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INTERNATIONALISATION OF SOUTH AFRICAN SMMES: THE ROLE OF CAPITAL FACTORS

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ABSTRACT

The purpose of this paper is to investigate the influence of capital factors on the internationalisation of South African Small Medium and Micro-Enterprises (SMMEs). These capital factors are Financial, Social and Human capital. The study concentrates on determining how various levels of capital act as a preventative factor when a firm internationalises. The low levels of Financial capital is accentuated as it prohibits South African SMMEs from internationalising. Social capital emphasises that few social ties and networks prevent South African SMMEs from globalising. Lastly, the focal point of Human capital are the low levels of international knowledge and experience of management, which prohibits South African SMMEs from expanding internationally. To address these issues, this study draws upon a sample of 136 South African internationalised and non-internationalised SMMEs studied via an online questionnaire. The major theories underlying this research include the Resource-based theory, the Social Network theory and the Organisational Learning theory. Multivariate statistical analysis were used to test the results and confirmed that Financial Funding had an influence on an organisation's ability to internationalise. Results from this study can potentially provide policy-makers and practitioners with additional insights into the key constraints to internationalisation of South African SMMEs.

DECLARATION

I, Sanam Shree, declare that this research report is my own work, except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at this or any other university.

_____

Sanam Shree

Signed at ……

On the 30th day of March 2012

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I am grateful to my supervisor, Professor Boris Urban for his guidance throughout the research process.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

With the globalisation of the world economy, interest in international entrepreneurship has increased rapidly over the past decade (Brush 1993, 1995; Hitt & Bartkus 1997; Hisrich, Honig-Haftel, McDougall & Oviatt, 1995). The purpose of this research is to explore and explain the various factors which promote and prevent South African SMMEs (Small, Micro and Medium enterprises, refer to Appendix A for South African definition of SMME according to industry) from expanding their business entities globally. This research intends to evaluate the direct extent to which Financial, Social and Human capital influence the internationalisation process.

Potentially this study could provide guidance to entrepreneurs to ease accessibility into foreign markets. In 2010, the Global Entrepreneurship Monitor Report ranked South Africa 27th out of 59 countries, with a total entrepreneurial activity (TEA) rate of 8.9 % (Refer to Appendix A for TEA rating 2002 – 2010), which was below the average of efficiency-driven economies (11.9 %) and below the average for all middle- to low-income countries (15.6 %) (Herrington & Kew, 2010).

1.2 Context of the study

South Africa is a sophisticated emerging market that offers a unique combination of highly-developed first world economic infrastructures, along with a vibrant emerging market economy. South African exports were valued at about 63 Billion ZAR in December 2011. South Africa is renowned for its rich mineral resources thereby making it the world's largest producer and exporter of gold, platinum, diamonds and coal. South Africa leads the continent in industrial output by 40 % of Africa's total output, mineral production being 45 % of total mineral production and generates most of Africa's electricity**,** which is over 50 %.

South Africa reported a trade deficit equivalent to 13.5 Billion ZAR in January of 2012. Imports from South Africa include machinery, foods, equipment, chemicals, petroleum products and scientific instruments. This in itself means that if South African SMMEs start producing these imported products, the trade deficit would decrease, more jobs would be created and the South African economy would benefit.

Internationalisation drives economic growth and generates innovation and creativity. International activities reinforce growth, enhance competitiveness and support the long term sustainability of companies. The current state of international entrepreneurship is described as “fragmented, inconsistent and lacking in unifying paradigms, and hindered in development by its phenomenological basis” (Keupp & Gassman, 2009: 331 - 341). Thus, it is imperative to conduct studies to understand international entrepreneurship in a South African context**,** such that the field may be expanded and enhanced.

SMMEs that implement a global strategy may explore the advantage of cross-border activities, which provides opportunities for revenue growth, exchange of knowledge, new products and technological innovation, and the enhancement of capabilities, thereby strengthening the long-term competitiveness of the organisation.

1.3 Problem statement

1.3.1 *Main problem*

Resources in essence enable SMMEs to internationalise. A shortage of working capital to finance international activities, lack of managerial time, lack of skills and knowledge, have contributed to be a leading barrier to the internationalisation of SA SMMEs. (OECD, 2009, “Top Barriers and Drivers to SME Internationalisation”). In order for the South African balance of trade to not

fall into the current deficit that it is in, South African SMMEs need to penetrate the foreign market further. This study aims to bridge the knowledge gap regarding the opening of South African markets to international markets.

There are various forms of capital, namely, Financial, Social and Human capital that influence the success of the internationalisation process. With the lack of financial resources, a company may not be able to acquire sufficient resources to globalise its organisation. Social capital is the networks which provide productive benefit for the firm, and if the firm possesses only a few**,** there may be lost opportunities in the internationalisation process. Human capital is a vital force in the company as it drives innovation and success. If the Human capital has a shortage of international knowledge and experience, the firm may be at a disadvantage when globalising. The importance of addressing these problems is to globalise SMMEs and grow the economy**.**

1.3.2 *Sub-problems*

i. The first sub-problem is that **low levels of Financial capital** prohibit South African SMMEs from internationalising.

ii. The second sub-problem is that **few domestic/regional or international social ties and networks** prevent South African SMMEs from globalising.

iii. The third sub-problem is that low levels of **international knowledge and experience of management** prohibits South African SMMEs from expanding internationally.

1.4 Significance of the study

Internationalisation offers multiple opportunities for expansion and for firms to become globally competitive. The gap in theory that might be filled with this study are factors that promote or prevent this process. The study may provide guidance to international entrepreneurship in the South African context. It will be

important to South African SMMES and entrepreneurs who wish to internationalise because they will be better equipped with the necessary knowledge from this exercise.

1.5 Delimitations of the study

- Small Medium and Micro Enterprises will be investigated in this study.
- The questionnaires will be directed to the owners of the firms as well as directors.
- All companies in this study would have started in South Africa and grown outward.
- All companies are established enterprises and have been in existence for more than 3 months in South Africa
- Not all companies in this study have a current global presence, but have future plans of expanding to the global platform.

1.6 Definition of terms

Balance of trades - The difference between a country's imports and its exports. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy. A country has a trade deficit if it imports more than it exports; the opposite scenario is a scenario is a trade surplus

(http://www.investopedia.com/terms/b/bot.asp#ixzz1V97Jhlzc).

Foreign Direct Investment (FDI) - is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor (http://www.economywatch.com/foreign-direct-investment/definition.html).

International Entrepreneurship (IE) – is a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations (McDougall & Ovaitt, 2000).

Internationalisation – is a firm-level activity that crosses international borders (Wright & Ricks, 1994).

SMME – Small, Micro and Medium Enterprise. Refer to Appendix A for South African definition of SMME according to industry.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

Stevenson (1983, p. 131) and Stevenson and Jarillo (1991) define entrepreneurship as “the pursuit of opportunities beyond the resources you currently control”. According to Venkataraman (1997) entrepreneurship is defined as “research that seeks to understand how opportunities bring into existence future goods and services that are discovered, created, and exploited, by whom and with what consequences.” These definitions sum up the core of entrepreneurship, though it is also critical to note that the essence of entrepreneurship is the recognition of the opportunity and the ability the entrepreneur possesses, in order to execute the opportunity. Schumpeter (1934, pp. 128-157) further defines entrepreneurial opportunities as “arising from external changes that either makes it possible to do things that had not been done before or makes it possible to do something in a more valuable way.” Therefore it can be said that entrepreneurship is the recognition and exploitation of entrepreneurial opportunity that leads to new market entry. These new markets are either national or international, and when a firm internationalises, the market entry implored is highly entrepreneurial. “International entrepreneurship is a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations” (McDougall & Ovaitt, 2000, p. 903).

Consumers of today, increasingly demand tailor-made and customised products as opposed to mass produced goods. This creates many opportunities for small firms to target specific niche markets, resulting in a more important role for small and new firms in developed and developing economies. SMMEs play an essential role in national economies by generating employment, developing new products and services, and participating in international trade. These organisations are absorbed in globalisation processes and deal with competitive

foreign products. There are various motives that provide reason for organisations to get involved in foreign markets, such as market-seeking, efficiency-seeking, asset-seeking and resource-seeking motives (Dunning, 1993). Internationalisation is beneficial to accessing new markets, reducing the risk involved through diversification in different countries, engaging in a larger customer base and establishing an international network of suppliers that improve products and services for domestic customers. The model for entrepreneurial internationalisation developed by Oviatt and McDougall (1994) illustrates that the importance of internationalisation is growing, and in order for firms to be profitable they must attain value-creating resources for resource-constrained ventures. “According to this model even resource-constrained firms are able to internationalise as a means to build up resources” (Autio, 2005, pp. 9-19; Kuemmerle, 2002, pp. 99-122).

Despite the vast opportunities and advantages of organisations going global, there are barriers which hinder this process. These range from the fact that the organisational structure may not be ready to deal with an international expansion, lack of experience in foreign markets, cultural, language or distance issues. These challenges, arising from both the internal and external factors, discourage the firm from internationalising. External factors include national and international administrative laws, as well as formal and informal trade barriers. Internal factors range from the availability of resources to capital factors. By being aware of both the pros and cons of internationalising an organisation, it is imperative to understand that the role of the capital factors greatly influence its success or failure. “In the current economy, traditional barriers of entry to foreign markets have been reduced significantly for SMMEs and resources have become more mobile and more easily transferable between countries” (Autio, 2005; Sapienza, Autio, George & Zahra, 2006, pp. 914-933). This has made it more reasonable for resource-constrained firms to seek and overcome their resource constraints through internationalisation. With the likes of the internet, telecommunication advances and technological innovations,

internationalisation is now an affordable option for multinational enterprises and SMMEs.

