal SME sector in developing countries (World Bank, 2015). In many developing countries, informal SMEs far outnumber formal enterprises (International Labor Organization, 2015). Once an informal sector is included in the statistics, SME involvement in an economy is as high as 60-70% of value added to GDP and accounts for 80% total employment across countries of all income level countries (International Labor Organization, 2015).

From a social development perspective, SMEs give strong support to the economies facing the issues of unemployment and uneven income distribution (Fatoki, 2014; Subhan, Mehmood, & Sattar, 2013). Reduction of relative poverty through the more equal distribution of wealth is a well-established advantage of a strong SME sector (Dasanayaka, 2011). SMEs provide both developed and emerging economies some relief from the vicious circle of poverty (Dasanayaka & Sardana, 2011). Hence SMEs are also seen as useful in promoting social unity. It is believed that poverty alleviation can be partly achieved through more employment generation (Vijayakumar, 2013) and SMEs play a significant role in generating

employment (Parker, 2012). SMEs also improve employment of women and a solution to gradually increasing old age population who are looking for work (Paunovi & Prebe, 2010).

A survey revealed that the survival rate of the SMEs in Sri Lanka after 5 years from the date of inception is as low as 4.9% (Fernando, 2001). Gunarathne, (2008) emphasized that a majority of small businesses have moderate to low growth ambitions and hence only a small proportion of businesses was capable of achieving the desired employment growth. Further, World Bank highlighted that within 8 years of receiving a Small and Medium Investment loan to SMEs in Sri Lanka, more than 80% of the SMEs which received the loan perished (Task Force for SME Sector Development Program, 2002). It can be noted that although high failure rates of SMEs limit the ability of SMEs in the generation of employment and participation in economic growth all over the world, this matter is more severe in Si Lanka where sustainability of SME is comparatively very less.

Due to the absence of a universally agreed definition and lack of formal and reliable industry surveys/studies, it is not possible to do a direct comparison of SME contribution to national economies in the South Asian region. However, it can be clearly noted from Table 1 that contribution of SMEs to exports in Sri Lanka is meagre.

Table 1 - Contribution of SMEs to Exports across Few Countries

<b>Country</b>	<b>Input to exports, %</b>
Malaysia	26
India	40
China	42
Japan	14
Sri Lanka	5
Indonesia	17

*Source: World Bank (2015) and Verite Research (2015)*

**Research Problem**

Looking at the contribution of SMEs to Sri Lankan exports closely, in spite of the increased strategic significance of internationalisation initiatives for the SMEs, there is still an insufficient level of commitment to adopting internationalisation practices among SMEs. In this regard, only 3157 SMEs are listed in Export Development Board (EDB) as exporters out of more than million number of establishments. Furthermore, SME contribution to total exports is around 5% although SMEs account for 82% of registered exporters of the country. SME export structure is quite concentrated, both in terms of product composition and export destinations over the last three decades (EDB, 2014). This makes the SME exports of Sri Lanka highly vulnerable to the crisis in few exporting regions and industry sectors. Sri Lankan SME exports are composed mainly of primary goods with technologically stagnant production practices that could be copied by competitors easily (e.g. Sri Lanka's share in high-tech exports averages at 1.8% compared to 75% in Korea, 27% in Thailand and over 50% in Singapore and Malaysia) (Kelegama, 2013). SME exports are highly reliant on low-cost advantage, and tariff concessions which are being gradually abolished by developed countries and other low-cost destinations are becoming preferred by foreign investors (Wijesinha, 2010). Furthermore, all internationalised SMEs in Sri Lanka are confined to a single mode of internationalisation which is exporting, not contributing to the outward FDI at all.

Past research conclusively prove that internationalization provides a multitude of benefits for SMEs including better survival prospects (Lee et al., 2012), increased revenue and growth (USITC, 2010; EU, 2010), better innovative capability (Kalinic & Forza, 2012) and improved productivity

and competitiveness (Achtenhagen, 2011; Coviello, Oviatt & McDougall, 2011) compared to non-internationalized SMEs. It is accepted that internationalisation is beneficial for firms and leads to better performance and growth (Xuemei, 2011).

