Owner Specific Factors, Firm Specific Factors, Internationalisation and Performance of SMEs in Sri Lanka: A Conceptual Framework

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Abstract

As SMEs are internationalising at a faster rate today, theories that can explain SME internationalisation and performance are of extreme importance. At present there is no agreement among scholars on a single theoretical framework on SME internationalisation and performance. The literature suggested that contemporary firm performance is not associated with traditional factors. However, firm internationalisation and SME performance seem to be directly associated with unobservable owner and firm factors. However the literature indicated that past research does not conclusively prove the complex impact of owner or firm specific factors on SME internationalisation and performance. To fill this research gap, a conceptual framework that explains the relationship between internationalisation and performance was developed based on internationalisation, entrepreneurship, and organisational learning theories. Owner specific factors and firm specific factors in the conceptual framework are brand orientation, entrepreneurial orientation, and industry context respectively. In addition, this framework expands the scope of study in internationalisation-performance relationship by considering the moderating effect of organisational learning. Five hypotheses were developed to test the relationship between the variables in the conceptual framework. The outcome of this research can enhance the understanding of SME internationalisation process and provide some insights for policy makers, and SME owners and managers.

Keywords: Entrepreneurship orientation, Brand orientation, SME, Internationalisation, Organisational learning

1.0 Introduction

Although research related to international entrepreneurship is at its infancy stage compared with other management disciplines, internationalisation of business is not a new phenomenon. However the scope, scale, and number of organisations that are engaged in international business have increased to a great extent in a very short period of time.

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SMEs all over the world are internationalising at a faster rate today and therefore the theories that can explain internationalisation are of extreme importance more than ever before (Axinn & Matthyssens, 2002). Additionally there is no clear agreement among scholars on a single theoretical framework adequately explaining the SME internationalisation phenomenon (Schulz, Borghoff, & Kraus, 2009; Eisenhardt & Graebner, 2007).

Due to inadequacy of research on internationalisation of SMEs and inconsistent empirical outcomes, there is a call for more empirical research (Lu & Beamish, 2001; Qian, 2002; Aspelund, 2007). More research issues that can be found in past studies on SME internationalisation include too small sample sizes (Chiao, Yang, & Yu, 2006), difficulties in obtaining accurate data, research focus on specific industries (George & Zahra, 2002), and lack of empirical data on developing countries (Zafarullah & Ali, 1998).

The objective of this research was to present a new framework for determining the relationships between selected owner specific and firm specific variables on internationalisation and performance of SMEs. The framework is based on internationalisation, entrepreneurship, and organisational learning theories thereby contributing to the existing body of knowledge on SME internationalisation.
This paper is divided into six sections. The next section will present the background of the study followed by literature review, methodology, and the proposed conceptual model.

2.0 Background

SMEs make up over 90% of businesses worldwide and 50 to 60% of employment (UNIDO, 2002). It is well established in literature that SMEs can enhance growth in market driven economies (Beck, Demirguc-Kunt, & Levine, 2005). In advanced economies in Asia, such as Japan, SMEs account for 99.7% of establishments, 70% of employment, and 50% of the total value addition (Organisation for SME and Regional Innovation, 2012).

Furthermore, SMEs play a key role in social development, as well as playing a significant role in generating employment. It is believed that poverty alleviation can be partly achieved through more employment generation (Vijayakumar, 2013). While scholars agreed that SMEs help to reduce unemployment, the extent of this benefit is at a disagreement (Sleuwaegen & Goedhuys, 2002). Some scholars argued that though SMEs rapidly generate employment, they also rapidly destroy employment (due to the sustainability problem), while larger firms sustain and gradually increase the employment base. For example, World Bank highlighted that within eight years of receiving a Small and Medium Investment (SMI) loan by SMEs in SL, only 20% of these SMEs survived (Task Force, 2002). Shane (2008) showed that after 10 years of establishment, small venture failure rates were found to be up to 70%. However, SMEs are still a great opportunity to improve employment of women and a viable solution to a gradually increasing old age population who are looking for work (Paunovi & Prebe, 2010).

Moreover, SMEs are also considered as vehicles for innovation and technology diffusion (Piech, 2004). SMEs can also be used to initiate a sectorial restructure of the goods and services industries within an economy, which is a dire need of South Asian countries with the stagnation of the industry structure within a few number of low value added products and urban areas (South Asia Economic Summit Proceedings, 2013; Dassanayaka, 2011).

In the meantime, world trade is growing fast, opening up multitude of opportunities for the SME sector to capitalise on. World exports of agricultural products increased by 21% and manufactured goods by 15% in 2011 (WTO report, 2011). As well as being important within economies, small firms are also increasingly active in international markets (Cateora, 2010). In many countries, SMEs contribute to a large percentage of the national export earnings. For example, the SME sector of Sri Lanka contributes to over 70% of the country's export agenda.