When an organisation undertakes an internationalisation strategy, Financial, Social and Human capital factors play a large role in its success or failure.

Low levels of Financial capital prohibit South African SMMEs from internationalising. Venture financing is crucial to an organisation once it has decided to enter a foreign market (Roure, Keeley & Keller, 1992). Exorbitant costs are inclusive of foreign market analysis, purchasing legal consulting services, adaptation of products to the foreign market, travel expenses and the financial risk involved.

The decision-makers personal networks have an influence on internationalisation (McGaughey, 1997). Social capital is perceived as the sum of resources that is accessible through a network of relationships in global expansion plans. Social networks are utilised to gain entry to scarce resources, enhance the company's position strategically, the transfer of new skills, to gain a positive reputation and to be technologically advanced. (Alvarez & Barney, 2001; Bonaccorsi, 1992; Hitt & Ireland, 2000; Das & Teng, 1998; Gulati, 1995).

If few domestic / regional or international social ties and networks exist, South African SMMEs are less inclined to globalise because it is via networks that critical information is shared and contacts in foreign markets are developed (Ford, 1990).

In international firms, an entrepreneurial culture must be fostered. "An organisational culture which facilitates and accommodates the entrepreneurial activities of the firm in the international marketplace is vital" (Dimitratos & Plakoyiannaki, 2003, pp. 187-215). The Human capital which essentially pertains to the international knowledge and experience of a firm's employees and managers are crucial to its success in globalising.

The management of knowledge provides significant challenges due to the difference in cultures, corporate governance systems, time zones, and languages (Kummerle, 2002). The internationalisation of the firm is driven by the managers within that operation (Reuber & Fischer, 1997). Low levels of international knowledge and experience of management possessed by the organisation's managers, will hinder the South African SMMEs from expanding internationally. "It is vital to note that the accumulation of knowledge of foreign operations seems more or less to follow a learning curve" (Carlson, 1975, p. 8).

The theoretical perspectives that shall be explored in this study's model include**:** the network approach, (Johanson & Mattsson, 1984; Welch & Welch, 1993; Wilkinson & Young, 1996), the Resource-Based theory of internationalisation (Autio et al., 1997; Bloodgood et al., 1996); and the Organisational Learning theory (Autio et al., 2000; Zahra, Ireland & Hitt, 2000a).

According to the network approach, (Johanson & Mattsson, 1988) internationalisation revolves around continuously making and maintaining relationships thereby achieving the objectives of the firm. Relationships are developed through interaction in which the various parties build mutual trust and knowledge. These relationships are linked by means of customers, competitors, organisations, suppliers, distributors, agents, and consultants as well as regulatory and other public agencies (Johanson & Vahlne, 1990). The key objective here is to share costs and reduce the level of risk and uncertainty involved in foreign markets.

It is assumed that without a good network in international markets**,** the company will have problems with future growth. According to Johansson and Mattson (1988) internationalisation of an organisation commences with the organisation being initially engaged in a network that is primarily domestic. The company then internationalises by developing relationships in networks in other countries. The importance of company and personal relationships varies with regards to different industries and countries.

The Resource-Based theory developed by Jay Barney (1991), has identified a number of resources and capabilities, which allow firms that internationalise to become and remain successful. These resources are valuable and rare to the firm and difficult to imitate by competitors**,** if a competitive advantage is to be created for the firm. “The entrepreneur's decision to go international is due to the availability of resources (financial, physical, technological and human) or lack of them” (Burgel & Murray, 1998, p. 449; Westhead, Wright & Ucbasaran, 1998, p. 464; Almeida, Sapienza & Michael, 2000; Ibrahim & McGuire, 2001, pp. 75-83).

Organisational Learning theory states that, in order to be competitive in a changing environment, organisations must change their actions to reach their goals. The firm must make a conscious decision to change actions in response to a change in circumstances, link action to outcome, and must remember the outcome. Initial learning takes place at the individual level, however, it does not become organisational learning until the information is shared, stored in organisational memory in such a way that it may be transmitted and accessed, and used for organisational goals. The theory follows a three step process**:** data acquisition, interpretation and adaptation or action.

Below is a summarised table (Table1) of the authors and theories that will be explored, researched and analysed in order to derive outcomes and conclusions in this study. The theories are previously researched focus areas of study and will assist in validating and finding conclusions as to how capital factors influence South African SMMEs.

Table 1: **Summary of internationalisation theories and authors that will be utilised in this research (Source: Own)**

Theory	Researchers	Brief Description
Early internationalisation	Coviello & McAuley, 1999; Fillis, 2001; Jones & Dimitratos, 2003; Zou & Stan, 1998	Framework explaining the rapid growth of new entrepreneurial ventures in the international market.
Born globals	Aharoni, 1966; Newbould et al., 1978; Hennart, 1982; Buckley, 1988; Dunning, 1988; Knight & Cavusgil, 1996; Madsen & Servais, 1997	Small technology oriented companies that operate in international markets from establishment of the company
Resource-based theory	Burgel & Murray, 1998; Westhead et al., 1998; Almeida et al., 2000; Ibrahim & McGuire, 2001	The entrepreneur's decision to go international is due to the availability of resources (financial, physical, technological and human) or, lack of them.
Choice of entry strategy	Andersen, 1997; Benito & Welch, 1994; Hill, 1990; Zacharakis, 1997	The strategy a firm follows to enter a foreign market
Prior international knowledge	Shane, 2000; Shane & Venkataraman, 2000	Prior knowledge of the company and its managers, influences the ability to discover entrepreneurial opportunities
Internationalisation of other actors	Bell, 1995; Chen & Chen, 1998	Other actors being customers, competitors, distributors and suppliers who create new opportunities
Growth objective	Cavusgil & Nevin, 1981	The ability to grow an organisation internationally
Domestic market attractiveness	McConnell, 1979; Madsen, 1989	How attractive and lucrative a foreign market is to a firm

International industry growth	Lumpkin & Dess, 2001; Andersson & Wictor, 2003; Madson & Servais, 1997	The ability to grow within an industry globally
Market selection in internationalisation	Davidson, 1980; Dunning, 1997	The market a foreign business entity chooses to enter
Strategic Alliances	Steensma, Marino, Weaver, & Dickson, 2000; Li & Atuahene-Gima, 2001	Strategic alliances enhance a company's internationalisation strategy and create opportunities for the firm
The number of international weak ties	Granovetter, 1973; Elfring & Hulsink, 2003; Ellis & Pecotich, 2001	"Quality" (individuals with strategic positions and contacts in the industry) opposed to "quantity" of international weak ties, enhances the recognition of the first international market opportunity
Globalisation and the internet	Kuuczera, 2002	The internet allows entrepreneurs to access new markets, undertake new research and improve international promotion.
Technological learning process	Zahra, Ireland & Hitt, 2000	Three dimensions of technological learning (breath, depth and speed) enhance the internationalisation process
Top management teams	Reuber & Fischer, 1997	Managers in an international operation drive the internationalisation process
Knowledge management	Kuemmerle, 2002	Emphasises the dynamic intellectual capabilities of a company's operations in foreign markets
The Network Model	Coviello & McAuley, 1999; Jones, 1999	Firm uses international networks (suppliers, distributors, consultants and strategic alliances) to be successful in the internationalisation process.

The Social Network theory	Bell, 1995	The social network theory is based on the network theory and focuses on the fact that relationships and ties are most important in the network

There are numerous theories which support the choice of internationalisation. To explore a few: the monopolistic advantage theory (Caves, 1982) suggests that firms will internationalise when they can use their established advantages in foreign countries at little or no additional cost. The Internationalisation theory suggests that firms internationalise to reduce costs by internationalising the transfer of goods and services across national borders, making it is cheaper to do so. The Resource-Based theory expands on the role of resources or lack of them in the internationalisation process. The Network theory states that an organisation gains its competitive advantage by developing mutually supportive relationships. The Stage theory of internationalisation suggests that "a firm's international operations will gradually increase as it gains knowledge and experience in the international arena and as it develops relationships that cross international boundaries" (Johanson & Vahlne, 1977, pp. 23-32 pp. 23-32; Bilkey & Tesar, 1977, p. 93-98; Johanson & Wiedersheim-Paul, 1978, p. 23-32). The Organisational Learning theory elaborates on the function of knowledge in the effort to globalise a firm.

The diagram below (Figure 1) is an illustration of the proposed framework that the literature review shall follow. The capital factors of internationalisation directly influence the progression of internationalisation and each capital factor has a strong underlying theory supporting it. In this research, the following theories will be reviewed critically with the corresponding capital factor. Financial capital is significantly affected by the Resource-Based theory, Social capital is influenced by the Network theory and Human capital is impacted by the Organisational Learning theory.

