



# INTERNATIONALIZATION AS A DRIVER OF SMEs' PERFORMANCE: THE CASE OF INDIAN SMEs

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## ABSTRACT

*The purpose of this study is to discuss and explore the significance of relationship between internationalization of SMEs in emerging markets and their performance with a special reference to Indian SMEs. Using concepts derived from the international business and entrepreneurship literatures, we develop four hypotheses that relate the overseas sales, profitability, productivity, and market share to the corporate performance of internationalizing SMEs. Using a sample of 122 Indian SMEs to test these hypotheses, we find that Majority of the Indian SMEs in this study generated higher profit margin in foreign markets followed by the domestic market. However, reported business performance indicates that total sales of goods and services, profitability and productivity decreased to some extent while there is an increase in the market share. However, when compared the firms that internationalized versus non-internationalized there is no significance in any of these outcome variables.*

**KEY WORDS:** *India – SMEs – Internationalization – Performance*

## 1.INTRODUCTION

In every region, SMEs are in evidence. They make a huge contribution to GDP and employment. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a critical component of India's growth story over the last five decades. Making significant contributions to GDP, employment and exports. MSME sector contributes 37% to India GDP, 43-45% to the overall exports and also contribute significantly to the generation of employment in the country, employing nearly 80-100 million people (Government of India, 2018).

SMES in India need to internationalise to improve the performance of the economy. However, lack of technology deployment, stringent policies, are barrier for gaining competitiveness in the global market (Deveshwar, 2014; Mishra & Jain, 2014). Factors like flexibility, adaptability of prices depending on the fluctuations, willingness to take risks influences Indian SMEs in foreign markets (Bishnoi, 2015).

With the information collected from 122 Indian SMEs during the period October – December, 2018, we examined the relationship between the internationalization of SMEs and their performance.

## 2.LITERATURE REVIEW

### 2.1 SMEs' Internationalization

Welch and Luostarinen, (1988) proposed a broader view of internationalization involving both the inward and outward international activities of a firm. Internationalization was thus defined as "the process of increasing involvement in international operations". This definition encompasses the two sides of internationalization, inward internationalization being seen as "a mirror image of the outward process"

Growth by international diversification is an important strategic option for both small and large firms (Lu & Beamish, 2001). Yet, to date, little is known about the effects of internationalization on SMEs' performance (Covin & DP, 1991; McDougall & Oviatt, 1996; Coviello & McAuley, 1999). Managers are ultimately concerned with whether such entrepreneurial strategies can lead to higher performance and how their firms can become more competitive when expanding geographically (Lu & Beamish, 2001). Several previous studies indicate that higher levels of international diversification lead to higher firm performance (Daniels & Bracker, 1989; Grant, 1987; Kim, Hwang, & Burgers, 1993; Tallman, 1996)

For the purpose of expanding globally, there is a requirement for cognizing the internationalization of the SMEs. Hajela and Akbar, (2013) studied the Indian SMEs' performance by analysing the effect of internationalization.

They research observe that the international experience is having a weak relation to the performance of the SME; but it is substantially related to the location scope.

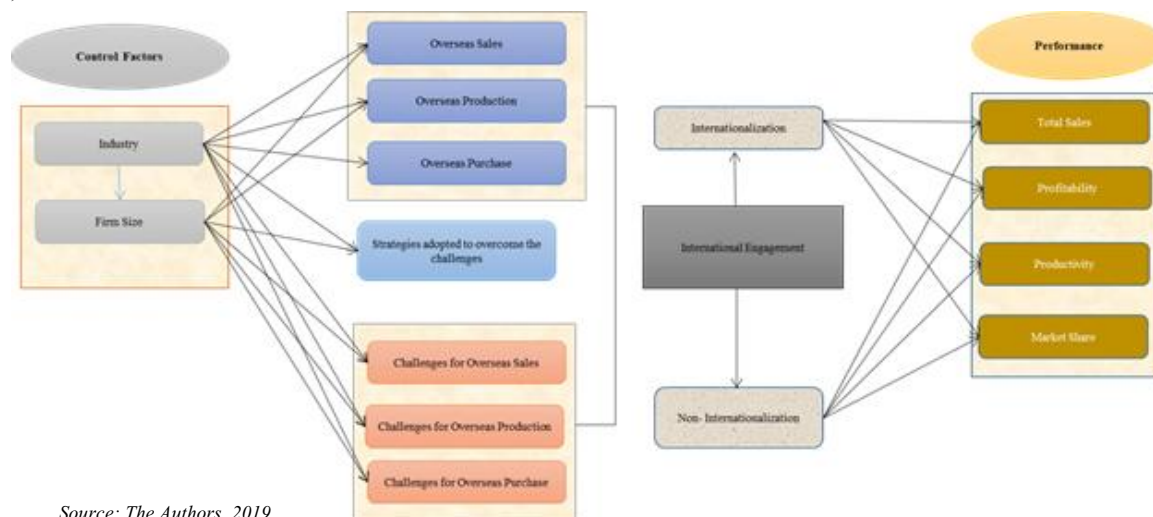
Hilmersson and Johanson (2016) studies the efficiency and performance, which are the consequences due to the fast pace approach of the internationalization of the SMEs and find that the speed of a firm's growth in the breadth of its international markets has a positive but curvilinear effect on the firms' performance. It also demonstrates that the speed of a firm's growth in commitment with foreign resources has a negative but curvilinear effect on the performance of the firm (Hilmersson & Johanson, 2016).