2.1 Issues of SMEs in Sri Lanka and in South Asian Region

The lack of reliable studies/industry surveys and non-existence of a generally agreed definition on SMEs make it difficult to assess the overall contribution of SMEs in South Asia to the national or regional economy. The definition of SMEs eludes a widely accepted definition. The technical definition of SMEs varies from country to country in the Asia-Pacific region, but it is usually based on employment, assets, or a combination of the two (Kumar, 2012). The definition is mainly developed to serve a specific purpose of an institution, thus there are many differences of SME definitions across the globe. McAuley (2010) studied definitions of SMEs in past internationalisation research. The majority of studies considered SMEs as any organisation of up to 500 employees, which is in line with USA definition. Six studies defined SMEs as up to 150 employees and another six up to 250 employees. The considerable alert of this finding is on the comparability of SME research. This study will adopt the definition by World Bank (2002) for increased comparability, which defined an SME as an organisation "comprising up to 300 employees and total assets and total sales of up to $15 million".

From ad-hoc surveys carried out by governments, funding agencies, and NGOs, it is believed that SMEs contribute to 97% of the total industrial establishments in South Asia and 70% of the employment (ADB 2004, 2007; Ponnaperuma, 2000). The contribution of SMEs to national output is very low in South Asian countries. For example, Sri Lankan SMEs contribute to only 6% of the total output in the manufacturing sector (Central Bank, 1998), as compared with the average of 15% in other low income countries.

In developing countries, SME performance and productivity are the key issues (Davidsson, 2004). Policy inertia, access to finance (high interest rates and lack of collateral), lack of market information, inadequate infrastructure facilities, and labour regulations had been identified as major constraints for SMEs in Sri Lanka (Task Force, 2002). The low level of technology, lack of technological applications, and absence of technical and management skills have also been identified as important constraints that affect the SMEs' ability to face stiff competition from local and foreign products/services (Dassanayaka, 2011).

Referring to a review article by Aspelund et al. (2007) which analysed 30 articles published in academic journals from 1992-2004, it contained only one study from the Asian context which is on Indian International New Ventures (INV) by Kundu and Kartz (2000). All the others were of non-Asian origin. Similarly after a thorough literature review, it was found that entrepreneurial orientation and internationalisation relationship in South Asian context was published in just one reputed academic journal, which was in the Indian context by Javalgi and Todd (2011). Lack of empirical studies in developing countries during the last two decades places the applicability of the findings of internationalisation studies to developing countries in question (Zafarullah, Ali, & Young, 1998; George & Zahra, 2002; Rygl & Fillis, 2013).

It was observed in past literature that the extent to which internationalisation influences non-financial performance is less evident from past studies. It may be due to the fact that non-financial performance information is not easily obtainable in SMEs. However this creates a void in the SME internationalisation studies as SME performance needs to be analysed in a multi-faceted manner, especially when the leading nature of the non-financial indicators may give indication about the anticipated growth of SMEs.

Stepping into internationalisation can be very risky task given the resource poverty condition of SMEs. Most SMEs face either perceived or actual barriers in stepping into the international market. Given the diverse nature of economic, regulatory, and financial systems of different countries, several scholars had identified country specific barriers in a number of studies. A study by Hashim (2011) identified tariff-duty barriers, competition in foreign markets, and competition from local firms in foreign markets as internationalisation problems for SMEs in Malaysia. The Sri Lankan government has been attempting to minimise internationalisation barriers through focused programmes and incentive schemes. Although such narrowly focused programmes seem sensible in countries where macro-economic variables are conducive for business, in developing countries, SMEs expect the government support in more macroeconomic aspects such as taxation, legislation, interest rates, and etc., and to curb corruption (Galina & Tatyana, 2013). Those in advanced stages of economic reforms require business support infrastructure and investment finance (Smallbone, 2001).

3.0 Literature Survey

This section presents a review of past research literature on SME internationalisation. The literature review on internationalisation and SME performance is presented first, followed by a literature review on owner specific and firm specific factors.

3.1 Internationalisation

Beamish (1990) defined internationalisation as “the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries” (p77). Internationalisation is defined by Gibb (1993) as “the process of increasing involvement in international operations”. Accordingly, it is “the change in the level of international orientation and/or activity over time” (Gibb, 1993). Clearly these definitions resemble the gradualist school of thought implicitly. Also it should be noted that definitions by Beamish (1990) and Gibb (1993) are not restricted only to outward investments (i.e., include imports and countertrade) which is different from the definitions that will be discussed hereafter.