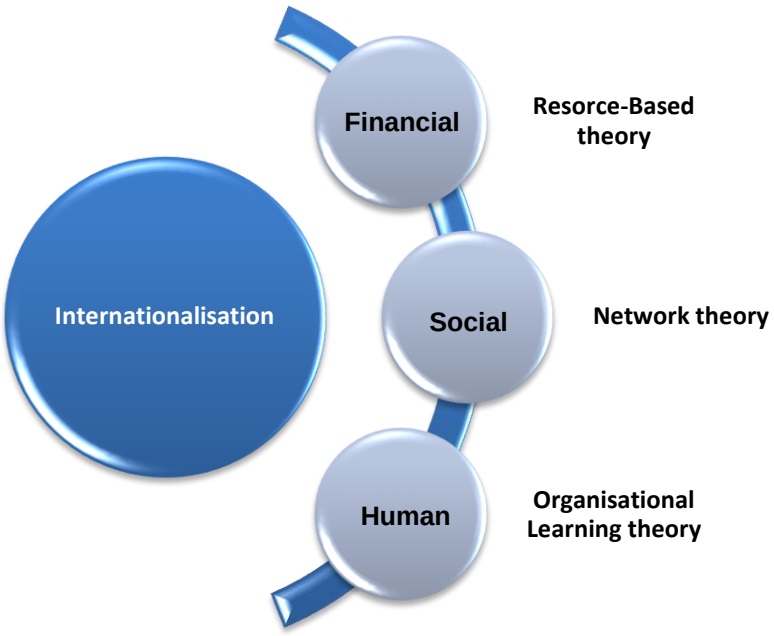


Figure 1: <u>Proposed Framework of the Literature Review</u>

The research proceeds to analyse Financial, Social and Human capital and its various roles on internationalisation, as well as examining each theory in-depth.

2.1 Definition of topic or background discussion

2.2.1 Financial capital on internationalisation

“Entrepreneurship has become the engine of economic and social development throughout the world” (Audretsch, 2003). Financial capital plays a vital role in the internationalisation process as reserves of Financial capital enables a firm to undertake a wider range of activities and diversify an international expansion plan. One of the most critical resources is the access to finance (Gompers & Lerner, 2001).

Chandler (1990) asserts that in order to compete globally you have to be big. Therefore this means that success in foreign markets is only reached by large

firms. In comparison to large firms, small firms are thought to be at a disadvantage due to the high costs and comparisons of resource availability.

The Resource-Based theory states that the more resources the firm has, the more likely it will be able to engage in international activities. The Resource-Based theory coupled with how attractive a foreign market is, determines whether an organisation infiltrates that market or not. The choice of entry mode into a foreign market is also driven by the availability of resources.

2.2.1.1 Resource-Based theory

Creating a new venture is not an easy task taking into account the amount of information, skills, capabilities, and knowledge to make a firm profitable (Vyakarnam & Handelberg, 2005). Movements of trade across Asia and the Indian Ocean date back to the 15th century. It was in the 1960s that internationalisation began to be recognised by economists and other social scientists. The economic perspectives were primarily involved in developing the basis for the theory of the internationalisation of the firm. This then shifted to more behavioural perspectives, and later, to more eclectic models as well as network perspectives on internationalisation. The last type of internationalisation model that will be reviewed is the “Born Globals” which analyses the growth of the company on an international scale from inception.

When start-ups plan to internationalise early in their inception, the resources such as the various capitals and information become crucial to its success. (Morgan, 1997; Hollenstein, 2005). There are Financial, Social and Human capital factors which directly influence the process of internationalisation. Firms that globalise their operations with teams are more likely to have a greater diversity of skills to draw upon and a wider network of business contacts and Financial capital opposed to sole entrepreneurs internationalising (Cooper & Daily, 1997). Thus, these teams have a higher performance level than new ventures started by only one person (Watson, 1995; Cooper, 1994).

Furthermore, teams should internationalise early due to resource based advantages (Hollenstein, 2005).

Essentially, the Resource-Based theory states that the amount of available resources such as the Financial, Social and Human capital and technological innovations determine the ability and success of an organisation to penetrate a foreign market. The more Financial capital obtainable, the greater the opportunities for the organisation to convert Financial capital into other resources needed by the firm. The Resource-Based view argues that "firm resources are of key importance to the firm's acquisition and maintenance of competitive advantage and this view is applied in previous studies to investigate how a firm's internal resource base enables SMEs to internationalise" (Bloodgood, Sapienza & Almeida, 1996, pp. 61-76; Westhead, Wright & Ucbasaran, 2001, pp. 333-358; Zahra, Matherne & Carleton, 2003, pp. 163-186).

Rationally speaking, a large firm has large resources supporting it, and a smaller firm has a smaller resource base that can't directly compete with the larger firms resources. Studies by Fujita (1995), Coviello and McAuley (1999), Knight (2000) and Hollenstein (2005) suggest that compared to larger firms, small and medium sized enterprises are typically regarded as resource-constrained. There are many advances in technology and communications that enable small and large firms to compete on the same global platform.

The model of entrepreneurial internationalisation acknowledges that for resource limited firms, foreign market entry is key to accessing resources. Firms are heterogeneous in terms of the resource endowments they possess, and these resource variations provide explanations for the differential performance of firms. "Firm resources are tangible and intangible factors (such as assets, capabilities and knowledge) that are owned and controlled by a firm" (Barney, 1991, pp. 99-120; Ruzzier, Hisrich & Antoncic, 2006, pp. 476-497).

Barney (1991, pp. 99-120), stated that “resources must be valuable, rare, imperfectly imitable and not substitutable.” Grant (1991, pp. 114-135), further suggested that “resources must capture durability, transparency, transferability and replicability.” Amit and Schoemaker (1993, pp. 33-46) have elaborated “seven main categories of resources, these categories are: financial (size and type of capital), physical (location, plant, access to raw materials, transportation), human (personnel and management), technological (product and process related), reputation (image, brands, loyalty, trust, goodwill), organisational resources (management systems) and relationships of the firm (social network).” Wernerfelt (1997) stated that resource classifications were to in-depth and as a result reduced them to three broader groups, namely: physical, financial and intangible resources. Intangible resources are commonly known as tacit knowledge or organisational routines and skills. The resources mentioned above impact largely on the process of internationalisation, as well as determine the success of it.

The organisational resources include the structure of the firm, processes and systems in place which permits the flows of information and training and also motivates the organisation’s employees. In a SMME, organisational resources include the employees' education, expertise, systems, policies and standard operating procedures, financial structures, management systems, planning and control systems, as well as the organisational culture in service industries**.** Where service is the most important factor, superior levels of service are attained by the relevant management systems, skills of employees and routines to reach customers and maintain a good working relationship with them.

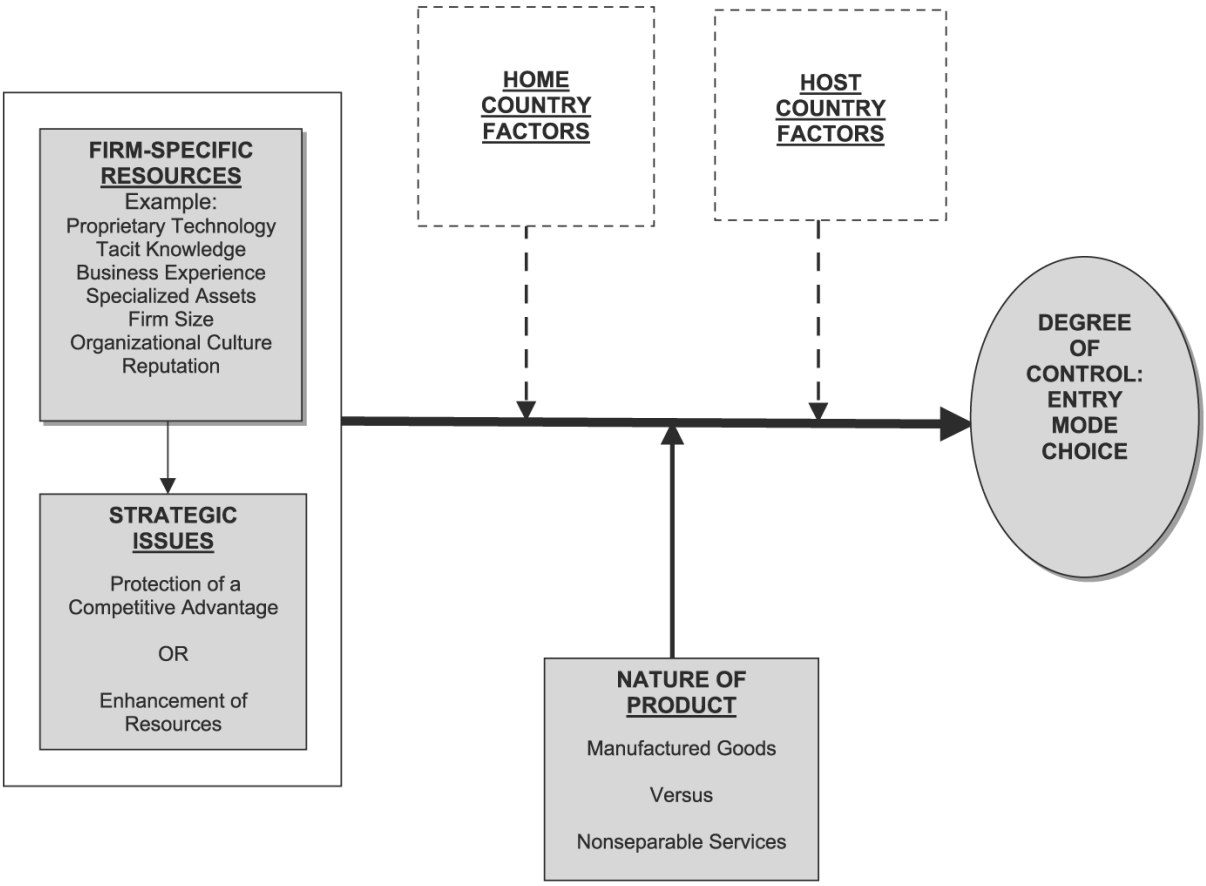


Figure 2: The RBT Model (Source: I Ekeldo & K Sivakumar, 2004)

The model above (Figure 2) illustrates the Resource-Based theory and the firm specific resources required for a firm to go international. As evident in the model, the host and home country factors, as well as the nature of the product influence whether the product or service will go global.

