Investigating the Role of Entrepreneurial Traits and Human Capital on the Internationalization Degree of Small and Medium Enterprises in Turkey

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Abstract

Academic research on international activities of Small and Medium Enterprises (SME) has increased remarkably during the 20th century. Findings of these studies revealed various factors that influence SME internationalization. This paper emphasizes on the role of entrepreneurial traits and human capital of the entrepreneur on the internationalization degrees of SMEs. Questionnaire was used to collect data from a sample of 159 SME owners who attended different international fairs in Istanbul, Turkey. Analysis results indicate that there is a significant relationship between proactive behavior of the entrepreneur and the level of internationalization as well as a significant relationship between human capital and the degree of internationalization of Turkish SMEs. Implications are discussed and future research suggestions are presented.

Keywords: SME, Internationalization, Exporting, Entrepreneurship, Entrepreneurial Traits, Human Capital

JEL: M1, M10, M13

1. Introduction and Purpose of The Study

Starting from the 1990’s, the environment for businesses has changed drastically due to the turbulent raise in globalization. Companies are focusing more and more on international trade between different countries by increasing their international involvement and awareness. On the other hand, international trade activities have also caused to huge demands from consumers for these foreign products. Big companies along with small companies are benefiting from these international demand opportunities by means of exporting. As a result, the internationalization of Small Medium Enterprises (SME) has grown worldwide and at a considerable size (Lu and Beamish, 2006).

This growth has also influenced Turkish economic activities due to Turkey’s fast integration to the global market after 1980s. Turkish SMEs have increased their internationalization strategies to be a part of the global market and to benefit from the various advantages of international competition. The increase in the numbers of SMEs is a big contribution to the Turkish economy and their internationalization performance is mostly measured by their export rate. Whilst examining SMEs, it can be concluded that while some of them are searching for opportunities to expand internationally, others do not have such a concern.

In order to assure a high internationalization degree, SMEs should manage and operate export processes in a rational manner by focusing on their resources and capabilities. This requires that companies need their own in-house international trade departments. These trade departments should employ talented and skilled employees who will boost the company’s international activities due to their educational background, experiences and energetic personal characteristics (Toyne and Walters 1993).

The factors that affect the decision of internationalization and the performance of internationalization for SMEs have been seriously considered and studied in the international business literature.

For instance, the Traditional Process Theory of Internationalization claims that firm level features, firm’s resources and firm’s professional experience in its local market might give chances for SMEs to take thriving actions while penetrating in international markets. Nonetheless, the researches that are built on this theory do not consider or include individual psycho-cognitive traits of the managers.
Thus, several different studies have emerged in order to detect how these traits of managers possibly influence the process of internationalization and performance of SMEs in foreign markets (Aaby & Slater (1989); Zahra & Garvis (2000); Magagula (2002); Acero & Florin (2006); E. Karadeniz E. & Göçer K. (2007); Fernández-Ortiz & Lombardo (2009)). The scope of research of the majority of these studies is at firm level and there is the need to expand this scope further to include also individual level characteristics of SMEs. More specifically, human capital and entrepreneurial contexts have not been yet been investigated enough and should be included into the research arena.

Hence, the purpose of this empirical research is to examine the role of human capital and entrepreneurial personality traits on the internationalization of Turkish SMEs.

2. Theoretical Foundation and Hypothesis Formulation

2.1. Small and Medium Enterprises (SMEs)

SMEs have an integral role for economies since they dominate around 98% of the economies worldwide (Yücel, 2000). When it comes to the definition of SME, a vast amount of different definitions for SME can be seen in the literature and these are changing from one country to another (Magagula, 2002). When examining this bulk of definitions, it is observed that three parameters are in common. The first common dimension is the investment of capital, the second one is the employee number and finally the third one is the turnover of the business in terms of sales (Belisle, 1997). In Turkey too, one will find many different definitions for SMEs that are used by different institutions. For this study, the definition of the Turkish Small and Medium Enterprise Development Organization (KOSGEB) for SME will be used. This definition classifies a business as an SME if it employs less than 250 employees.

2.2. Internationalization Theories for SMEs

Research on internationalization has focused very much on the process of getting involved in international markets. Within this framework, two major theories are: Traditional Internationalization Theory and International Entrepreneurship Theory.