Given this plight of the insufficient contribution of SMEs to export revenue of Sri Lanka and their unique issues in export structure, it has become necessary to understand the factors that contribute to SME internationalisation from a fresh perspective.

This research used the definition of Export Development Board of Sri Lanka which defines export SMEs as “Enterprises having an annual export turnover less than Rs.150 million in a given year”. However, in order to increase comparability of research, this research will impose additional criterion for definition. The number of full-time employees working in the organisation should be equal or below 250 at the time of research.

### **Influence of entrepreneur orientation (EO), social capital (SC) and human capital (HC) of entrepreneur on SME internationalization**

Recent literature suggests that contemporary SME internationalisation is not associated with traditional factors such as financial assets, physical assets or infrastructure. Instead, successful internationalisation seems to be associated with directly unobservable owner and firm internal capabilities (Teece, 2014; Pangerl, 2013). Accordingly, internal capabilities of internationalised SMEs must be more amplified and leveraged than those of a firm with a less ambitious, purely domestic SME (Teece, 2014).

Past research literature suggests that during the early stages of firm development, owner characteristics play a pivotal role in export performance than firm characteristics (Knight, 2001). The effect of each EO, SC and HC of entrepreneur has been tested in SME internationalisation literature, but none of them has attempted to identify the link and the synergic effect of them. This research argues that inconsistencies and contradictory outcomes related to SME internationalisation research tested with EO, HC and SC are attributed to the fact that each variable is only a component of a composite variable named “Owner Specific Capabilities” (OSC).

According to Basly (2007), the internationalisation knowledge is positively affecting the internationalisation. Social capital also had an impact on internationalisation but through the mediation effect of international knowledge. According to a study by Nkongolo-Bakenda, Anderson, Ito and Garven (2010) international experience of the owner, innovation, networks affect SME internationalisation.

As per a research carried out by Chandra, Styles & Wilkinson (2006), entrepreneur prior knowledge and social networks act as “a knowledge corridor” allowing the entrepreneur to identify international business opportunities. Networks supported the internationalisation process by providing information (in a subtle way they also replenish poor prior knowledge), reducing perceived risks and providing resources. They offer a counter argument with International New Ventures (INV) view stating that before the rapid internationalisation process, there exists a process of opportunity development which is shaped by entrepreneur experience and

networks (Chandra, Styles & Wilkinson, 2012). They argue that both human capital and social capital are important to reap benefits of internationalisation.

Nichter and Goldmark (2005) observe that the entrepreneurs in developing countries have to be more creative than in the developed countries if they are to overcome obstacles such as dysfunctional legal and financial systems, distorted markets, and unequal access to resources. Due to the uncondusive macro-economic factors, the impact of owner specific characteristics plays a major role in the determination of SME internationalisation and performance in developing countries. According to Kusumawardhani, Mccarthy, & Perera (2009), EO is not sufficient to enter international markets for SMEs in developing countries where they rely a great deal on networks.

The term “reasonable chance of failure” needs further discussion at this point. The question is what facilitates entrepreneurs to identify ventures of “reasonable chance of failure”? This research argues that the entrepreneur education, experience and networks actually act as precedence to help the entrepreneur to identify such ventures in international expansion and evaluate the riskiness. Also according to international entrepreneurship theories which focus on entrepreneurial characteristics of the decision maker do not imply that decision to internationalise and subsequent performance are as a result of uncalculated and uneducated risks taken by the decision maker. It is assumed that entrepreneurs “always” learn and their cognitive knowledge is an important input for entrepreneurial activities (Thorpe et al., 2005). The actors in the entrepreneur network will also provide valuable input and feedback on entrepreneurial decisions. The

basic idea is that entrepreneurial orientation will be less beneficial without the support of intense networks and cognition ability.