Small firms are probably more capable of providing a higher quality customer service, due to the efficiency and customised attention clients receive. While larger companies may tend to develop their employees into more skilled employees, making them more competent to respond to customer and market needs. Thus, it can be said that both the large firm and small firm are on equal playing grounds to gain a competitive advantage and win over market share.

Financial capital is important in the Resource-Based theory. “The availability of capital allows a firm to pursue a broader range of activities as well as more ambitious projects” (Cooper, Gimeno-Gacson & Wool, 1994, pp. 371-395). Financial resources may be utilised to purchase other resources, invest in capital-intensive projects and in investments that may yield a high return. Financial barriers to exportation may decrease significantly when the entrepreneur has, or a member of the team, has had experience in that market, thus reducing the risk involved for the investor. Entrepreneurs may obtain financing from banks, personal savings, family friends, venture capitalists or angel investors. Venture capitalists take an equity-linked stake in the firms in which they chose to finance. They also share in both, upside and downside risks. On the other hand, banks make profits on financing projects only by a repayment of the credit due. “Financial capital in terms of accounting and finance is defined as funds provided by lenders and investors to businesses to purchase real capital equipment for producing goods or services” (Wetzstein, 2005). It can be used to make purchases of various goods and services or to acquire other types of assets and other forms of capital. Business owners use Financial capital to secure the resources needed to operate a business and supply products and services to their customers. The higher the levels of Financial capital, the greater is the chance that the firm will internationalise and expand extensively.

“International experience, organisational, and personal networks have been proposed as important predictors of internationalisation” (Antoncic & Hisrich, 2000, pp. 17-35). The Social capital includes the networks of the entrepreneur and the firm. The Human capital is the stock of employees, their knowledge and skills. The networks usually arise from international business skills acquired through the entrepreneur’s and managers’ professional experience in foreign markets. Previous occupations and schooling also plays a role. This was based on the assumption that such “accumulated experience exposes the decision-makers to information and contacts relating to foreign markets and enhances the likelihood of export engagement and expansion” (Reid, 1983, pp. 45-56).

Networks of individuals and the tacit knowledge they integrate, can be classified as the Social capital of entrepreneurs, which in itself are valuable resources. Individual entrepreneurs are linked through networks with other entrepreneurs in the same industry and the wider global environment.

It is evident that competition is higher in international markets than in national markets. Therefore critical resources need to fulfil the criteria and demand internationally, in order to gain a long-term sustainable competitive advantage for the firm. The entrepreneurial resources, financial and technological are significant to discovering new opportunities in foreign external markets. Social networks are imperative to facilitate the acquisition of information and other types of resources in the international area. Social networks also make it possible to interact with foreign partners, thereby opening doors for SMMEs to internationalise.

The Resource Dependency theory highlights the concept of scarcity for a resource seeking organisation. Resource Dependency theory suggests that organisational survival depends on the firm's ability to attain and acquire resources from other actors in the environment. The central belief of the Resource Dependency theory is resource scarcity. This theory makes assumptions of the fact that organisations cannot attain all the necessary resource requirements independently thus turning to the external environment for acquisition of scarce resources. (Pfeffer & Salancik, 1978; Scott, 1987). It sounds paradoxical that an organisation should and should not have certain resources, reason being there is room for exchange between entities.

Capabilities link resources in intricate patterns between multiple agents between people, and people and resources (Grant, 1991; Foss & Eriksen,

1995). It is both resources and the people involved in the internationalisation process, that ensure its success. Organisational routine is a process of learning through repetition (Nelson & Winter, 1982; Winter, 1995). Routines are the regular activities undertaken by the employees such that he or she learns by repetition and is able to perform the tasks at a more efficient rate.

The model of Ahokangas (1998) is a merger of the Network and Resource-Based theories which involves the resource development and strategic internationalisation behaviour of small organisations. These combine the strategic and network perspectives of resources for internationalisation. The network perspective speaks about actors within the network who provide the resources for internationalisation. Resources for internationalisation and market attractiveness determine whether or not the entrepreneur will enter that market.

2.2.1.2 Market attractiveness

Market attractiveness is simply the potential of profits that lie within the structure of a particular industry or market. The growth rate and size of a market along with the economical profits to be made, invite successful national companies to try international markets. According to the Industry Economics theory, an attractive market has high barriers to entry with special attention to scale economies and product differentiation. It has a low seller and buyer concentration, high industry concentration, high vertical integration and high diversification.

When investing in a business opportunity, it is important to spread risk and this in itself shall invite opportunity. It is said that having your eggs in more than one basket is generally a sensible idea. If a crisis hits one country, another country will not necessarily be negatively affected. The paramount reason to invest somewhere else in the world is the increased choices, which leads to better opportunities, and in turn potentially lead to higher returns.

There are several theories proposed that impact on market attractiveness. These are: **O**rganisation Ecology theory, Transaction Costs Economic theory, Contingency theory and Game theory.

Organisation Ecology theory states that it is the external environmental forces that motivate internationalisation. These external forces include a competitive drive and opportunity recognition for a firm to survive. These are firms, which have products or services in their earlier market life cycle stages, including a high degree of technological innovation, their competitors are small and they possess an abundance of resources in markets. For companies globalising this theory is highly dynamic.

The Transaction Costs Economics theory's objective is to explain the boundaries of the firm. It looks at a number of economic theories and applies it to the firm, its behaviour and relationship to the market. It generally has a low concentration of buyers and suppliers, there are many competitors in this market and little uncertainty within transaction processes in market.

The Contingency theory looks at how the organisational structure is affected by different context variables such as environment, organisational size and technology. It possesses a high degree of environmental uncertainty, technological, demand and customer demographics change. When a business entity wishes to enter a foreign market, the above greatly influence its product or service.

The Game theory is a more mathematical and calculated theory, it is based on anticipating responsive actions from other participants. It has a high product heterogeneity, low fixed costs, capital requirements and competitive

responsiveness. Firms are highly competitive in this market, and the product possesses an international appeal.

The above theories all influence the market attractiveness. In order for a specific market to be targeted, it must first appeal to the entrepreneur. Once the entrepreneur finds a foreign market to be attractive, he or she must then follow the market selection process.

2.2.1.3 Market selection

In a foreign market selection process there are two essential steps. The first step is to gather information on a wide range of markets, these spans from the demand for the product or service, size of the potential market and development and sale of the product. The second step is to research the markets in-depth. This is done by narrowing the selection of markets down to three from five, then researching every detail about the market, the audience, the competitors, the product and sale of the product internationally. A calculated decision about which market to enter can be made based on the research and its findings. “Market expansion and firm internationalisation is due to growth through strategic decisions” (Aharoni, 1966; Reid 1984, pp. 44-56).

“It is widely recognised that the performance and growth of small firms are influenced by external environmental conditions” (Miesenböck, 1988, pp. 42-61; Birley & Westhead, 1990, pp. 535-557; Vaessen & Keeble, 1995, pp. 489-505). These conditions include financial and non-financial barriers that deter small firms from entering foreign markets.

Once a firm is able to establish itself internationally, it needs to gain a competitive advantage and have a steady flow of income. The process of selling goods or services to regional, national and international markets allows for access to further resources. The decision of entrepreneurs to take their

products or services global is influenced by internal and external environmental conditions and stimuli (Ford & Leonidou, 1991; Ahokangas, 1998; Haahti, 1998; Prince & van Dijken, 1998; Bagchi-Sen, 1999).

Both the positive and negative forces must be analysed prior to entering a market. There will always be obstacles present for an organisation when entering a foreign market, thus solutions must be taken into account. In order to attain customer satisfaction, there must be some level of awareness of market imperfections. These imperfections are identified through knowledge of the market, information about the market opportunities and market demand.

There are many factors that influence market selection namely: demographic, geographical, economic, political and legal and market factors (Figure 3). Demographic factors include the age, gender and cultural beliefs of its employees and the market. Income and family structure are important here, as well as, major competitors. Geographical elements are the country and region of choice, the time zones and the urban or rural considerations and logistics. The economic, political and legal components include the regulations of the country, keeping to standards set out by their Government and protecting consumers according to their laws. It is also important to stick to the labelling standards of the country and ensure duties and taxes are correctly paid. The market aspects pay attention to the market size and the availability of domestic manufacturers. It also includes the chain of agents, distributors and suppliers involved in getting to product or service to consumers.

The above factors have an impact on foreign market selection and the mode of entry into that market. A firm's internal environment like the demographic factors, competencies, motivations, attitudes and even perceptions of the international markets can influence the owners or managers to enter a market abroad.