The Traditional International Theory such as the Stage Theory has focused on the key elements affecting internationalization. The Stage Theory, which is also known as the Uppsala Model was introduced by Johanson and Vahlne (1977) and according to Ruzzier (2006), it was the first model in the internationalization theory literature. The Uppsala Model is based on an empirical research conducted by Johanson and Vahlne (1977) on Swedish companies that were involved in several international activities. The findings of the research revealed that companies involving in international activities consequently built new market access by a local agent in the new market they are penetrating. As the company’s sales increase, companies change their local agencies with their company’s sales subordinates. In addition, company extension continues the companies start manufacturing in the foreign markets to administer trade obstacles. This constant process was assorted an establishment chain (Johanson and Vahlne, 1977).

International Entrepreneurship Theories on the other hand have rather focused on searching and exploiting new business opportunities available within international markets. Some researchers also suggest that the commitment and expectation of the entrepreneur for internationalization (Cavusgil and Nevin, 1981) as well as his/her thoughts about their companies’ competitive advantage are other important factors for international entrepreneurship (Jaffe and Pasternak, 1994).

Oviatt and McDougall (2005) define international entrepreneurship as: “(...) the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services” (Oviatt and McDougall, 2005, p. 540). International entrepreneurship is a very much preferred form of entrepreneurship and also a major field for SME internationalization studies (Ruzzier, 2006). The growth in internationalization is a result of the high entrepreneurial skills and international experiences of entrepreneurs. Today’s education system provides many opportunities to attain international experience through a vast amount of exchange programs for studying abroad. As a result, students benefiting from these exchange programs will become managers or entrepreneurs already equipped with the skills and experiences needed to operate in global markets (Oyson and Whittaker, 2010).
Internationalization of SMEs is mainly realized via exporting activities. Exporting is a simple yet fast way to join international markets because it implies comparatively low degree of risks and commitment (Lu and Beamish, 2006). Since export activities require limited risk, cost and knowledge of international markets and transactions, many companies prefer to choose exporting as their initial strategy when penetrating into new international markets. SMEs constitute more than %90 of all exporting companies in most countries and this underlines that exporting is a popular internationalization strategy used by them (Cavusgil et al., 2008).

2.3. Entrepreneurial Traits
There are several personal characteristics attributed to entrepreneurs. Here, some of them are presented.

2.3.1 Tolerance for Ambiguity
Tolerance for ambiguity was first introduced to the business literature by Frenkel-Brunswik (1948) and has dominated the related business literature during the last 60 years (Merrosy, 2013). Entrepreneurs are also described as people having higher tolerance for ambiguity levels as compared to non entrepreneurs. Furthermore, entrepreneurs do not fear any change because they believe that their past experiences will serve as guide them through their future decision phases. They have also a high propensity for change and continuously observe the emerging opportunities in their environment and changing demand levels with the purpose to deliver the appropriate responses. Therefore, in case of an ambiguity in connection with internationalization decisions, entrepreneurs who have higher levels of tolerance for ambiguity are more likely benefit from the vast advantages of the emerging opportunities in international markets as compared with those having a lower tolerance for ambiguity level (Westerberg et al., 1997).

2.3.2. Proactive Behavior
Crant (2000) claims that pro active behavior is “making the first action in improving conditions or creating new ones”. It attains challenging the status quo rather than passively accepting to the present condition. Studies on entrepreneurs have reported that there is a positive relationship between proactive behavior and entrepreneurial behavior. According to the findings of the research by Becherer & Maurer (1999), the level of pro activity trait of the entrepreneurs is related with their entrepreneurial behavior. Pro activity was also found to be positively and significantly related with company’s entrepreneurial posture (Becherer and Maurer, 1999). Yet other studies on exporting have revealed the positive influence of proactive behavior with company success in export activities (Boso, 2010; Morgan & Strong 2003).

2.3.3. Risk Taking
Risk taking is an important entrepreneurial trait which includes both determination and courage to exploit resources effectively (Scheepers, 2008). Risk taking simply refers to the ambition of the entrepreneur to allocate essential resources and seek opportunities under uncertainty (Juhahed and Davidson 1998). Companies that have a global vision and take brave steps towards export activities with the ultimate objective of achieving high export performance are also ready to take risks that are present in international markets (Abby and Slater; 1989). Thus, export related activities are not without risks and involve the risks for failure by allocating company resources for export activities with uncertain outcomes (Samiee et al, 1993).

From this discussion it might be concluded that there is a significant relationship between risk taking propensity of the entrepreneur and the export performance of SMEs.

2.4. Human Capital
Human capital is a valuable asset for countries, companies and organizations to have competitive advantage in global markets. Therefore, human capital is considered as one of the key ingredients for success. Schultz (1961) defined human capital as “something akin to property” and similar to this definition, others stated that human capital is strongly connected to deep knowledge, skills, educational background, and abilities (Garavan et al. 2001; Youndt et al. 2004).