However with the emergence of the field of international entrepreneurship, the scholars adopted different definitions that highlight the entrepreneurship aspect in internationalisation. Zahra and George (2002) defined internationalisation as “the process of creatively discovering and exploiting opportunities that lie outside a firm’s domestic markets in the pursuit of competitive advantage” (p261). A definition that vividly links entrepreneurship with internationalisation was given by McDougall and Oviatt (2000) as “combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations” (p903).

The majority of past studies measured internationalisation based on percentage of sales generated from foreign markets (Foreign Sales (FS)/Total Sales (TS)). Multi-dimensional nature includes scale (FS/TS), scope (e.g., number of markets entered), and time (time to enter international market from inception). Sullivan (1994) created a Degree of Internationalisation index (DOI) that includes structural, market, and product characteristics of international expansion.

However due to difficulties in obtaining data and as most indexed dimensions may not be relevant in the majority of SME contexts, it was rarely used. It is intended to be used with three dimensions, as used by Sapienza, De Clercq, and Sandberg, (2005), which include FS/TS, the percentage of employees that spend a significant time in international activities, and the geographical scope of foreign sales calculated as a single weighted score.

3.2 Internationalisation Theories

Early internationalisation theories were based on the economic rationale. Industrial organisation theory (Hymer, 1960) was based on the logic that overseas operations are more costly and therefore requires offsetting advantages such as imperfections in factor markets. According to Dunning's eclectic explanation (1988), the firm's decision to enter a foreign market and the choice of entry depend on its ownership-specific advantages, internalisation-specific advantages, and location-specific advantages.

Johanson and Vahlne (1977) explained that firms internationalise according to a chain of establishment which is known as the Uppsala model of internationalisation (UM). Firms are assumed to enter markets with least physical distance initially. Accordingly, present business activities are the sources of experience that propels the firm in the establishment chain. Gradualist school of thought focuses on the internal factors of the firm whereas economic theories of internationalisation, such as by Hymer (1960) and Dunning (1988), focus on external factors.

Johanson and Mattsson (1988) proposed a network perspective to the gradualist model. Their explanation was that internationalisation of organisations cannot be studied in isolation and to be analysed in its environment of networks. This would be partially helpful in explaining the rapid and non-gradualist internationalisation of SMEs as the unit of analysis is changed from "isolated firm" to a part of value chain and the reliance of physical distance and experience based learning in explaining internationalisation could be relaxed. Notwithstanding, several scholars constructively criticise the traditional theories of internationalisation.

While Anderson (1993) questioned the gradualist school of internationalisation from a lack of characteristics of an established theory (i.e., lack of boundary conditions and fallibility), Axinn and Matthyssens (2002) highlighted that new business and social environment is not considered in traditional theories.

In a global economy that is fast becoming more culturally homogeneous, the concept of physical distance is questionable. Probably the widest criticism on Uppsala model is being too deterministic (Reid, 1983), origins due to its low attention on entrepreneur and shareholder influence in the internationalisation process.

Recently many scholars present the argument that internationalisation is associated with and explainable by entrepreneurship theories and related the phenomenon of rapidly internationalising new ventures (INV) to entrepreneurship (Oviatt & Mcdougall, 1994; George and Zahra, 2002; Lu & Beamish, 2001). Oviatt and McDougall (1994) defined INV as "a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries".

3.3 SME Organisational Performance

There is little agreement among scholars on definition, dimensions, and measurement of organisational performance (Santos & Brito, 2012). Škrinjar, Bosilj-Vukšic, and Indihar-Štemberger (2008) defined organisational performance as "comprising of the actual output or results of an organisation as measured against its intended outputs: goals and objectives", while Moullin (2003) defined an organisation's performance as "how well the organisation is managed" and "the value the organisation delivers for customers and other stakeholders". The definition by Moullin (2003) was selected for this study, because it emphasised the multi-faceted perspective of performance, which was adopted in this study.

SME organisational performance is the main indicator of its ability to survive and sustain in business. Some scholars pointed out that organisational performance is the ultimate variable of interest to managers and researchers, and also the most common dependent variable in organisational research (Boyd, Gove, & Hitt, 2005). In contrast to the profit maximisation theory, the stakeholder theory proposed by Freeman (1984) suggested that the organisations have an obligation toward all stakeholders and thereby their perspectives need to be acknowledged in the organisation performance measure (Baba, 2011). According to Barney (1991) since organisations are heterogeneous in resources, capabilities and the way organisations use them, performance should also be judged in a multi-perspective manner.