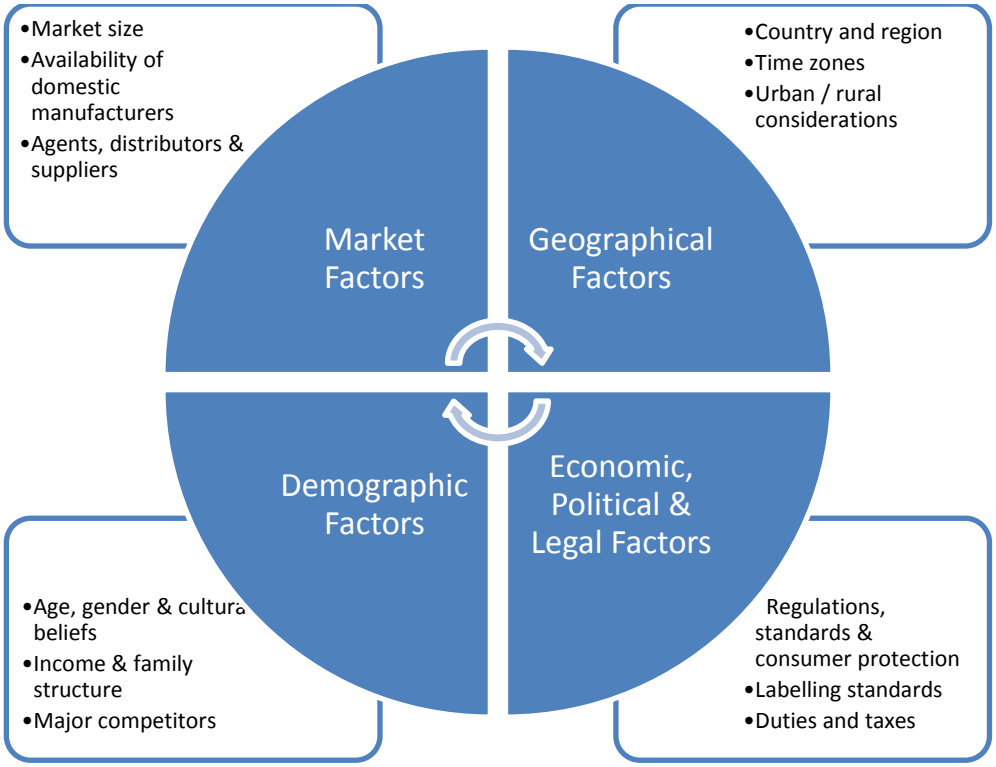


Figure 3: Factors that influence market selection (Source: Own)

2.2.1.4 Choice of entry into the foreign market

Once the foreign market in which to enter is selected, the next vital step in globalisation is the choice of entry into that market. The choice of entry can either break or make the firm thus it must be highly strategic and calculated.

When an organisation penetrates a foreign market, the most important decision to be made is that of the entry mode into the new market. The normative decision theory states that the choice of a foreign market entry mode should be based on trade-offs between risks and returns. The entry mode that offers the highest risk-adjusted return on investment is meant to be the most beneficial. However, “behavioural evidence indicates that a firm's choices may also be determined by resource availability and need for control” (Stopford & Wells, 1972; Cespedes, 1988, pp. 15-27).

Control in the internationalisation context signifies a firm's need to influence systems, methods, and decisions in an international market (Anderson & Gatignon, 1986). Control improves a firm's competitive position and maximises the returns on its assets and skills. Greater levels of control are present from having larger portions of ownership in the foreign venture and this means that there is greater weight on decision-making, in favour of the individual who has more invested in the company. This also means that due to the decision-making and higher commitment of resources, there is more risk involved.

There are four modes of foreign market entry, namely: exporting, licensing, joint venture, and sole venture. A favourable entry method into a foreign country is joint ventures or licensing arrangements (Talaga, Chandran & Phatak, 1985).

Foreign market entry is also influenced by three types of determining factors: ownership advantages of a firm, location advantages of a market, and internationalisation advantages of integrating transactions within the firm. This theory is called the Eclectic paradigm (OLI) created by Dunning (1988). It is based on the Internalisation theory, and stresses three types of advantages to better explain internationalisation.

Ownership advantages are specific to the organisation and related to the accumulation of intangible assets. These intangible assets include technological capacities, competencies, experiences, etc. In order for a foreign business entity to compete with the host country firms, the international firms must possess superior assets and skills that can earn a profit high enough to counteract the higher cost of servicing those markets. A firm's resource power lies in its size and multinational experience, and skills by its ability to create differentiated products. Firms need asset power to engage in international expansion and to successfully compete with host country firms.

The location advantages refer to the institutional and productive factors in a geographical area. The attractiveness of a market has been characterized in terms of its market potential and investment risk. The market potential in terms of the size and growth determines foreign investment (Forsyth, 1972; Weinstein, 1977; Khoury, 1979; Choi, Tschoegl & Yu, 1986; Terpstra & Yu, 1988).

The internalisation benefits result from the firm being able to manage and coordinate its own activities. Low control modes are advantageous to the firm, as they allow a firm to benefit from the scale of economies.

Table 2: The characteristics of the foreign entry modes (Source: Own)

Entry Method	Control	Dissemination Risk	Resource Commitment	Flexibility	Ownership
Exporting	Low	Low	Low	High	Low
Licensing	Low	Low	Med-High	Low	Low-Med
Joint Venture	Medium	Med-High	Med-High	Medium	Medium
Sole Venture	High	High	High	High	High
Investments	High	Low	High	Low	High
Contracts	Medium	Med-High	Med-High	Medium	Med-High

Exporting is the simplest, least risky way for a firm to launch its global expansion plan and requires few additional resources. It can be executed directly, via the organisation developing its own relationship with customers in foreign markets. This then enables critical learning through exposure to foreign

competition, and helps to establish more productive relationships with customers, which then encourages further internationalisation and growth.

With this type of entry mode, profits do not have to be shared. Economies of scale are attained by spreading the costs over more units of production. There is an exposure to previously untapped markets and access to a wider consumer base.

Licensing is the right to utilise intellectual property in terms of patents, copyrights, designs, and trademarks in exchange for royalty payments. It may be an effective way for a company to expand its operations abroad and take advantage of the opportunities offered by foreign markets. Income is dependent on the licensee and the level of risk involved is moderate.
The firm needs to consider the legal and institutional environment in the host country with regard to intellectual property protection, contract laws, judicial practice and enforcement of contractual obligations, foreign exchange regulations and assurance of timely remittance of royalties.

International franchising is a type of strategic alliance which requires a license. The franchisor provides the franchisee with proprietary elements: the know-how, licences, trade name, trademarks and training of personnel, product specifications and business systems. The franchisee pays a royalty for the right to operate under the franchisor's name and adopts a business model, to use the know-how, including logos and trademarks.
It has been an effective way for companies to internationalise and expand their operations globally. In some respects, franchising can be regarded as a certain form of licensing but in current business practice, licensing and franchising are substantially different and distinct concepts.

Turnkey operations are essentially management contracts that represent a form of international operation, involving large-scale complex projects that may provide opportunities for smaller firms of the host country, to serve as subcontractors and suppliers. Companies are contracted to build and deliver a

ready-to-operate industrial plant or infrastructure facility, such as a power plant, a highway or a port.

A joint venture is a long-term participation of two or more companies in an enterprise in which each party contributes with assets, has equity participation and shares risk.
The key focus of this agreement is to minimise capital outlays and risks of entry by using the local partners' assets. There are many benefits by partnering with a local firm, such as, greater knowledge of the local institutional and legal environment and access to local borrowing. Goodwill and awareness associated with the local culture arise when partnering with a local company as a sense of affiliation exists between the company and the customer.

The table below (Table 3) illustrates factors that influence the entry modes of organisations into foreign markets. Both firm and environmental factors play a role in the selected entry mode.

Table 3: Factors that influence entry mode choices (Source: Driscoll, 1995)

Situational influences	Firm factor	Firm-specific advantages
		Experience
		Strategic considerations
	Environmental factors	Demand and competitive conditions
		Political and economic conditions
		Socio-cultural conditions
Moderating variables	Government policies and regulations	
	Corporate policies	
	Firm size	

Born global firms may choose any of the above entry modes when it desires to enter an international market. The difference with born global firms is that they are early adopters of internationalisation, exhibiting international business prowess and superior performance, from the organisation's inception or near its

founding. It leverages innovativeness, knowledge, and capabilities to achieve considerable foreign market success early in their evolution. These firms are sometimes referred to as an international new venture.

“Born globals are defined as business organisations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (McDougall & Oviatt, 1994, pp. 469-487). Born globals expand quickly into multiple markets, thus the company may benefit from increased demand, greater access to cheaper inputs and access to a wider pool of managerial talent. Quick and early internationalisation of the firm’s value chain activities lead to efficiency, effectiveness and competitiveness. “Despite the scarce financial, human, and tangible resources that characterise most new businesses, born globals progress to internationalisation relatively rapidly - the period from domestic establishment to initial foreign market entry is often three years or less” (Autio et al., 2000, pp. 909-924; McDougall & Oviatt, 2000; OECD, 1997; Rennie, 1993, pp. 45-52).

These type of businesses first emerged in countries with small domestic markets. Born globals launch their operations from inception on an international scale and view the domestic market as a support for their international business (McKinsey, 1993). This theory focuses on two key trends that have significantly reduced the transactions costs of foreign market expansion. The first is the globalisation of markets, which includes many firms in international sourcing, production, marketing and international alliances for product development and distribution. International business is made easier with increasing homogenisation of buyer preferences around the world, which has enabled standardisation of product development and positioning in foreign markets. The second trend is technological advances. These advances are in the forms of information and communications technologies, production methods, transportation and international logistics, which are reducing business transactions costs and facilitating extraordinary growth in international trade. Diffusion of the Internet, email, videoconferencing and other technologies have made internationalisation a more feasible and cost-effective option.