In an article that explores how market knowledge develops over time in INVs, Hanell et al. (2014) find out that impact of EO of the entrepreneur changes during internationalisation process. During the later stages of development, the firms rely more on learned lessons become less entrepreneurial. However, entrepreneur experience is crucial for the firm's initial international development (Andersson, 2011). Recent evidence confirms that entrepreneur entrepreneurial behaviour changes with time. In a longitudinal study, Oxtorp (2014) states that entrepreneur adapts of its managerial processes to stable operations rather than entrepreneurial search and choice of markets with time lapse. At this stage greater trust is put on his/her experience in making decisions. This further strengthens the argument of this research that a composite of the variables that were previously tested in isolation actually gives the dynamic posture to the SME internationalisation.

Hormiga, Batista-Canino and Sánchez-Medina (2010) acknowledged the key role of the human and relational capital in the beginning years of the business to become successful not only in the international market but in local market also. Similarly, Welbourne and Pardo-del-Val (2008) argue that human capital per se cannot give much advantage in SME context in the absence of relational capital. Denicolai, Zucchella & Strange (2014) suggest that it is necessary to balance knowledge assets with complementary assets in order to achieve a higher degree of international performance. In other words, if international experience is not supported



by other assets such as relational or entrepreneurial behaviour, higher internationalisation is unlikely.

A study by Hsu, Chen and Cheng (2015) argues that either entrepreneurs or directors with human and social capital provide firms with strategic advice and adequate resources for internationalisation, thereby increasing firm willingness to internationalise. Also, the same research found that international experience of entrepreneurs/directors is positively related to internationalisation. This confirms that both human and social capital provide the resources necessary for successful internationalisation.

Zhang et al. (2015) found that entrepreneurship behaviour and network ties have a joint effect on internationalisation of Chinese firms. The extent of ties has a moderating effect on the link between entrepreneurial orientation and internationalisation. Although they measure entrepreneurial orientation at the firm level, the same effect could be assumed to present in individual level also.

Lately, realising the interplay between EO and SC, more researchers have opted to study this two variable together or see the intervening effect of these two (Gunawan, Jacob & Duysters, 2015). Felzensztein, Ciravegna, Robson and Amoros (2015) identified the positive role of both these variables in explaining internationalisation. Earlier, Ruzzier, Hisrich, & Antoncic (2006), had proposed a conceptual framework which linked both entrepreneurs human and social capital to SME internationalisation.

In attempting to understand the success of SMEs, many researchers in Sri Lanka focused on the external growth constraints generally without

specifying the owner specific factors and firm-specific factors (Nishantha, 2010). The Little empirical study has been conducted in Sri Lanka linking owner specific characteristics to SME internationalisation. Wickremesooriya (2011) researched top management characteristics, EO and learning orientation with the internationalization of SMEs in Sri Lanka. This research posits that in a dynamic environment such as international business, higher order capabilities become more important. The possession of these higher order capabilities is manifested fully when the both owner specific factors and firm-specific factors are taken together rather than in isolation. The research of Wickremasooriya (2011) assumes that entrepreneur characteristics and firm characteristics have a synergic effect in that when the SME possess the right orientation, it will have the capability to renew, reconfigure and recreate resources, capabilities and core capabilities in the volatile international environment.

### **Entrepreneurial orientation (EO)**

Entrepreneurial Orientation refers to the “processes, practices and decision-making activities that lead to new entry” (Lumpkin & Dess, 1996). Later Lumpkin (2006) restated that EO is a “strategic orientation that characterises the strategy making behaviours that entrepreneurs engage in to discover and exploit opportunities”. Entrepreneurial orientation was defined as “the combination of a firm’s innovativeness, proactiveness, and risk-taking” (Miller, 1983).

Knight and Cavusgil (2004) suggest that entrepreneurial orientation, technological leadership and the strategies of differentiation are the key drivers for superior international performance in Born Globals. According

to research done by Jantunen et al., (2005), EO and resource reconfiguration capacity have a profound effect in internationalisation.

According to the explanation of INVs (McDougall, 1994) and international entrepreneurship (George & Zahra, 2002), it is theoretically appropriate to state that EO should be a predictor of internationalisation of SMEs. Oddly, the effect of EO on firm internationalisation has proved fairly inconsistent. The inconsistency may arise due to the fact that benefits of EO may take many years to come to the realization (Madsen, 2007). However, further research has been called to understand these inconsistencies.