Several authors including have been discussing the influence of internationalization on the organization's performance and competitiveness. A number of authors including Nkongolo, (2010) suggest that the internationalization pave way to success and better performance with regard to some SMEs; for few other SMEs it would suffice to stay local and function only in regional market. On the other hand, some authors (Pangarkar, 2008) view the SME internationalization and its performance as something positive. Pangarkar (2008) motivates SMEs to engage in internalization since he opines that the advantages of SME internalization are more than it disadvantages and also suggests that the SMEs' performance sees a rise with progressing participation in internationalization. However, the success of SMEs with regard to internationalization is impacted by several factors including motivating forces, and barriers to internationalization (Korsakien & Tvaronavi ien , 2011; Votupalova & Toulouva, 2015).

This study address these issues by exploring the significance of relationship between internationalization and firm performance with special reference to the Indian SMEs.

## 2.2 Firm performance

Firm performance refers to the level of success of the firm. SMEs could internationalize to seek rapid growth that can be measured in firm performance through export sales (Bradley & O'Reagain, 2001). The previous studies on SMEs' internationalization shows that financial success in initial exporting activities motivates small firms to internationalize in subsequent periods. Firms agreed that sales, profit and growth would be important factors to their internationalization. This shows that internationalization will help firms to achieve financial success (Burpitt & Rondinelli, 2000).



Source: The Authors, 2019

This study used quantitative components of financial performance as well as non-financial performance suggested by many research. In this study the annual change in sales, profit, productivity, and market share for the internationalized and non-internationalized companies to measure performance. The participants were asked to report the change on the above mentioned parameters in the current year compared to the previous year. The change is indicated as Increase, decrease, stay the same, or do not know.

## 2.3 Research objective and Hypotheses

The aim of this study is to explore the relationship between internationalization of SMEs in emerging market with the evidence from MSME sector in India. For this, the study posted this research question: Is there a relationship between international engagement of SMEs in Egypt & India and their performance?

For the purpose of fulfilling the objective and answer the research question of this study, the following research hypotheses are formulated as null and alternative hypothesis for each variable:

$H_{01}$ : There is no association between internationalization and company's sales performance.

$H_{11}$ : There is an association between internationalization and company's sales performance.

$H_{02}$ : There is no association between internationalization and company's profitability performance.

$H_{12}$ : There is an association between internationalization and company's profitability performance.

$H_{03}$ : There is no association between internationalization and company's productivity performance.

$H_{13}$ : There is an association between internationalization and company's productivity performance.

$H_{04}$ : There is no association between internationalization and company's market share performance.

$H_{14}$ : There is an association between internationalization and company's market share performance.

## 2.4 Research Model

Based on the above discussion, the research model for this paper was extracted from a wider research framework as depicted in Figure 01

### 3.METHODOLOGY

#### 3.1 Research Method

Exploratory research design helps in the understanding and identification of certain phenomenon within the classification of research questions in order to have a clear concept for the result of this research (Saunders, Lewis, & Thornhill, 2012). Descriptive type of research collects, evaluates and summarizes the information available about the problems of research (Punch, 2000). This research process ensures the complete evaluation of the research problems so that the research questions can be solved and measured with ease (Dane, 1990). This study adopts a descriptive quantitative design methodology that suits the research purpose and better answer the research questions.

#### 3.2 Sampling

The population for the study is defined to be SMEs from India that is registered in major cities that represent Manufacturing, Agriculture, and Service sector. The sample has been selected to participate in the study applying Simple random sampling technique. A sampling frame list is developed from multiple sources that include Export Promotion Councils of respective industries, Chambers of Industry and Commerce, SMEs' Associations in India, and Dun and Bradstreet database. A screening criteria that include registration, size, sector, location, and contact information are the minimum requirements to qualify the company to be included in the frame list. The original sample size was 350 companies and 122 questionnaire returned complete with a response rate of 34.8% after repeated follow-up.