An organisation's capacity to go global at a young age and accomplish profits in foreign markets defines the internal capabilities of the firm (Autio et al, 2000; McDougall et al, 1994; Zahra et al, 2000). Not all firms are successful when they take their products and services internationally. "The firm's uniqueness facilitates profitable pricing that minimises the need to consider competitors' offerings, inimitability helps ensure that profits will not be competed away, and immobility reduces the threat that proprietary knowledge will be disseminated to rival firms" (Nelson and Winter, 1982; Teece & Pisano, 1994, pp. 537-556).

Most born global firms possess an innovative culture which gives rise to specific capabilities suitable for success in foreign markets. Its entrepreneurial orientation is associated with an innovative and proactive approach to internationalisation. Having an international entrepreneurial orientation implies that these firms make the leap into international markets because of unique entrepreneurial competences and outlook.

"Organisational learning theory suggests that the development of new knowledge occurs best under conditions in which there are little or no existing organisational routines to unlearn" (Autio et al., 2000, pp. 909-924; Cohen & Levinthal, 1990, 128-153). This means that young firms may be better equipped to acquire the requisite knowledge about international business.

The core business strategies utilised by born global firms are global technological competence, quality focus, unique products development and leveraging of foreign distributor competences. Young firms' lack of experience and reserves of financial, human, and tangible resources are no longer major impediments to the large-scale internationalisation and global success of the firm. In the international exchange system, any firm, regardless of age,

experience, and tangible resources, can be an active international business participant.

The number of Born Global firms are growing due to the globalisation of economic environments and the increasing number of internationally experienced entrepreneurs, who are able to recognise the critical resources for international activities (McDougall et al, 1994). In essence a born global firm is at an advantage from its inception, as it is born onto a global platform and can access many resources and people. This obviously increases the organisation's level of awareness to consumers. The following statement summarises the concept of a born global. Born globals are given access to a continuous reserve of critical resources, when on an international platform (McDougall et al, 1994).

It can be deduced from the evidence above and research of the influence of Financial capital on internationalisation of SMMEs, that Financial capital is extremely crucial to the success of its internationalisation. Financial capital highly impacts every possible avenue with regards to taking a company global, such as market attractiveness, market selection, choice of entry mode into a foreign market and whether to adopt a Resource-based theory or born global firm perspective.

A shortage of Financial capital is a major hindrance to attain internationalisation (Smallbone & Wyer, 1995). They argue that lack of financial resources may inhibit the ability of small firms to recognise international opportunities and to exploit these international opportunities. However, it must also be noted that resource-constrained firms gain access or build up reserves of lacking resources through the process of internationalisation. The resource-based theory stresses the importance of Financial capital for expansion and the born global firm can obviously only take its firm international, with reserves of finances. SMMEs Financial capital may not be as large as those of multinational enterprises, but they may still be able to penetrate foreign markets.

2.2.1.5 Sub-problem 1: low levels of Financial capital prohibit South African SMMEs from internationalising

"The biggest preventative factor to global expansion is the high cost of the internationalisation process" (European Commission, 2004). Financial capital is crucial to the business to purchase raw materials and equipment to launch a new business venture and established businesses, require Financial capital to continue existing operations or to expand the business. The South African balance of trade will recover from its deficit by increasing the number of firms involved in international markets and reducing imports and increasing exports.

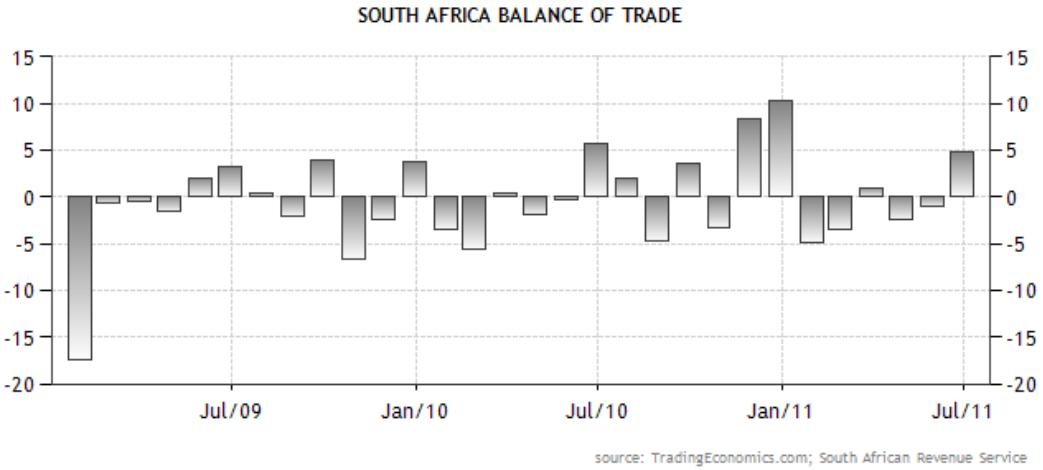


Figure 4: South African Balance of Trades (Source: www.TradingEconomics.com; SARS)

2.2.1.6 Hypothesis 1: There will be a positive relationship between the level of Financial capital available to the SMME and the level of internationalisation

In actuality, Financial and Human capital differs from Social capital in the sense that they are property of the individuals. Social capital is associated with the rate of return, as well as creating and maintaining relations with colleagues,

family, friends and clients. With these relationships opportunities arise that transform Financial and Human capital into profit. Social networks are deemed one of the most important factors in the process of internationalisation (Andersson, 2000; Kiss & Danis, 2008).

2.2.2 Social capital

“Social capital is about the value of social networks, bonding similar people and bridging between diverse people, with norms of reciprocity” (Dekker & Uslaner 2001; Uslaner 2001, pp. 104-117). The old adage that states that it is not what you know but, rather whom you know that secures job positions. (Sander, 2002). Adler and Kwon (2002, pp. 17-40) define Social capital as “the goodwill available to individuals or groups.” If a firm has a large social network, there are many more contacts available, which may assist in going global.

Networks of business contact are beneficial to an organisation that is internationalising as the resource pool becomes larger. Business networks are comprised of a repetitive set of transactions based on structural and relational formations. These have dynamic boundaries made up of interconnected actors, resources and activities. Networks allow for shared activities and exchanges that involve the flow of information, resources, trust and commitment between its members. Information benefits arise from access, timing or referrals. Access refers to receiving valuable information about the opportunities available in the external environment. Timing is key to having the first mover advantage. Referrals are a source for future opportunities. Each network has limited resources, and different members have different access to information, Financial capital, Human capital, Social capital, organisational capabilities, technology, knowledge, and other resources.

“Relationships evolve in a dynamic interaction-exchange, through processes and adaptation processes, during which the companies learn about each other, develop mutual orientation, trust and commitment” (Johanson & Mattsson,

1987, pp. 34-48). The people involved in the relationship learn how to interact with each another. With these interactions Social capital is created.

The collaborative relations as well as the density of the network opportunities can encourage the clustering of interacting industries. They in turn can provide a competitive advantage for firms entering into foreign markets. Organisations that possess mutual knowledge and trust have a competitive advantage and are able to extend their external environment to include foreign markets (Johanson & Mattsson, 1988; Blankenberg & Johanson, 1992).

Intangible assets such as relational resources are referred to the relationships established within a social network. (Julien, 2005). An entrepreneur's social network may greatly influence a firm's ability to identify and acquire external resources and its ability to use these resources for product development, production and promotion. Entrepreneurs are able to create a 'capital of trust' (Holmlund & Kock, 1998) by using their institutional and social networks strategically.

2.2.2.1 Network approach

All organisations that share suppliers, distributors and customers form a network (Johanson & Mattsson, 1988) In essence; the Network theory expands on the beneficial utilisation of various networks ranging from friends, family, acquaintances and other ties in the environment to access opportunities or business expansion. According to Coviello and McAuley (1999) and Jones (1999) the Network theory is defined as an organisation that utilises international suppliers, distributors, consultants and strategic alliances in order to successfully globalise. The internationalisation process involves growing the firm's knowledge, experience and commitment foreign markets. "Networks are a precondition for international growth, as they facilitate the acquisition of experiential knowledge about foreign markets" (Coviello & Munro, 1995, pp. 49-61; Lindqvist, 1997; Crick & Jones, 2000, pp. 63-85).

The initial internationalisation activities are targeted at markets close to the home market, that share a similar demographics, culture, language, trade practices and political systems (Johanson & Vahlne, 1977). Internationalisation is largely influenced by relationships that a firm can develop as a form of networking. Christensen (1991) stated that prior knowledge about and preliminary established contacts in specific markets affect entry decisions into these markets. Johanson and Vahlne (1977) further suggest that a firm's success in entering new markets is above all dependent on its position in the network. Thus, it is crucial to grow and sustain a business network across borders. Johanson and Vahlne (1992) also found the foreign market entry to be a gradual process resulting from the interaction of parties, and developing and nurturing relationships over periods of time.