### **Social capital of the entrepreneur**

Social capital is defined as “naturally occurring relationships to promote or aid the development of valued skills or characteristics” (Loury as cited in Bosma et al., 2000). Hoang and Antoncic (2003), in their review of the role of networks, defined a network as “a set of actors and some set of relationships that link them.”

Empirical evidence on the effect of networks on internationalisation is limited (Ciravegna, Lopez, & Kundu, 2013). According to various scholars, networks contribute to indirect learning which is about studying the behaviour of the other similar organisations (Johanson & Vahlne, 2003). Networks allow organisations to link to diverse sources of information even in the conditions of lack of deliberate search and lack of entrepreneurial orientation. External networks with suppliers and customers are a major contributor to international performance (Yeoh, 2004).

According to research by Colovic & Lamotte (2014), networks are more important for SMEs in internationalisation as they have little resources and they also act as a substitute for less internationally experienced entrepreneurs. Many researchers in the field of small business growth found that there is a positive relationship between social capital and venture success (Bosma et al., 2004). It has been found that the technological capability and the international networks of owner-managers increase their chances of internationalisation. As per Musteen, Datta, & Francis, (2014), international networks enables early internationalisation, but the relationship is moderated by technological innovation and perceived environmental hostility. The development of idiosyncratic (i.e. unique) capabilities and getting access to new resources through meagre SME capital and experience may take a long time and extra effort in a dynamic market. A resolution to this challenge is to develop business relations described by personal contacts and trust that may give access to complementary resources (Borch & Madsen, 2007).

Higher stocks of social capital in the form of domestic networks (Manolova et al., 2010) and through return migration or former work experience in multinational corporations (MNCs) may also serve as a valuable and difficult-to-imitate resource for internationalisation (Kocak & Abimbola, 2009). However, some research has noted that social capital tends to decline over time and needs to be replenished. Thus, expanding the SME's stocks of social capital is equally important for emerging economy SME internationalisation as is the exploitation existing stocks of social capital (Prashantham & Dhanaraj, 2010)

In a recent to confirm the effect of networks on internationalisation Musteen, Datta, & Butts (2014) states that SMEs with CEOs who had developed strong and diverse international networks displayed better knowledge of international markets earlier to internationalisation and this knowledge was instrumental in internationalisation. This was confirmed by many other researchers who viewed networks as a main enabler of internationalisation especially to identify opportunities, easy access to resources and reduce the liability of foreignness (Zahra et al., 2005). It helps to accumulate the knowledge required for early internationalisation by which similar firms with less networking capacity rely on time-consuming experimental knowledge build-up (Monferrer et al., 2014). Manolova et al. (2010) observed that personal networking in a domestic setting was related to a higher portion of foreign sales.

Many authors have argued about the “causal ambiguity” of social capital (Portes, 1998). Accordingly, social capital seems to be characterised by “unspecified obligations, uncertain time and violates reciprocity expectations” (Portes, 1998). In other words, it is very difficult to imitate advantages gained through social ties due to these ambiguities. Networks have the potential to reduce cost, risk, achieve economies of scale and reduce new product development time (Lawson & Samson, 2001). It also increases access to opportunities and resources in the environment such as capital, information and goods and services (Gulati, Nohria & Zaheer, 2000).

### **Human capital of the entrepreneur**

Following work started by Cohen and Levinthal (1990), a number of scholars have found that a firm’s ability to recognise and acquire new

information is dependent on their absorptive capacity, or the prior knowledge and experience of the team or firm. For instance, if a firm or the entrepreneur has experience in foreign markets, it may be able to recognise the value of institutional knowledge and acquire this knowledge for its international projects more easily.

Human capital was defined as “the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic wellbeing” (OECD, 2001). According to Bollen, Vergauwen, & Schnieders (2005), Human Capital “. . . includes raw intelligence, skills, and expertise of the human actors in the organisations” which resides inside employees.

The major difference between international entrepreneurship theory and traditional gradualist theories is that international entrepreneurship assumes that the characteristics of the entrepreneur such as entrepreneurial orientation and past experience influence firm internationalisation whereas gradualist theory focus on organisational learning after inception. Scholars have found that knowledge acquired through international experience in diverse markets increases internationalisation and firm performance (Blomstermo et al., 2004). Researchers have studied how certain owner-manager characteristics such as human capital are related to SME internationalisation (Small & Growth, 2010).