SME performance has several dimensions. A comprehensive measurement should take into account a range of performance measurements, not relying on a single indicator. It was revealed by Basly (2007) that family businesses tend to remain small due to owner's preference for more control. In such cases, using a single financial indicator such as sales growth would be misleading. In other words, what is meant by "performance" in SME context may not be the same as in large firms. Strong profitability may or may not be an important objective for a new venture, which is trying to establish a grip in a market (Mcdougall & Oviatt, 1996). Confronted with great uncertainty, International New Ventures (INVs) focus on establishing a market position, and reaching potential customers by educating them and developing relationships, which consume resources thereby decreasing profitability. However they are critical to sustainability and survival (Mudambi & Zahra, 2007). It was found that SMEs place more weight on liquidity (debt) and customer satisfaction in measuring performance (Richard & Johnson, 2009). It has been recommended to include non-financial dimensions to measure SME performance (Hughes & Morgan, 2007).

Subjective scales are widely used in SME internationalisation research. This may be because of issues of accuracy (Beal, 2000). There are several concerns in using subjective scales in research to measure performance. They can easily give bias results based on recent events (Tversky & Kahneman, 1973) and can be susceptible to the halo effect (Richard & Johnson, 2009). The objective measures are not free from criticism either. Accounting and market performance measures are the common and readily available objective means of measuring organisational performance. Accounting and market measures can give a non-representative view of past performance as they can be easily distorted by inappropriate accounting policies (e.g., Enron scandal), error, and deception. Weinzimmer et al. (1998) as cited in Moreno and Casillas (2008) recommended the use of both subjective and objective measures.

Table 1

Summary of Recent Studies on Effect of SME Internationalisation on Firm Performance

Researcher(s)	Context	Variables	Nature of Study	Major Findings
Beamish & Lu (2001)	164 Japanese SMES	IV – FDIDV – Return On Sales (ROS) and Return On Assets (ROA)	Quantitative	Depend on the level of FDI
Chiao, Yang, & Yu (2006)	1419 Taiwan SMEs	IV - Export Sales/Total SalesDV – ROS	Quantitative	U-Shaped effect on performance
Chelliah, Sulaiman, & Yusoff (2010)	77 SMEs in Malaysia	IV – DOIDV – Average ROI,ROS,ROA	Quantitative	Significant relationship between internationalisation and performance
Zhou, Aiqi, & Bradley (2012)	300 managers in China	IV – Time of entryDV – International growth	Quantitative	Early market entry enhances a venture's international growth

The results of past studies carried out with the expectation of realising a consistent relationship between internationalisation and performance failed. The reported outcomes ranged from positive linear (Zahra et al., 2000; Annavarjula et al., 2005), negative linear (Michel & Shaked, 1986), not significant relationship (Dunning, 1985), U-Curve (Lu & Beamish, 2001; Ruigrok & Wagner, 2003), inverted U (Gomes & Ramaswamy, 1999; Li & Qian, 2005), and more. A review by Hennart (2007) questioned the rationale of expecting a link in the first place, pointing out that there is no theoretical support to expect a relationship.

This research aimed at filling a research gap that focuses upon the lack of attention to the impact of SME internationalisation on non-financial indicators in past literature by implementing non-financial gains into the study which claim great importance in the Asian social context, such as employee satisfaction. This research evaluated SME performance based on Erikson's (2002) scale using sales growth, customer satisfaction, market share, and profitability, while non-financial dimensions of employee commitment and satisfaction, (Matzler & Renzl, 2007) and social reputation were included.

H1 – Internationalisation significantly influences SME performance

3.4 Owner Specific Factors

3.4.1 Theory of Entrepreneurship

The initial definition of entrepreneurship that can be traced in literature runs back for more than two centuries. Since then, different definitions have been offered for entrepreneurship, which resemble risk taking, capturing opportunity, and change orientation. Baba (2011) cited Schumpeter's (1934) classical definition of entrepreneurs, as innovators who create new industries, thus playing the role of changing the structure of the economy. Stokes and Wilson (2006) defined entrepreneurship as "a process of change, whereby the outcome of change is not known until the entire change process has been completed". These definitions of entrepreneurship are broadly applicable whether it is in the business context or otherwise.

Entrepreneurship was defined in more focused context of business and management as well. According to Lumpkin and Dess (1996), entrepreneurship is an act of deciding what markets to enter and how. Stevenson and Jarillo (1990) defined entrepreneurship as the "identification and pursuit of opportunity regardless of current resources of the firm". This definition places entrepreneurship as an organisational phenomenon (Brown, Davidsson, & Wiklund, 2001).