Human capital also directly influences organizational outcomes in international context. According to Hambrick and Mason’s (1984) “Upper Echelon Theory”, the outcomes of organizations such as their strategic choices and performance degrees might be correlated with the human capital accumulation of the managers and employees. Later on, other researchers expanded this theory to international contexts by emphasizing on the importance of international experience of entrepreneurs (Athanassiou & Nigh, 2002), their education level (Carpenter, 2002), and business related communication skills (Unger, Rauch, Frese, & Rosenbusch, 2011).
Within the field of human capital, this study will focus on the education degree, communication skills (i.e. foreign language skills) and international experience of the entrepreneur.

Based on the literature review provided above, the following hypotheses were formulated:

**Hypothesis 1 (H1):** There is a significant positive relationship between the tolerance for ambiguity of the entrepreneur and the degree of internationalization of the SME.

**Hypothesis 2 (H2):** There is a significant positive relationship between the proactivity of the entrepreneur and the degree of internationalization of the SME.

**Hypothesis 3 (H3):** There is a positive significant relationship between the risk taking propensity of the entrepreneur and the degree of internationalization of the SME.

**Hypothesis 4a (H4a):** There is a significant positive relationship between the education level of the entrepreneur and the degree of internationalization of the SME.

**Hypothesis 4b (H4b):** There is a significant positive relationship between the foreign language knowledge of the entrepreneur and the degree of internationalization of the SME.

**Hypothesis 4c (H4c):** There is a significant positive relationship between the international experience of the entrepreneur and the degree of internationalization of the SME.

3. **Research Model and Methodology**

3.1 **Research Model of the Study**

![Research Model of the Study](image)

3.2 **Methodology**

3.2.1 **Sample and Data Collection**

Cluster sampling method was used to draw the sample for research. The sample was selected among clusters of SME owners who participated in four different international fairs in Istanbul, Turkey. Data was collected through face to face administered structured interviews where the developed questionnaires were filled out. The data collection period started in May 2013 and ended September 2013. In the end, a total of 159 usable questionnaires were obtained.
First part of the questionnaire was designed to measure human capital, the second part was designed to measure entrepreneurial traits and finally, the third part was designed to measure the internationalization degrees of the business. The items in the survey were adapted from several studies that have previously measured the same constructs and are listed below in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Scale</th>
<th>Item Count</th>
<th>Adopted From</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tolerance for Ambiguity</td>
<td>6-point likert scale</td>
<td>4</td>
<td>Lorsch and Morse (1974)</td>
</tr>
<tr>
<td>Proactivity</td>
<td>6-point likert scale</td>
<td>10</td>
<td>Crant and Bateman (2000)</td>
</tr>
<tr>
<td>Risk Taking</td>
<td>6-point likert scale</td>
<td>7</td>
<td>Hisrich and Peters (2002)</td>
</tr>
<tr>
<td>Degree of Internationalization</td>
<td>Categorical</td>
<td>4</td>
<td>Brouthers (2001) and Johanson (1977)</td>
</tr>
<tr>
<td>Human Capital</td>
<td>Categorical</td>
<td>3</td>
<td>Fernandez and Lambordob (2009)</td>
</tr>
</tbody>
</table>

4. Research Findings

4.1. Descriptive Statistics of the Sample

The sample of this study consists of 159 male entrepreneurs. According to the results, %23.3 of the businesses employ between 1-9 employees, %47.8 of them employ between 10-49 employees and %28.3 of them employ between 50-250 employees. As for the age of the respondents, %44.02 are younger than 35 and %59.98 are older than 35. In addition, according to the data, %23.9 do not know any language at all, %45.9 of them can speak only one foreign language, %27.7 can speak two foreign languages, %1.9 know three foreign languages and %0.6 know four foreign languages. Education related data shows that %8.8 of the respondents are graduated from primary school, %23.9 hold a high school diploma, %54.7 are university graduates and %12.6 hold a master’s degree. And finally, %72.3 of the entrepreneurs reported to have international experience.