#### 3.3 Data collection

The data is collect during the period October – December 2019. The data source is primary data that the researcher collected using a structured self-completion online questionnaire with the help of 'Survey Monkey' platform. The researcher used The 'Survey Monkey' platform facilitate sending the questionnaire link to the participants via email and social media apps like LinkedIn and WhatsApp to make the questionnaire handy and maximize the response rate. Reminders are sent to the companies who did not returned the complete questionnaire after two weeks through email, social media, and phone urging them to complete the questionnaire.

##### 4.1.1 Firm Size

**Table 01: Firm size: Frequency of annual turnover**

	Frequency (n)	Percentage (%)
Rs5 Crore - Rs75 Crore (Small)	81	66.4
Rs75 Crore - Rs250 Crore (Medium)	41	33.6
<b>Total</b>	<b>122</b>	<b>100.0</b>

Table 01 depicts the firm size according to annual turnover. Maximum (66.4%) of the company annual turnover is between Rs 5 Crore - Rs75 Crore (Small) while 33.6 percent

The study also used multiple secondary data sources that includes published journals, books, newspapers, conference reports, thesis, company reports, and government reports literature review.

#### 3.4 Data Analysis

This study applies descriptive and inferential statistics methods for the data analysis utilizing the suitable statistical tools for analyzing categorical data like frequency tables, contingency tables, and Chi-square Test.

The date is collected using Survey Monkey was exported in CSV format and imported to SPSS for further analysis. The data was screened, categorized and tabulated to get the best results possible through the statistical analysis. Frequency, percentage, and contingency analysis were conducted to describe and summarize the data in comprehensive and meaningful way. Furthermore, Chi-square analysis was conducted to examine the association between the variables.

#### 3.5 Limitations

The source of data to senior level executives for the data to be more authentic. However, the validation of the primary data remains limited to the interviewed executive that belongs to the top management who are supposed to be the experts in the industry and have full access authority to the financial and strategic information of their companies that is considered as confidential information.

### 4.FINDINGS

This section presents the findings of the study based on the survey data and the descriptive and inferential analysis. The data first exported from the Survey Monkey platform in CSV format and then and imported to SPSS 20.0 version. Thus, using SPSS software, the current study results analyzed.

#### 4.1 Descriptive statistics

In this section, we will present the results of the descriptive analysis for the distribution of the firm size, industries represented in the study, the internationalization status of the company, and finally, the company growth strategy as a driver of internationalization based on the frequency and percentage analysis. The data is presented in a frequency table and further interpreted to identify the trends.

of the company annual turnover is between Rs 75 Crore – Rs 250 Crore (Medium).

#### 4.1.2 Industry representation in the study

**Table 02: Frequency of industry representation in the study**

	Frequency (n)	Percentage (%)
<b>Manufacturing</b>		
Food & Beverage	22	18.0
Engineering & Machinery, Electrical & Electronic Products	17	13.9
Chemicals & Pharmaceuticals	10	8.2
Textile, Apparels, Leather, Footwear	7	5.7
Furniture, Rubber & Rubber Products, Plastics & Plastic Products	5	4.1
<b>Agriculture</b>		
IT & IT Enabled Services	19	15.6
Fresh Fruits & Vegetables	7	5.7
Aromatic & Medicinal Plants, Herbs & Spices	5	4.1
<b>Services</b>		
Import & Export	23	18.9
Wholesale & Trade	7	5.7
<b>Total</b>	<b>122</b>	<b>100.0</b>

Table 02 depicts the principal industry of the organization. Maximum 18.9 percent of the respondents stated that Import & Export is the principal industry of organization followed by, 15.6 percent of the respondents stated that IT & IT Enabled Services, 18 percent of the respondents stated that Food & Beverage, 5.7 percent of the

respondents stated that Textile, Apparels, Leather, Footwear, Fresh Fruits & Vegetables, 4.1 percent of the respondents stated that Aromatic & Medicinal Plants, Herbs & Spices. From the findings, it is evident that import and export in the services industry along with food and beverage under manufacturing industry respected the study.

#### 4.1.3 Company's internationalization status

**Table 03: Frequency of company internationalization status**

	Frequency (n)	Percentage (%)
Currently Internationalized Firms	99	81.1
Not Currently Internationalized Firms	23	18.9
<b>Total</b>	<b>122</b>	<b>100.0</b>

Table 03 depicts the Indian SMEs' international engagement status through overseas sales. Maximum (81.1%) of the respondents have stated that company has generated

overseas revenues from international sales in the last 3 years and 18.9 percent of the respondents have stated that they have never generated overseas revenues.