The purpose of networks is to speed up internationalisation by providing synergistic relationships among partners at various stages in the value chain (Dana, 2004; Jones, 1999). Networking may be regarded as a source of sharing market information and knowledge. Therefore, networks act as a bridging mechanism that allow for rapid internationalisation (Mitgwe, 2006). The core emphasis of the network approach is in bringing the involved parties closer, by using the information that the organisation acquires, by creating mutual relationships with customers, suppliers, the industry, distributors, and the supply and distribution chains. In comparison to large companies, entrepreneurial firms have to rely more on the social networks and personal contacts in the internationalisation process comparatively due to their limited financial and human resources (Musteen, Francis, Datta; 2010). Relationships are based on trust and shared commitment which will be explored further on in this research. Firms tend to establish and develop a position within the market in relation to other actors in a foreign network (Johanson & Mattsson, 1988). An organisation's position in a local network determines its process of internationalisation since that position determines its ability to mobilise resources. In the initial stages of planning of globalisation, the firm must gain an

understanding of the market in which it wishes to operate, the environmental conditions and its various relationships (Madsen & Servais, 1997).

The process of network interaction leads to the creation of Social capital. This represents the most critical resource an entrepreneurial firm requires in order to enhance their abilities to go abroad. It also influences the direction of internationalisation of the firm. (Arenius, 2002; Andersson & Wictor, 2003; Sharma & Blomstermo, 2003; Auto, 2005). A firm's Social capital calculated by an accumulation of the entrepreneur's or owner's business and social networks, as well as those of managers, employees and others in the web of contacts of the business. The personal resources of the entrepreneur of an SMME are crucial. These personal resources such as, knowledge, experience and network of relationships are the core of the internationalisation process. (Makovec Brencic, 2001; Ruzzier, Antoncic, & Konec- nik, 2006). It is essential to note that there are two types of networks: business and social, both having a different scope. The social network represents all the relationships that an individual has with others in society (Burt, 1992), and the business network includes only the relationships between firms (Easton, Hakansson, 1996; Ellis, 2011).

2.2.2.2 Social Network theory

The Social Network theory is based on the Network theory, as it concentrates on the fact that relationships and ties are most important in the network (Bell, 1995). In both personal and business networks, the networks act as communication infrastructures through which common interests are shared. Social networks offer the necessary information and contacts (Welch, 2004). It is beneficial for firms that are internationalising, to gain information about new markets, products or services and the environment, as well as the political and economic climate of the foreign market. Informal relationships are crucial as a source of information about new markets (Hakansson, 1995) and a significant way of acquiring cultural knowledge (Styles, 2000).

It is almost a pre-requisite that companies have a social network in which to interact with, regarding internationalisation, so that the process is made easier. Social networks are entirely dependent on the element of trust. Many researchers think that international transactions cannot be built without the existence of trust (Axelsson, Johanson, 1992). Johanson and Vahlne (2009) define trust as an ability to predict the behaviour of another individual, and it is characterised by high ethical standards. Trust enables people to share information with each other and is particularly vital in the situation of uncertainty (Johanson & Vahlne, 2009). Trust may even act as a substitute to knowledge if the firm founder lacks knowledge in a particular field, but can transfer decision-making process to a trustworthy intermediary agent (Arenius, 2005). Trust is an intangible asset that possesses an emotive dimension which is built over time. Trust assists individuals in learning and developing new knowledge and capabilities (Granovetter, 1985; Arenius, 2005). When an organisation's network has international distance between it, trust enables it to have future dealings with each other. Therefore trust and commitment building become a significant issue in developing a business network in internationalisation. According to the network theory of internationalisation, networks are created slowly with increased trust and commitment. Organisations that are affiliated in social networks, that share mutual knowledge and trust, are at a competitive advantage and are able to internationalise with ease (Johanson, Mattsson, 1987; Holmlund, Kock, 1998; Covielo, Munro, 1995; 1997).

There are three main approaches in network analysis such as: the positional, relational and interaction approach. The positional approach places an emphasis on social structure as a pattern of relationships. It has recognised network characteristics that include: position and role of actors within networks, multiple social and communication links, density, symmetry, reachability and range, structural holes and the strength of weak ties. The strength of weak ties will be explored further in this research. The relational approach highlights supplier networks and industrial markets, and it also introduces the concept of overlapping networks of actors, resource flows, and activities. The interacting

parties are conceptualised as the individuals, and the organisations they work in, with regards to size, structure and strategy, and experience and technology employed by these organisations. The interaction process talks about the relationships between people in the networks that are interacting with one another, the joint activities and the resource flows, between the various points of interaction with each other. All of the above mentioned approaches to analysing networks include exchanges of products, services, and information, financial payments, as well as social exchanges that in turn reduce uncertainties and build trust.

Table 4: Summary of the approaches to network analysis and its network characteristics (Source: Own)

Approaches	Characteristics of the network
Positional	Position and role of actors Communication links Density Strength of weak ties
Relational	Overlapping of actors Size Structure and strategy Experience and technology
Interaction	Relationships between parties The resource flows between them Joint activities Points of contact

The figure below (Figure 5) refers to individual entrepreneurs connected to each other in social networks. These connections range from family, friends, colleagues and communities. They are then connected further to individuals in organisations, as well as organisations locally and abroad. This in turn creates one large international web of social contacts. In the Social Network theory, relationships are viewed in terms of nodes and ties. Nodes are the individual actors within the networks, and ties are the relationships between the actors. Relational ties are defined as information-carrying connections between people. There are three types of ties, namely: strong, weak and absent ties. A great amount of novel information flows to individuals through weak, rather than strong ties. This is due to the fact that close friends tend to move in the same circles and the information shared overlaps with information that is already known. Acquaintances, on the other hand, are associated with different people, and as a result, receive a larger amount of novel information. The strength of weak ties will be investigated further on in this research. Every business relationship has three dimensions: actor bonds, activity links, and resource ties. The relationship is measured by its longevity, the nature of the bond between firms based on product, technology, financing, and strategic objectives and the shared information.

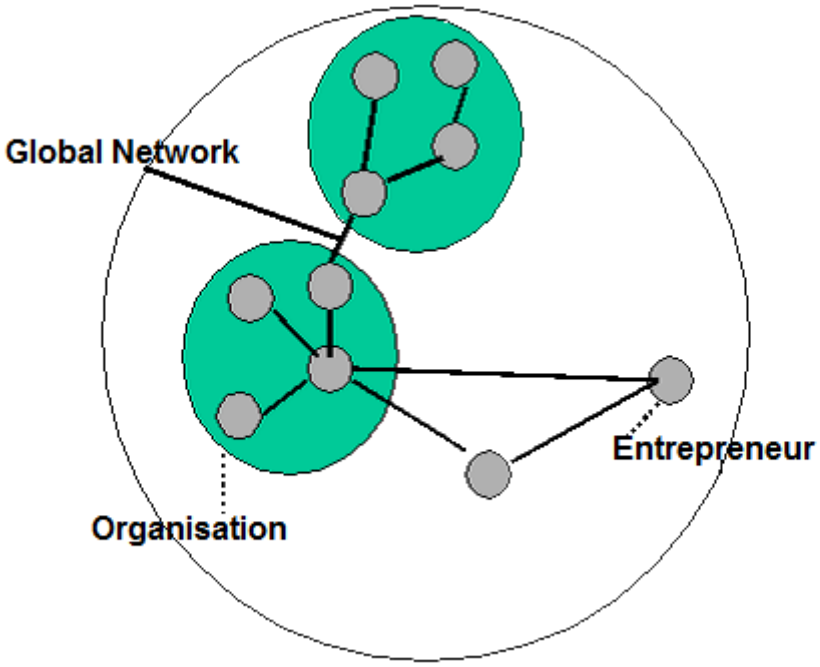


Figure 5: Networks connecting entrepreneurs, organisations and global networks. (Source: derived from Van Dijk, 2001)

As firms internationalise, the number and strength of relationships grow and this permits the international expansion. It is due to trust and commitment that the organisation is able to penetrate the foreign market. It then attains international integration as illustrated in the figure below (Figure 6).

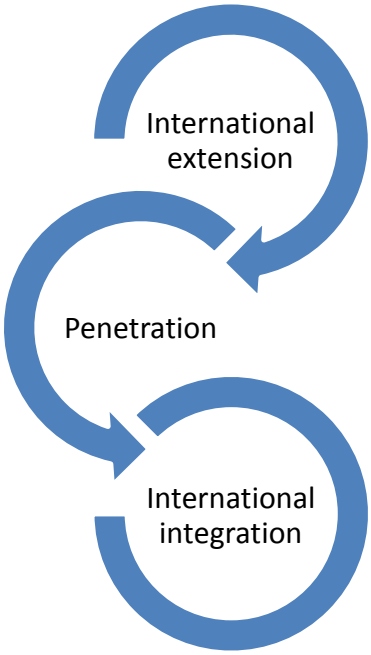


Figure 6: Network approach to internationalisation (Source: Johanson & Mattsson, 1988)

Once the firm follows the Network approach to internationalise, it acquires the necessary resources from its international network to succeed in globalising its operations. A firm requires resources that are owned by other firms, which are obtainable depending on their position within the network (Johanson & Mattsson, 1988).

Case study research has illustrated the development and termination of network relationships and can explain the internationalisation patterns of many firms, especially with regard to market selection and entry mode (Axelsson & Johanson, 1992; Johanson & Vahlne, 1992; Coviello & Munro, 1997). Johanson and Mattsson (1988) have identified four categories of firms: the Early Starter, the Lonely International, the Late Starter and the International Among Others.