Internationalisation and entrepreneurship were considered to be on separate paths with no interconnection until the seminal work of Oviatt and McDougall (1994). After several re-definitions, international entrepreneurship, which is a combination of international business and entrepreneurship, was defined by Oviatt and Mcdougall (2005) as the "discovery, enactment, evaluation, and exploitation of opportunities across borders".

3.4.2 Entrepreneurial Orientation

Past research literature suggested that during the early stages of firm development, owner characteristics play a pivotal role in export performance more than firm characteristics (Kundu & Kartz, 2001; Knight, 2001)

Entrepreneurial Orientation (EO) of the founder/owner is a critical factor in internationalisation studies. EO refers to the "processes, practices and decision-making activities that lead to new entry" (Lumpkin & Dess, 1996). It was revealed in past studies that when firms have less number of employees, the internationalisation initiative is often suggested and initiated by the entrepreneur. This is mainly due to the strong position of the entrepreneur in SMEs (Holmquist, 1996).

According to the explanation of INVs (McDougall, 1994) and international entrepreneurship (George & Zahra, 2002), it is rational to state that EO could be a valid predictor of internationalisation of SMEs. Oddly, the effect of EO on firm internationalisation has proven fairly inconsistent. Table 2 summarises recent published research in different contexts and clearly articulates the inconsistencies. It is evident from Table 2 that EO and SME internationalisation is a greatly understudied variable in developing countries.

H2 – Entrepreneurial orientation significantly influences internationalisation

Table 2

Recent Past Research Findings Involving EO as Independent Variables

Researcher(s)	**Context**	**Variables**	**Nature of Study**	**Major Findings**
Zhang, Ma, & Wang (2012)	117 Chinese SMEs	EO	Quantitative	Different dimensions of EO exert different levels of influence
Mika, Niina, Kaisu, & Sami (2011)	High tech SMEs in Finland	EO and Market Orientation (MO)	Mixed	Some aspects of MO affect SME internationalisation
Baba (2011)	101 SMEs in Malaysia	EO	Quantitative	Some components of EO have impact
Javalgi & Todd (2011)	150 Indian High Tech SMEs	EO	Quantitative	Strong link between EO and internationalisation
Natasha (2011)	Two new ventures	EO, Dynamic capability	Case Study	Dynamic capability of entrepreneurs, EO and external relationships determine the success in export activities
Johan & Svante (2011)	188 SMEs in Sweden	MO and EO	Quantitative	Both MO and EO have little effect on international performance
Melia, Perez, & Dobon (2010)	105 Spanish SMEs	Innovation orientation	Quantitative	Innovation orientation accelerates the time taken to internationalise
Meliá et al. (2008)	Service sector	Innovation orientation	Qualitative	Innovation orientation accelerates the time taken to internationalise
Jantunen et al. (2005)	217 Finnish companies	EO	Quantitative	No relationship between EO and international performance

3.5 Firm Specific factors

While owner specific factors re lated to SME internationalisation were extensively studied in contemporary literature, firm specific factors and firm environment have been understudied. This is mainly due to the fact that with the popularisation of entrepreneurship theories to explain internationalisation, SME internationalisation phenomenon was understood in relation to the powerful position and characteristics of the entrepreneur.

3.5.1 Brand Orientation

Branding in SMEs has been a relatively new area of study and branding among SMEs is still at early stages (Daud & Ghani, 2013; Ahmad, 2009). Abimbola and Vallaster (2007) believed that branding, organisation identity, and reputation are critical ingredients of SME firm success in competitive markets. Bresciani and Eppler (2010) identified branding as a crucial activity for survival of new ventures. Interestingly many firms in emerging countries have started to embrace branding strategy to achieve marketing visibility and efficiency (Mcarthur, 2012).

Brand orientation is defined as "the degree to which the organisation values brands and its practices are oriented towards building brand capabilities" (Bridson & Evans, 2004). In recognising the need to use brands as a basis for competitive advantage, organisations are reaching beyond the traditional MO framework and are developing a brand orientation (Reid, 2005). Although branding and entrepreneurship have been studied by many, the intersection has not been studied to a considerable extent. Bloodgood, Sapienza, and Almeida (1996) reported that internationalisation is higher for firms that emphasise on product differentiation.

Brand orientation could create an improved possibility for successful internationalisation, especially for SMEs in the South Asian region due to several factors. SMEs in particular must rely on their knowledge of specialised, relatively narrow product niches in order to succeed (Schulz et al., 2009). Most SMEs that have internationalised in developing counties develop a niche market segment by highlighting unique attributes of the product. High cost of labour and energy precludes the SME sector of South Asia from gaining any cost advantage in industries such as tea, rubber, and textiles.