According to De Clercq et al. (2012), the individual knowledge can act as a substitute for organisational knowledge in the learning curve, allowing the organisation to internationalise rapidly. According to Evers (2011), the mental model which acts as an intermediating force between push and pull factors is largely shaped by owner orientation and experience. According

to Kamakura, Ramón-Jerónimo, & Vecino Gravel (2011), human capital and managerial ties overseas appear as key factors in the internationalisation process. According to research by Fernández-Ortiz & Lombardo (2009), top management characteristics influence international diversification of SMEs. International experience was positively correlated to the international diversification. International exposure and networks were found to have a substitute effect on the ability to internationalise (Fernhaber & Li, 2013). According to Javalgi and Todd (2011), human capital (i.e., education and international experience) has a major impact on internationalisation. Higher levels of education, maturity and experience of the owner, especially on the international stage, tend to promote the development of strategies or action plans able to support the international activity (Mason, 2009).

According to Hsu, Chen, & Cheng (2013), CEO attribute such as age, experience and education level play a moderating role in the much arguably internationalization-performance relationship. He argues that since expanding into international business is a complex task; managers attempt to “reduce cognitive effort using heuristics and cognitive schemas to integrate pieces of information into a single judgment”, which is largely influenced by entrepreneur human capital. The literature states that export intensity is positively influenced by manager international experience (Suarez-Ortega & Alamo-Vera, 2005). Successful internationalisation largely depends on whether the SME founder has previous experience with a foreign trade or whether it actively searches for market information before the expansion into the foreign market (Toulova et al., 2015).

Preceding international experience and knowledge top managers affects the internationalization since it can partially substitute the lack of firm level experience in internationalization. Huber (1991) proposes that new firms do not start with a zero state of knowledge but they receive the skills and experiences of founders. In addition, prior experience may also provide access to networks and positional advantages (previous know-how and probably even the access of distribution channels, suppliers etc.) in the industry based on prior status, trust and reputation of the founder. It also helps the firm to borrow best practice in internationalization to the firm without costly organizational experiments. Shane (2000) argued that discovery of new opportunities is related to prior knowledge and experience. Discovery of new opportunities involves recognizing the value of new information and those entrepreneurs with previous experience will capitalize on the new opportunity sooner than those who are required to search such knowledge to assess the opportunity (Lecler & Kinghorn, 2014).

### **Internationalization intensity**

Internationalisation is the extent of international activities of a firm. McDougall and Oviatt (2000) defined it as “combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations”. Internationalisation supports SMEs to achieve growth, competitiveness and superior performance (Votoupalova, Toulova, & Kubickova, 2015). Internationalisation is a multi-dimensional concept (Lu & Beamish, 2001). Many researchers have mentioned that it is imperative for future research to assess Degree Of Internationalization (DOI) in a multidimensional manner which is a major research gap in internationalisation literature (Papadopoulos & Martín, 2010).



The majority of past studies measured internationalisation based on a percentage of sales generated from foreign markets (FS/TS) or its derivatives according to a review by Baldegger & Schueffel (2008). The measurement of FS/TS has its own disadvantages if used alone. Firstly, it does not imply export success (i.e. not the return on export commitment). Secondly, it is highly sensitive to sales volume (numerator) and currency fluctuations. In extreme cases, a firm can record higher export intensity yet a lower volume of exports. Even with the wide agreement on multi-dimensionality in internationalisation, only 39% of the studies in the period from 1995-2005 used more than one dimension (Hult et al. 2008).

### **Methodology**

In consideration of the objectives of the study and the phenomenon itself, a positivistic paradigm was considered appropriate. The survey research strategy was used to collect primary data from SME owners/managers in Sri Lanka through administering structured questionnaires. The population of this study was all SMEs (defined as firms which derive less than Rs 150 million from international revenue per year and those firms which have less than 250 full-time employees) which are engaged in any type of international trade activities. To empirically test the developed framework, primary data were gathered using the survey questionnaire method and questionnaires were distributed to randomly selected SMEs involved in exporting. The sampling frame used was the annual register of exporters published by Export Development Board of Sri Lanka. Questionnaires were personally administered by visiting the organisation. 197 responses were collected.