4.2. Factor Analyses and Reliability Test Results

Factor analysis was used to find the factor structures of each entrepreneurial traits (tolerance for ambiguity, proactivity, risk taking) of the owner of the SME. The items with less than 0.50 loadings or loading to more than just one factor were excluded from the analysis. At the beginning, there were 21 items but 5 of them were later excluded due to these reasons stated above. In the end, four factors emerged and together explained %55 of the total variance in the dependent variable. This confirms that our model explains the relationship between the tested variables at %55. Next, reliability test was conducted and resulted in a Cronbach’s alpha value of 0.757 which shows that the test is reliable for analysis. In addition, Kaiser-Meyer-Olkin (KMO) value was extracted as 0.782 and again is above accepted level.
<table>
<thead>
<tr>
<th>Factor Name</th>
<th>Factor Item</th>
<th>Factor Loading</th>
<th>Variance%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tolerance For</td>
<td>I enjoy working in uncertain situations</td>
<td>0.833</td>
<td>22.084</td>
</tr>
<tr>
<td>Ambiguity I</td>
<td>I enjoy the challenges of uncertain situations</td>
<td>0.786</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I often get irritated when unexpected events ruin my plans</td>
<td>0.756</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The uncertainty surrounding my firm prevents me from doing my best</td>
<td>0.823</td>
<td>15.138</td>
</tr>
<tr>
<td>Tolerance For</td>
<td>I am always at the lookout for things that will improve my life</td>
<td>0.615</td>
<td></td>
</tr>
<tr>
<td>Ambiguity II</td>
<td>Nothing is more exciting than seeing my ideas turn into reality</td>
<td>0.699</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If I see something I don’t like, I fix it</td>
<td>0.601</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No matter the odds, if I believe in something I will make it happen</td>
<td>0.741</td>
<td>9.391</td>
</tr>
<tr>
<td></td>
<td>I am very good at identifying opportunities</td>
<td>0.656</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I always look for better ways of doing things</td>
<td>0.673</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If I believe in an idea, no obstacle will prevent me from implementing it</td>
<td>0.610</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I can see opportunities way before others do</td>
<td>0.595</td>
<td></td>
</tr>
<tr>
<td>Risk Taking</td>
<td>I take risks in investment and money</td>
<td>0.830</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I can drive the roads that I don’t know when I am travelling</td>
<td>0.654</td>
<td>8.922</td>
</tr>
<tr>
<td></td>
<td>I took serious risks in my life</td>
<td>0.758</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I took serious risks in last six months</td>
<td>0.735</td>
<td></td>
</tr>
</tbody>
</table>

| Total                 | %55.534                                                                     | KMO            | 0.782     |
|                       | Bartlett's Test of Sphericity                                               | Approx. Chi-Square | 637,584 |
|                       | Df                                                                           | Sig            | 0.000     |

4.3. Internationalization Degree

Internationalization degree measurement was adapted from the studies of Brothers (2001) and Johanson (1977) that assessed international commitment of the company such as foreign direct investment, regular export and distributorships abroad. The weighted mean of the responses were taken into the analysis and resulted in the internationalization degree of the company.
4.4. Relationship between Entrepreneurial Traits (Tolerance for Ambiguity, Pro Activity and Risk Taking) and Internationalization Degree

In order to analyze the relationship between entrepreneurial traits (tolerance for ambiguity, pro activity, risk taking) of the entrepreneur and internationalization degree, regression analysis was used and its findings are shown below in the table 3.

Table 3: Regression Analysis of Entrepreneurial Traits and Internationalization Degree

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>M</th>
<th>Df</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tolarance for Ambiguity I</td>
<td>159</td>
<td>44.567</td>
<td>1</td>
<td>.046</td>
<td>.831</td>
</tr>
<tr>
<td>Factor 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tolarance for Ambiguity II</td>
<td>159</td>
<td>1.676</td>
<td>1</td>
<td>.002</td>
<td>.967</td>
</tr>
<tr>
<td>Factor 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proactivity</td>
<td>159</td>
<td>5090.789</td>
<td>1</td>
<td>5.417</td>
<td>.021*</td>
</tr>
<tr>
<td>Factor 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Taking</td>
<td>159</td>
<td>330.823</td>
<td>1</td>
<td>.341</td>
<td>.560</td>
</tr>
</tbody>
</table>

*p<0.05

The regression analysis results indicate that only one of the entrepreneurial traits in our model, namely the pro active behavior of the entrepreneur; have an influence on the internationalization degree of SMEs.

Thus, hypothesis 1 of the study has not found statistical support, but hypothesis 2 was found to be statistically significant. The findings indicate a positive relationship between proactive behavior of the entrepreneur and degree of internationalization of the company with F= 5.417 and p=0.021.

As for hypothesis 3, it was not found statistically significant. Research results indicate that there is no relationship between proactive behavior of the entrepreneur and degree of internationalization with F= .341 and p=.560.

4.5. Relationship between Human Capital and Internationalization Degree

The pearson correlation test was used to determine the relationship between the human capital as expressed by educational level, foreign language, and international experience of the entrepreneur and internationalization degree of the SME. Results are shown in table 4.