Therefore in this context where firm advantage is derived through branding (i.e., differentiation), more SMEs are becoming internationalised through brand building and positioning the organisation/product as having good quality, flexibility, green, adopter of fair trade policy, and etc. In contemporary international business where a great number of SME suppliers are in the fray with low cost products, it is the SMEs who have built the brand name domestically and/or internationally that has a greater advantage to enter and capture the international niche markets. Brand orientation can be measured through scales developed by Wong and Merrilees (2005).

H3 – Brand orientation significantly influences internationalisation

3.5.2 Industry Context

The influence of industry on INV and SME internationalisation is less known and many scholars call for more research on firm and environment specific factors to fill this research gap (Fernhaber, Mcdougall, & Oviart, 2007; Andersson, 2004; George & Zahra, 2002).

SME internationalisation has been extensively studied in high technology industries overlooking other sectors which limit the generalisability of existing SME internationalisation research (Taylor & Jack, 2012). A review by Aspelund et al. (2007) on INV research from 1992 to 2004 indicated that many highly cited prior studies concerned with impact of Internationalisation of INV were on high-tech, knowledge intensive, or service industries.

Although industry environment has received less attention, internationalisation process cannot be studied in isolation from the industry context (Bloodgood 1996). Taylor and Jack (2012) revealed that the industry determines the entry mode in internationalisation.

According to a study by Holmquist (1996), traditional firms adopt a gradual stage approach while innovative firms tend to instantly internationalise using the education, networks, and professionalism of the owner. Furthermore, it was found that traditional firms are more family controlled. The rigidity of the family controlled firms is found to be less conducive for internationalisation (Sciascia, Mazzola, Astrachan, & Pieper, 2010; Floren, 2001; Gallo & Estape, 1992). Bell (1995) pointed out that gradualist models are especially challenged in high technology and service intensive industries.

It is necessary to identify several classifications of industry structures used by past scholars. In line with the seminal article of Mcdougall and Oviatt (1995), seven industrial characteristics were identified that affect the propensity for internationalisation (Fernhaber, Mcdougall, & Oviart, 2007). However the classification of industry as knowledge based or traditional is the most common form of classification in SME internationalisation studies. Knowledge based industry can be defined as “the extent to which industry firms rely on organisational knowledge and learning in order to compete” (Fernhaber, Mcdougall, & Oviart, 2007). As cited in Bell, Crick, and Young (2004), Coviello (1994) defined knowledge-intensive firms as “having a high value added value of scientific knowledge embedded in both products and process”. Traditional industries on the other hand, have neither advanced products nor processes (Bell, 2003). Some previous studies have operationalised knowledge intensity through R&D spending (Autio, 2000). This research used the definition by Coviello (1994) and the instrument developed by Autio (2000) to study the influence of industry structure on SME internationalisation.

Knowledge intensity is a unique resource for internationalisation and a key determinant of foreign location advantage that propels internationalisation (Kobrin, 1991). Autio (2000) argued that because the mobility of knowledge as a resource is high, it fosters the internationalisation of business. The nature of knowledge based industries such as targeting new markets, short window of opportunity, insufficient domestic market, more room for strategic error, and high capabilities of the founder warrants a tendency to internationalise in a rapid manner as compared to traditional industries (George & Zahra, 2002; Mascarenhas, 1995).

Although high technology industries have been researched to a great extent, there is no evidence to decide that INV or rapid internationalisation are confined to this sector (Rialp et al., 2005; Crick et al., 2001). With the aid of networks, it is possible even for traditional SMEs with limited experience to become international rapidly and compete globally instead of following the gradual pattern (Mcdougall & Oviatt, 2005). It is stressed by scholars that INV is not an industry or sector-specific phenomenon and therefore, should not be defined as ventures that implement "cutting edge" technology (Aspelund & Moen, 2001; Knight & Cavusgil, 2004; McDougall et al., 2003).

Notwithstanding the considerable understanding of SME internationalisation, there is still inconsistency between what is observed in practice and what the literature indicates with regard to traditional industries. Recent evidence proved that traditional industries are also able to perform rapid internationalisations (Kalinic & Forza, 2012). Through a qualitative research, Kalinic and Forza (2012) found that even old, not international-oriented, and operating in a mature sector firms are able to speed up their internationalisation process. The empirical evidence suggested specific strategic focus is the success factor that allows traditional SMEs to rapidly internationalise their operations (Kalinic & Forza, 2012).