This research adopted the scale developed by Bolton & Lane (2012) to measure entrepreneurial orientation. This research used a measurement scale which is developed, validated and tested recently to measure social capital (Che Senik et al., 2011). Ratio scale was used to measure the number of months in international experience following Ciszewska-Mlinari (2003) to measure human capital. This research used three dimensions used by Sapienza, De Clercq, & Sandberg (2005) which include FS/TS, the percentage of employees that spend a significant time in international activities and the geographical scope of foreign sales which represents scale, structure and scope aspects of internationalisation respectively.

## **Results**

On average SMEs in the sample had conducted business for close to 20 years at the time of the survey. This shows the sustainability of the SMEs engaged in exports is higher compared to locally oriented SMEs. The maximum time taken to enter the international market was 35 years while 46% of the organisations were internationalised from the inception. 49.7% of the SMEs were under the category of Private Limited Companies while sole trading accounted for 35% and partnerships accounted for 15.2%. There were no public limited companies in the tested sample.

Out of 197, 139 SMEs (70.6%) were involved in manufacturing while 30% and 28% were involved in retail/wholesale business or service business. The manufacturing sector had the largest composition in the sample. But this representation is to be expected given that services sector still contribute about 10% of export value in Sri Lanka (EDB, 2015). On average, 71.5% of the sales income of the SMEs was attributed to foreign

sales in the sample. The minimum foreign income to total income ratio was 2% while 42 SMEs were fully internationalised.

### **Reliability and Validity Analysis of the Scales**

Reliability of the construct was confirmed as all Cronbach's alpha values exceeded the threshold value of 0.7 for all construct items (Nunnally, 1978).

Table 2 - Reliability Statistics for the Scales

<b>Construct</b>	<b>N of Items</b>	<b>Reliability Statistics - Cronbach's Alpha</b>
EO	9	0.935
SC	7	0.813

The normality was tested by Shapiro-Wilk test, and all items in all constructs were significant indicating non-normal distribution. However, PLS-SEM is robust against non-normal data (Hair et al., 2010). As dynamic capabilities view is a recent theoretical advance, still most of the past research is conceptual or qualitative. Covariance Based-SEM techniques are better suited for theory testing while PLS is better suited for theory development (Tobias, 1995). Hence PLS-SEM was selected for testing of the structural model.

Exploratory Factor Analysis (EFA) was conducted for all constructs. An indicator to measure innovation in entrepreneurial orientations scale loaded unexpectedly on proactive dimension and was removed before further analysis. An indicator of social capital scale loaded on two factors. So it was removed before further analysis following suggestions of Hair et

al. (2010). After verifying that scales represent the underlying latent factors properly, SMARTPLS was used to test the measurement model. One indicator in social capital measurement was dropped due to low loadings and insignificance ( $p > 0.05$  level) (Hair et. al., 2010).

Under the measurement model, the internal consistency of measurement or reliability was assessed at two levels, namely item reliability and composite reliability where both reliability values must be greater than 0.7 (Nusair & Hua, 2010). Bagozzi and Yi (1988) and Fornell and Larcker (1981) stated that if AVE is greater than 0.5 that is a necessary condition for the convergent validity of the instrument. All AVEs are above 0.5, and composite reliabilities are above 0.7

Table 3 - Cronbach Alpha, Composite Reliability and Communality

<b>Variable</b>	<b>AVE</b>	<b>Alpha</b>	<b>CR</b>
HC	1.000	1.000	1.000
EO	0.665	0.927	0.940
SC	0.503	0.753	0.798

The existence of discriminant validity was assessed by comparing square root of AVE of each construct with its correlation with other constructs in the model as shown in Table 4 (Fornell & Larcker, 1981).