#### 4.1.4 Company growth strategy as a driver of internationalization

**Table 04: Drivers of Indian SMEs' internationalization**

	Yes	No
	(n=116)	
Strategic decision to grow the existing business into new markets	89 (76.7)	27 (23.3)
To obtain cost savings from the increasing volume of sales	42 (36.2)	74 (63.8)
New Business Contacts or alliances have opened up new market opportunities	41 (35.3)	75 (64.7)
Able to obtain higher prices overseas	35 (30.2)	81 (69.8)
New technologies have opened up new market opportunities	30 (25.9)	86 (74.1)
The reached maximum potential of the domestic market	17 (14.7)	99 (85.3)
No domestic markets for goods or services	9 (7.8)	107 (92.2)
Existing India clients moved offshore	3 (2.6)	113 (97.4)
Other (please specify)	2 (1.7)	114 (98.3)

Table 4 shows the factors that motivate the company to consider expansion in the selected markets. Majority (76.7%) of the respondents stated that "Strategic decision to grow existing business into new markets" followed by, 36.2 percent of the respondents stated that "To obtain cost savings from increasing volume of sales", 35.3 percent of the respondents stated that "New Business Contacts or alliances have opened

up new market opportunities", 30.2 percent of the respondents stated "Able to obtain higher prices overseas", 25.9 percent of the respondents stated "New technologies have opened up new market opportunities", 14.7 percent of the respondents stated "reached maximum potential of domestic market", and 7.8 percent of the respondents stated that "no domestic markets for goods or services".

4.1.5 Share of export sales out of the total company sales

Table 05: Share of export sales out of the total company sales

	Frequency (n)	Percentage (%)
Less than 25%	29	23.8
25 - 49%	34	27.9
50 - 74%	14	11.5
75 - 100%	22	18.0
<b>Total</b>	<b>99</b>	<b>81.1</b>
Missing	23	18.9
<b>Total</b>	<b>122</b>	<b>100.0</b>

Table 4-5 depicts the average revenue share of overseas sales out of total annual revenues. Maximum (27.9%) of the company's revenue share of overseas sales is 25-49%, 23.8 percent of the company's revenue share of overseas sales is less than 25%, 18 percent of the company's revenue share of overseas sales is 75-100% and 11.5 percent of the company's revenue share of overseas sales is 50-74%. Overall, 50 percent of the revenue share is from overseas sales while at the same 28 percent had less than 25 percent of them.

4.2 Inferential Statistics

To test the hypotheses, Chi-Square Test is conducted and the p value is calculated to examine the relationship between the study variables using the survey data.

4.2.1 Hypothesis one

$H_{01}$ : There is no association between internationalization and company's sales performance.

$H_{11}$ : There is an association between internationalization and company's sales performance.

Table 06 presents the Chi-Square test and the calculated p value results as follows:

Table 06: Association between internationalization and company's sales performance

Internationalization Status	Total sales of goods and services			Total	Chi-Square (p value)
	Decreased	Stayed the same	increased		
Currently internationalized	65 (65.6)	15 (15.2)	19 (19.2)	<b>99 (81.1)</b>	0.131 (0.936)
Not currently internationalized	16 (69.6)	3 (13.0)	4 (17.4)	<b>23 (18.9)</b>	
<b>Total</b>	<b>81 (66.4)</b>	<b>18 (14.8)</b>	<b>33 (18.9)</b>	<b>122 (100.0)</b>	

Table 06 compares the total sales of patterns of companies, internationalized vs non-internationalized. From the analysis, it is observed that, out of 99 internationalized companies, almost 66 percent of them revealed that total sales found to be decreased. Surprisingly, for one third (19.2%) of companies, the total sales found to be increased. Only one-

fourth of companies (15.2%) revealed that their total sales remained the same. On the other hand, the trend remained the same in fact the total sales increased comparatively with the non-internationalized firm. Therefore, it is concluded that internationalization status does not have an impact on total sales ( $p > 0.540$ ). Therefore, the hypothesis,

$H_{01}$ : There is no association between internationalized vs non-internationalized firms and total sale is accepted.

4.2.2 Hypothesis two

$H_{02}$ : There is no association between internationalized vs non-internationalized firms and profitability.

$H_{12}$ : There is an association between internationalized vs non-internationalized firms and profitability.