H4 – Industry context significantly influences internationalisation

3.6 Organisational Learning

As the business and socio-economic environment evolve to a stage that is rapidly changing, extremely complex, and unpredictable, the ability to cope with change and transform the organisation according to the changes taking place have been the main challenge for SMEs (Henon, 2010). Organisational learning embedded in organisational culture is considered as a key factor in gaining competitive advantage (Jun-ying, 2010). According to Argyris and Schon (1978), organisational learning can be defined as "to take effective actions to improve ability of organisation". A report by OECD (2006) suggested that SMEs undergo a learning process as they internationalise. Learning oriented firms are quick to exploit international opportunities and develop innovative products, processes, and models (Wickremesooriya, 2003).

Erickson (2000) explained internationalisation as "a process of learning and accumulation of knowledge", depicting a close link between two variables. Internationalisation is acknowledged by many scholars as discovery, exploitation of an international business opportunity, and learning from the market. Although learning is of key importance in internationalisation, gradualist theories which state that experimental knowledge is a key input to the decision for internationalisation, surprisingly few studies have linked organisational learning with SME internationalisation (Kauppinen & Juho, 2012). A few researchers examined how a firm's overall learning orientation affects its willingness to further internationalise (Clercq, n.d.).

Clearly, according to the gradualist theories of internationalisation, if internationalisation is a phenomenon associated with experimental learning and progress through a chain of establishments, then it is rational to state that the performance or progress from one stage to another is dependent on how well the organisation "learns". Even for international entrepreneurship theories which focus on entrepreneurial characteristics of the decision maker do not imply that the 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 (Thorpe, Holt, Macpherson, & Pittaway, 2005), though according to Minniti and Bygrave (2001), entrepreneurs tend to lock into previous successful patterns called "myopic foresight". Organisational leaning is a critical dimension to explain the international performance. Ruigrok and Wagner (2003) suggested that literature has overlooked the potential moderators of internationalisation-performance relationship. It is clear from this argument that learning has an influence on the internationalisation-performance relationship. Organisational learning has been found to have a moderating effect on the internationalisation-performance relationship in Multinational Companies (Hsu & Pereira, 2008).

From a more strategic point of view on internationalisation, contrary to traditional RBV and especially in high velocity markets, dynamic capabilities rely extensively on new knowledge created through experimentation (Eisenhardt & Martin, 2000). In these organisations, managers need to obtain new knowledge and create "temporary competitive advantages" through new resource configuration. In this scenario, the learning orientation of the entrepreneurs of SMEs plays a critical role in internationalisation of SMEs and performance, through their attitudes toward learning. Despite its key importance in internationalisation-performance relationship to date, little empirical research was done to assess the influence of organisational learning (Hsu & Pereira, 2008). As a consequence, how organisational learning influences the scale, scope, and timing of internationalisation in SMEs is not clear (Hsu & Pereira, 2008). For this research, instrument developed by Flores, Zheng, Rau, and Thomas (2010) was used to measure organisational learning capacity.

H5 – Organisational learning has a moderating effect on the relationship between internationalisation and firm performance of SMEs

4.0 Methodology

4.1 Population, Sampling and Analysis

This research will be carried out in Sri Lanka, which is a multi-cultural country situated in South Asia surrounded by the Indian Ocean with a land area of 65610 km_2. Since the end of 30 years of war, it has achieved impressive growth and the hardly hit areas of war, which are the northern and eastern provinces of Sri Lanka, received an average of 26% provincial economic growth rates in 2011-12. Those areas have become a hub of SMEs, start-ups, and entrepreneurial activities which were stifled during the war.

The population of this study will be SMEs registered in the Economic Development Board of Sri Lanka. The total number of SMEs registered is about1100 firms. Samples shall be selected by random probability sampling. The firm size and age will be controlled (Zahra, Ireland & Hitt, 2000). According to Wijesinghe, Foreman, and Ten (2011), usable response rate is mostly less than 30% in South Asian SME research. Therefore personal interviews will be used in all possible cases to get data to achieve the required sample size specified by Krejercie and Morgon (1970).

This research shall adopt the mixed method approach, as there has been an increase in the use of mixed methods in research studies (Harwell, 2003). Any study that collects qualitative data in linguistic forms through open-ended questions in the study is considered a mixed method study (Nummela, 2006).

The purpose of adopting mixed method in this research is to clarify results and add richness to the findings. In SME studies, it is necessary to minimise the impact of the participant's weaknesses such as low level of education, miscommunication, technological illiteracy, and fear of giving out information (Wijesinghe, Foreman, and Ten, 2011).

This study will use the extreme case analysis data mixing strategy proposed by Caracellin and Greene (1993), in which outliers are identified and in-depth interviews are conducted with the respondents using qualitative techniques to minimise the impact of participant weaknesses. Regression analysis is widely used to test the causality (Bloodgood et al., 1996) which was used in the analysis of this framework also.