Table 4 - Fornell and Larcker Criterion for Discriminant Validity

	<b>EO</b>	<b>HC</b>	<b>SC</b>
<b>EO</b>	<b>0.8159</b>		
<b>HC</b>	-0.0669	<b>1.0000</b>	
<b>SC</b>	0.5408	0.0014	<b>0.7097</b>

### Testing of Structural Path

The result of the bootstrapping is given in Table 5. It shows that the path OSC>INT is significant at 0.01 level.

Table 5 - Summary of Structural Model Testing

Path	Path Coefficient	Std Error	t value	Significance at 95% confidence interval
OSC>INT	0.698	0.041	16.96	Sig at 0.01 level

It was found that owner specific capabilities explain about 49% of the variance in internationalisation. The SMARTPLS output is given in Figure 1.

### Multi-group analysis

The multi-group analysis is a special case of moderation in which the moderating variable is categorical rather than ratio or interval (Henseler, 2012). As per the guidance of Chin (2000), two-step approach can be adopted to test multi-group analysis in PLS-SEM. First, both subpopulations parameters are estimated using standard algorithm. Then an unpaired sample t-test is conducted to check whether there is a significant difference between two group-specific parameters. One minor limitation of this method is that it gives optimum results if two empirical bootstrap distributions are normal (Henseler, 2012). The sample was tested for major differences in significance values and path coefficients due to the influence of industry context in OSC constructs. The direct relationship was tested. The method follows the suggestions of Chin (2000).

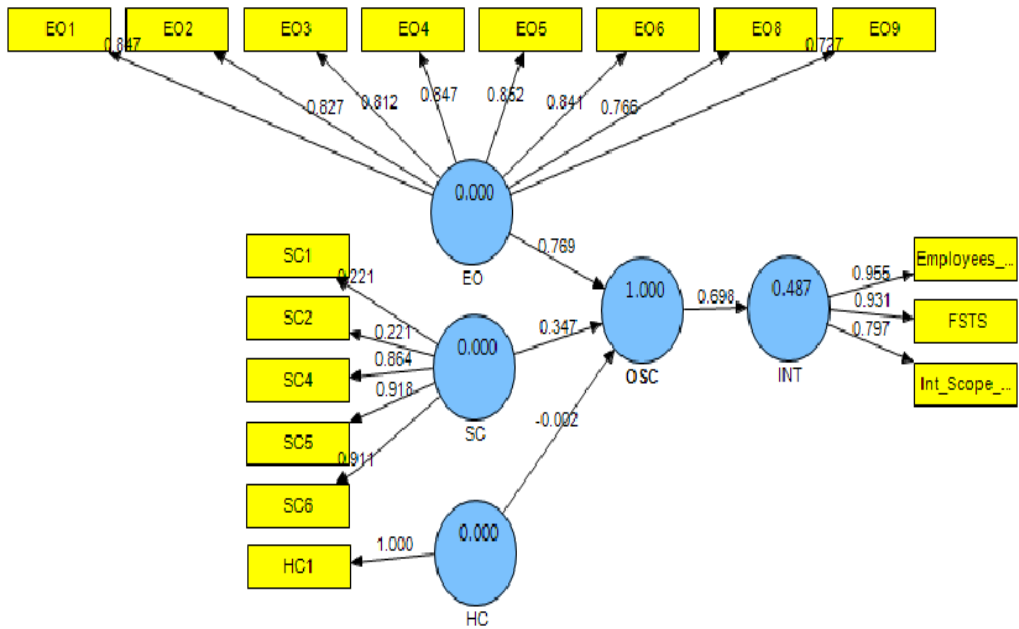


Figure 1 – The visual output for SMARTPLS algorithm

It can be seen from that in traditional industries EO>INT path is significant, but in non-traditional industries, it is not significant (beta value has changed from 0.4714 to 0.1133). Similarly, beta value of SC>INT path has increased to 0.6779 in non-traditional industry context from 0.4230 in the traditional industry context. HC>INT path is not significant in traditional industries but significant in non-traditional industries although the increase in beta value is small compared to other two cases (i.e. increased to 0.10 in non-traditional industry context from 0.03 in traditional industry context). For confirmation t-statistic was calculated following Chin (2000). According to t-statistics, the difference was significant at 0.01 level for EO-INT relationship, the difference was significant at 0.05 level for SC-INT relationship, and the difference was insignificant at 0.05 level for an HC-INT relationship.