Table 07 presents the Chi-Square test and the calculated p value results as follows:

Table 07: Association between internationalization and company's profitability performance

Internationalization Status	Profitability				Total	Chi-Square (p value)
	Decreased	Stayed the same	increased	Don't Know		
Currently internationalized	48 (48.5)	20 (20.2)	30 (30.3)	1 (1.0)	<b>99 (81.1)</b>	5.550 (0.136)
Not currently internationalized	8 (34.8)	6 (26.1)	7 (30.4)	2 (8.7)	<b>23 (18.9)</b>	
<b>Total</b>	<b>56 (45.9)</b>	<b>26 (21.3)</b>	<b>37 (30.3)</b>	<b>3 (2.5)</b>	<b>122 (100.0)</b>	

Table 07 compares the profitability of patterns of companies, internationalized vs non-internationalized. From the analysis, it is observed that, out of 99, internationalized companies, almost 49 percent of them revealed that profitability found to be decreased. Surprisingly, for one third (30.3%) of companies, the profitability found to be increased.

Only one-fourth of companies (20.2%) revealed that their profitability remained the same. On the other hand, the trend remained the same; in fact the profitability increased comparatively with the non-internationalized firm. Therefore, it is concluded that internationalization status does not have an impact on profitability ( $p > 0.136$ ). Therefore, the hypothesis,

$H_{02}$ : There is no association between internationalized vs non-internationalized firms and profitability is accepted.

### 4.2.3 Hypothesis three

$H_{03}$ : There is no association between internationalized vs non-internationalized firms and productivity.

$H_{13}$ : There is an association between internationalized vs non-internationalized firms and productivity.

Table 08 presents the Chi-Square test and the calculated p value results as follows:

**Table 08: Association between internationalization and company's productivity performance**

Internationalization Status	Productivity				Total	Chi-Square (p value)
	Decreased	Stayed the same	increased	Don't Know		
Currently internationalized	47 (47.5)	17 (17.2)	34 (34.3)	1 (1.0)	99 (81.1)	7.827 (0.050*)
Not currently internationalized	4 (17.4)	5 (21.7)	14 (60.9)	0 (0.0)	23 (18.9)	
<b>Total</b>	<b>56 (41.8)</b>	<b>22 (18.0)</b>	<b>48 (39.3)</b>	<b>1 (0.8)</b>	<b>122 (100.0)</b>	

\*p<0.05

Table 08 compares the productivity pattern companies, internationalized vs non-internationalized. From the outcomes, it is observed that, out of 99 internationalized companies, almost 48 percent of them revealed that productivity found to be decreased. Surprisingly, for one third (34.3%) of companies, the productivity found to be increased.

Only one-fourth of companies (20.2%) revealed that their productivity remained the same. On the other hand, the trend remained the same in fact the productivity increased comparatively with the non-internationalized firm. Therefore, it is concluded that internationalization status has an impact on productivity (p<0.050). Therefore, the hypothesis,

$H_{13}$ : There is an association between internationalized vs non-internationalized firms and productivity is accepted.

### 4.2.4 Hypothesis four

$H_{04}$ : There is no association between internationalized vs non-internationalized firms and productivity.

$H_{14}$ : There is an association between internationalized vs non-internationalized firms and productivity.

Table 09 presents the Chi-Square test and the calculated p value results as follows:

**Table 09: Association between internationalization and company's market share performance**

Internationalization Status	Market share				Total	Chi-Square (p value)
	Decreased	Stayed the same	Increased	Don't Know		
Currently internationalized	33 (33.3)	16 (16.2)	33 (33.3)	17 (17.2)	99 (81.1)	1.683 (0.641)
Not currently internationalized	5 (21.7)	3 (13.0)	10 (43.5)	5 (21.7)	23 (18.9)	
<b>Total</b>	<b>38 (31.1)</b>	<b>19 (15.6)</b>	<b>43 (35.2)</b>	<b>22 (18.0)</b>	<b>122 (100.0)</b>	

Table 09 compares the market share patterns of companies, internationalized vs non-internationalized. From the analysis, it is observed that, out of 99, internationalized companies, almost 33.3 percent of them revealed that market

share found to be decreased as well as increased the same. Only one-fourth of companies (16.2%) revealed that their market share remained the same. Therefore, it is concluded that internationalization status does not have an impact on market share (p>0.136). Therefore, the hypothesis,

$H_{04}$ : There is no association between internationalized vs non-internationalized firms and productivity is accepted.

## 5. CONCLUSION

Majority of the Indian SMEs in this study generated higher profit margin in foreign markets followed by domestic the domestic market. However, reported business performance indicates that total sales of goods or services, profitability and productivity decreased to some extent while there is an increase in the market share. However, when compared the firms that internationalized versus non-internationalized there is no significance in any of these outcome variables.

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