Table 4: Pearson Correlation Analysis of Human Capital and Internationalization Degree

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td></td>
<td>.192**</td>
<td></td>
</tr>
<tr>
<td>Foreign Language</td>
<td></td>
<td></td>
<td>.228**</td>
</tr>
<tr>
<td>International Experience</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**p<0.01

There is a positive but weak correlation between education of the entrepreneur and internationalization degree of the company (p=.008, r=.192). This relation is statistically significant and H4a is supported.

There is also a positive and weak correlation between foreign language knowledge of the manager and internationalization degree (p=.004, r=.228). This relation is statistically significant and H4b is supported, too.

Finally, there also is a positive weak correlation the international experience of the entrepreneur and the internationalization degree of the company (p=.000, r=.384). This relation is found to be statistically significant, thus H4c is also supported.

5. Discussion

Research results partially support some of the basic premise that human capital and entrepreneurial traits of the entrepreneur affect the internationalization of SMEs. The findings of our study did not found any relationship between tolerance for ambiguity of the entrepreneur and degree of internationalization. According to Acedo & Florin (2006), uncertain conditions might influence internationalization decisions and entrepreneurs who have high tolerance for ambiguity show higher tendency for taking benefits of opportunities in international markets than those who have low tolerance for ambiguity since they become uncomfortable by this uncertainty.
However, the findings did not support this hypothesis and we suggest that tolerance for ambiguity should be examined further in the future.

Proactive behavior was the second entrepreneurial trait that was included in the research model. The study anticipated to detect a positive relationship between proactive behavior of the entrepreneur and internationalization degree of the company. Proactive behavior is an action-oriented behavior with competitive superiority and referred as a strategy that makes leadership in foreign markets possible (Morgan and Strong 2003, p. 167). At the individual level of analysis, our research results revealed that proactive behavior of entrepreneurs is positively influencing the internationalization degrees of SMEs. Our results are supporting the findings of the previous study by Acedo & Florin (2006) and Boso (2010) which showed a strong and significant relationship between proactive behavior of the entrepreneur and international expansion. Proactive behavior is to be expected if higher degrees of internationalization are aimed to be achieved. Appropriate organizational structures, human resource architecture as well organizational culture can support pro activity and should be taken into consideration for internationally involved companies.

The risk taking behavior of the entrepreneur was also assumed to be a determinant factor that positively influences the level of internationalization of an SME. However, our analysis results did not indicate a significant relationship between the risk taking behavior of the entrepreneur and the internationalization degree. This implies that for internationalization, there is not a need for a higher risk taking attitude.

Finally, the role of human capital on internationalization degree was tested. Within human capital, education level of the entrepreneur was found to be a statistically significant factor for the internationalization degree of SMEs. This result supports the finding of previous research by Obben and Magagula (2003) who reported that more qualified employee affects SME performance and international diversification. SMEs striving to increase internationalization levels should be equipped with human resources that are more educated and also continuously develop and train their current ones.

The relationship between the foreign language knowledge of the entrepreneur and internationalization degree of the company was found statistically significant. This finding supports the stage theory of internationalization. Clarke (2000) stated that knowledge of foreign language is one of the fundamental necessities or requirements for having high export levels. Foreign language knowledge is a prerequisite for managers or owners of SMEs who wish to take an active role in international markets. In other words, current international business relationships require high qualified entrepreneurs with foreign language knowledge. Our findings support the results of Uner (1991), Fernández-Ortiz & Lombardo (2009) and Knowles et al. (2006).

Lastly, international experience of the entrepreneur was assumed to be a factor that increases the internationalization level of the SME. The study expected to find a positive relationship between the two variables and this relationship was supported by the findings of the research.

The findings of this research provide important contributions to the literature on internationalization in emerging economies such as Turkey. However, there are several limitations to our study. Our sample consists only of SME owners who attended international fairs in Istanbul and therefore might not be representative for every region or industry. Future studies are stimulated to investigate whether the degree of internationalization of the companies changes regionally or not, for instance in the south-east regions, black-sea region of Turkey or specific industrial regions such Tuzla or Gebze. Additional personality traits of entrepreneurs can be included into future research agenda. And finally, research differentiating born global and not-born global companies in terms of their human capital and performance would provide valuable contributions to the literature.
6. References


Magagula, P. L. (2002). The promotion and development of small and medium enterprises: an investigation of the effectiveness of assistance programmes and the participation of SMEs in the export sector in Swaziland: a thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy in Development Studies at Massey University, Palmerston North, New Zealand