## **Discussion**

This research used the new construct named owner specific capabilities which were formed by EO, SC and HC variables to explain internationalisation. The three dimensions of this construct are tested earlier in internationalisation literature, and hence the following discussion is on how these findings fit in with the previous findings.

This research finds that EO is a major determinant of internationalisation with a combination of other variables. This is in line with the large majority of the past research carried out. (Deligianni, Dimitratos, Petrou & Aharoni, 2015; Zhang et al., 2015; Baba, 2011; Javalgi & Todd, 2011; Evers, 2011(b); Lan & Wu, 2010; Fouda, 2007; De Clercq, Sapienza, & Crijns, 2005; Jantunen et al., 2005; Knight & Cavusgil, 2004; Balabanis & Katsikea, 2003; Knight, 2000).

Contradictory outcomes are also reported in the previous research stating that either EO does not significantly affect internationalisation or only a few dimensions have a significant effect (Hosseini, 2013; Zhang, Ma & Wang, 2012; Mika et. al., 2011; Frishammar & Andersson, 2008; Morgan & Strong, 2003). This may be due to the fact that entrepreneurial behaviour is time-dependent.

This research is in compliance with voluminous literature which have stated that there is a significant positive relationship between social capital<sup>7</sup> and internationalization (Milanov & Fernhaber, 2014; Ngoma & Ntale, 2014; Chen, 2013; Fernhaber & Li, 2012; Ciravegna, Lopez & Kundu, 2012; Rodrigues & Child, 2012; Xiao, Ma & Wang, 2012; Torkkeli, Puumalainen, Saarenketo & Kuivalainen, 2012; Che-Senik,

Scott-Lad, Entekin & Adham, 2011; Loane & Bell, 2006; Sharma & Blomstermo, 2003).

In contrast, Andersen (2012) finds a negative relationship with the extent of social capital and international performance while a study by Masciarelli (2009) found inverted U relationship between social capital and degree of internationalisation. The above, contrary results can be explained by expounding the negative role of excessive social ties. Having social ties concentrated in few countries can bring about “rigidity” to the firm inhibiting further international diversification which is known as “over-embeddedness” (Balboni, Bortoluzzi, & Vianelli, 2014).

A multitude of past research studies conclude that international experience of the owner (or the board in some research) is a significant predictor of internationalization (Toulova, Votoupalova & Kubickova, 2015; Navarro-García, Schmidt & Rey-Moreno, 2015; Lecler & Kinghorn, 2014; Fernhaber & Li, 2013; Kamakura, Ramon-Jeronimo & Vecino-Gravel, 2011; Javalgi & Todd, 2011; Fernandez-Ortiz & Lombardo, 2009; Mason, 2009; Chandra et al., 2006; Suarez-Ortega & Alamo-Vera, 2005).

### **Research implications**

According to recent literature, the main contributory factors for competitive advantage in an international environment are those internal to the organisation (Pangerl, 2013). This research enhanced theoretical understanding of how owner specific factors influence SME internationalisation. The policy makers and SME managers need to support entrepreneurial/innovative cultures of SMEs. Empowerment of employees, less formal control, performance-based rewards, recognition



for new initiatives, open door policies, etc. can inculcate such an entrepreneurial and dynamic culture within the firm. The government should restructure the higher education system and professional education system in such a way to nurture entrepreneurship spirit, international mindset and creativity. Entrepreneurial and innovative organisational culture, dense and strong network relationships and international experience are necessary to develop dynamic capabilities and thus become a successful SME in the export market.

Future researchers are suggested to compare and contrast the tentative model across industry contexts, large and small organisations and countries.

### **Conclusion**

This research found that owner specific capabilities namely entrepreneurial orientation, social capital and human capital positively influence SME export performance in Sri Lanka. The outcome of this research will enhance our understanding of success factors of SME export performance and provide insights for policy makers and SME managers in Sri Lanka. It was also revealed that entrepreneurial orientation and social capital of entrepreneur are influencing the export performance of SMEs in different magnitudes in different industry contexts.

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