4.2 Research Questionnaire

This research study will utilise the self-administered questionnaire survey method. Table 3 summarises the content of the questionnaire.

Table 3

Composition of Questionnaire

	Variable	Dimensions	Source	Number of items	Question number
1	IV – Brand Orientation	Brand Orientation	Wong & Merrilees (2008)	BO: 6	Q1-Q6
2	IV – Entrepreneurial Orientation	Pro-activeness, risk taking, innovation	Covin & Slevin (1989)	EO: 9	Q7-Q15
3	IV – Industry Context	Knowledge intensity	Autio (200)	IC: 3	Q16-18
4	Mediating V – Internationalisation	FS/TS, percentage of employees that spend a significant time in international activities, geographical scope	Sapienza, DeClercq, & Sandberg (2005)		
5	Moderating V – Organisational Learning	Information acquisition, distribution, interpretation, integration, organisational memory	Flores, Zheng, Rau, & Thomas (2010)	OL: 34	Q22 – Q55
6	DV – SME Performance	Financial – Sales growth, customer satisfaction, market share, profitability Non-Financial – Employee commitment and satisfaction, Social Reputation	Erikson (2002), Matzler et al. (2007), Researcher Developed items	SMEP: 13	Q56-68

4.3 Conceptual Framework

The following hypotheses and conceptual framework were developed to examine SME internationalisation and performance, based on the literature review and analysis.

H1 – Internationalisation significantly influences SME performance
H2 – Entrepreneurial orientation significantly influences internationalisation
H3 – Brand orientation significantly influences internationalisation
H4 – Industry context significantly influences internationalisation
H5 – Organisational learning has a moderating effect on the relationship between internationalisation and firm performance of SMEs

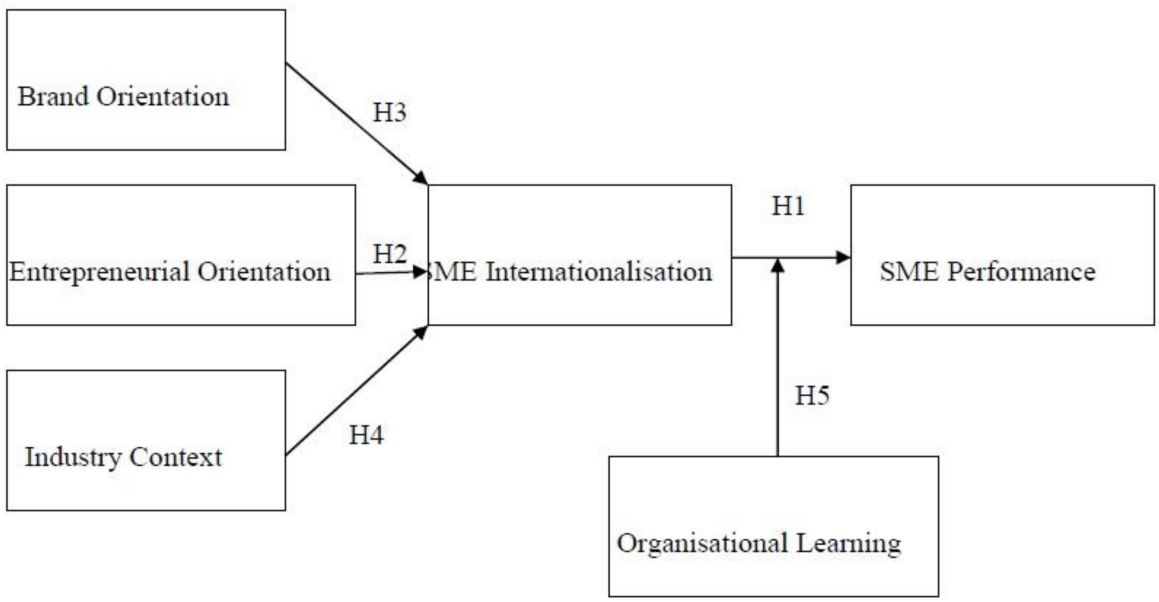

Figure 1: Proposed conceptual framework

5.0 Conclusion

This paper discussed the factors that can affect internationalisation of SMEs and their performance. Based on the existing literature on internationalisation of SMEs, two main factors that can influence SME internationalisation and performance were identified. The two factors are owner specific factors and firm specific factors. The owner specific factors consist of entrepreneurial orientation while the firm specific factors are brand orientation, industry context, and organisational learning, respectively. A conceptual framework to examine SME internationalisation and performance is then developed based on these factors. This conceptual framework provides another avenue in explaining SME internationalisation and performance in developing countries, particularly in Sri Lanka.

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