The Early Starter firm possesses a low degree of internationalisation with weak ties within its network (Johanson & Mattsson, 1988). On the whole, the Early

Starter firm has very little or no experience of working in a foreign market, with limited and relatively weak relationships with international firms. Thus, the knowledge feedback from the foreign market to the firm is restricted. “The process model contends that knowledge can be acquired through the firm increasing its interaction with the market or, in other words, intensifying its current activities” (Johanson & Vahlne, 1977; 1990, pp. 1-24) via the process of 'learning by doing'. Axelsson and Johanson (1992) state that the knowledge of other actors in the network can influence a firm's decision-making capabilities.

The Late Starter firm has a low degree of internationalisation, but it is positioned in a highly internationalised market. The Late Starter is characterised by a low level of commitment and activity in international markets. It also has low levels of international experience and limited international relationships (Johanson & Mattsson, 1995). For SMMEs, decisions to allocate resources in the internationalisation process are made, based on the experience of the firm's business network. These networks that share information, are important in the gathering of knowledge from foreign markets and are often shared through a strong interpersonal network (Denis & Depelteau 1985; Welch & Luostarinen, 1988; Bonaccorsi, 1992).

The Lonely International firm is highly internationalised, but in a market environment, with a domestic focus. These firms gain first-hand experience. This first-hand experience allows the firm to combine new experiences with its existing knowledge base and organisational procedures (Johanson & Vahlne, 1977).

The International Among Others focuses on firms that have high levels of internationalisation, where both the market and the firm are advanced in terms of the globalisation process. Established and developed positions and resources exist in foreign markets. The experiential knowledge that exists in the firm’s international network, is expected to merge with the experiential knowledge of the firm, in order to create an added knowledge advantage. This is either directly through network interactions, or indirectly through imitation (Bonaccorsi, 1992).

Culture plays a noteworthy role in attitudes of entrepreneurs from different countries towards the choice of their partners abroad, and so does Social capital. Initial internationalisation activities are generally aimed at markets close to home as it would share similar demographics, culture, language, political systems and trade policies. A similar culture makes establishing new business contacts easier. Cultural distance measures the gaps between the groups whilst, psychic distance describes differences in manager's subjective perceptions regarding the dissimilarities of foreign markets (Ellis, 2007; 2011). Cultural and psychic distances are linked with differences that exist in language (Hutchinson, 2005; Ellis, 2011). Therefore, international activities in SMMEs often start with markets which are similar culturally or geographically (Caughey & Chetty; 1994). Nevertheless, social networks may partly remove the issue of cultural differences. Styles and Ambler (2000) believe that social networks may provide the necessary cultural knowledge that an entrepreneur requires, when entering culturally different markets. This also dispels some of the risk involved and provides the firm with confidence to increase foreign market commitments in more distant markets.

Geographic distance is defined as a set of factors that make the foreign environment challenging to comprehend (Johanson, Widerscheim-Paul, 1975). Social networks may serve as an instrument for overcoming the geographical barriers, as it may help in finding partners or investors. Entrepreneurs use social networks as a source of competitive advantage in the process of internationalisation (Yiu, Lau, Bruton, 2007).

It is apparent that entrepreneurs must engage the potential market's culture, prior to entry so that it may gain acceptance into it. Places like China, India and Pakistan demonstrate an old friend approach, whereby entrepreneurs strictly prefer partners from their personal networks or at least from the same ethnic and cultural origin. Chinese entrepreneurs prefer to negotiate with their old friends or insiders in the same guanxi network (Wong & Leung, 2001) and it is

said that Chinese market social ties typically precede business ties (Bjorkman & Kock, 1995). This is worth taking note of, as it will determine the firm's success in the international market.

2.2.2.3 Strength of weak ties

Strength of ties relies heavily on trust regardless of whether it is a weak or strong tie. Gartner and Low (1990) defined trust as a business relationship being successful. Trust occurs when one party in the relationship has a positive attitude towards the other. With this definition, it is evident that in a relationship that has a strong bond, or a weak one, trust must exist in order for there to be future partnerships. The element of trust is composed of three factors, namely: the trusting party must believe that both parties have shared expectations, the other party will contribute equally in order to meet their shared expectations, and the other party is competent to complete the task at hand (Gartner & Low, 1990).

The strength of ties have a substantial impact on the relationship shared and the potential benefits derived from it in the internationalisation process. Strong and weak ties have differing outcomes in various situations. Weak ties play a distinct role in an individual's opportunity for mobility. Individuals, who possess weak ties with others, have better access to job information. During the time of job exploration, the use of weak ties leads to a strong association with higher occupational achievement. This means that the weak ties connect the respondent to an individual who is placed high in the occupational structure.

In lower socioeconomic groups, weak ties represent friends or relatives, acquaintances or associates that provide information and would account for a broadening of opportunity horizons. In higher socioeconomic groups, weak ties bridge social distance. Therefore if there are no lucrative job openings known to one's own social circle at any given moment in time, one may still take advantage of those known in other circles. Weak ties provide people with access to information and resources beyond those available in their own social circle, but strong ties have greater motivation to be of assistance and are

typically more easily available. “The stronger the tie connecting two individuals, the more similar they are, in various ways” (Granovetter, 1982). In essence, the better an individual knows one another, the more likely he or she is willing to help the other. High-status individuals tend to have contacts in all groups, and are not limited to a few social circles (Homans, 1950). By establishing the strength of ties in international markets, it is simpler to form a strategic alliance in that market.

An international strategic alliance is a collaborative agreement between firms from various countries. It is characterised by a mutual commitment to reach a common strategic goal with regards to research and development, production or marketing. Strategic alliances offer many benefits that span across, new avenues for market access, access to financial resources, pooled research efforts, wider distribution channels and decreasing development times of innovations. Strategic alliances between countries are growing rapidly due to the fact that international competition drives specialisation and the trend for larger companies to outsource activities for cost based advantages (OECD, 2005).

When space-shrinking technologies due to developments in the field of information and communication technologies (ICT) were introduced, companies across the globe benefited from this. The rise of the wide-spread diffusion of technologies has paved the way for dramatically lowered communication costs in all industries. With these innovations in technology, telecommunications across geographical distances are now far more convenient and supportive for the co-ordination of international strategic alliances than ever before. This allows firms to internationalise their activities within various countries without being physically present.

2.2.2.4 Strategic alliances

Strategic alliances are formed primarily through different types of joint ventures, ranging between contractual, co-operatives, restructuring and equity ventures.

The contractual joint venture has a limited duration and builds a plant or an infrastructure facility with another international entity. This joint venture is dissolved upon completion of the project. The cooperative joint venture is between an international organisation and a developing country's Government. The Government enables negotiation of conditions that would not have been achievable under the regular legislation applicable to private business transactions. Restructuring joint ventures have been utilised when a firm wishes to separate itself from an underperforming business and another company is willing to acquire it. An equity joint venture is a long-term participation of two or more companies in an enterprise in which each party contributes assets and shares the risk involved.

These joint ventures enable SMMEs with limited resources and market knowledge, to enter international markets. Alliances and networks can take many forms, including joint research and development, manufacturing, marketing, sourcing of inputs, or co-operation on distribution. The key to success in internationalisation is the critical choice of a joint venture partner (Kirby & Kaiser, 2003).

Operating in international markets demands resources, experience, skills and knowledge, many of which small businesses often lack. Although there are advantages, such as flexibility and innovativeness, disadvantages do exist. By collaborative efforts with other internationalising SMMEs, the partners could use their scarce resources more efficiently, decrease costs and risks and develop new skills which are needed in the foreign markets. Clusters and other networks can help in developing and securing international alliances by increasing productivity, innovativeness and competitive performance of local firms. It is also due to the internet that entrepreneurs can establish, maintain and communicate with other networks internationally.

2.2.2.5 Sub-problem 2: few social ties and networks prevent South African SMMEs from globalising

Networking is an extremely influential tool for the entrepreneur (Dubini & Aldrich, 1991). Networks emphasise mutual norms, personal relationships, reputation, and trust amongst the actors in the network (Larson, 1992). Organisations use their networks to gain access to multiple types of resources that will benefit the organisation on a whole. Intangible assets such as reputation and networks, can significantly influence the speed and degree of internationalisation (Zahra et al. 2000b).

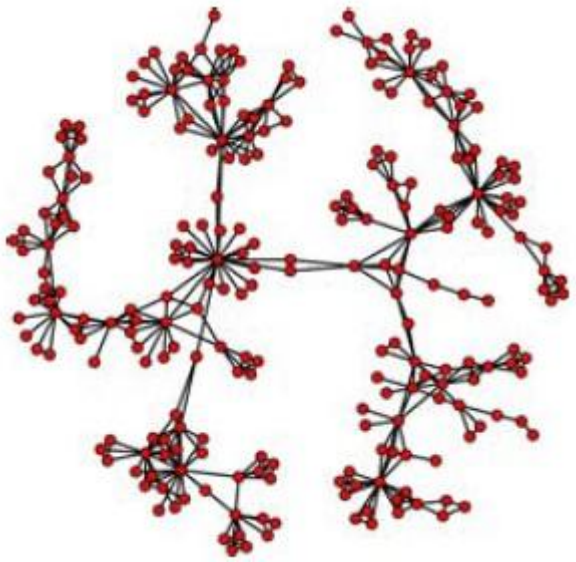


Figure 7: A Social Network with international contacts (Source: Pietro, Prevezer & Opsah, 2004)

The figure above (Figure 7) illustrates social relationships, consisting of nodes and ties. Nodes are the individual actors within the networks and ties (weak or strong) are the relationships between the actors.

2.2.2.6 Hypothesis 2: There is a positive relationship between social networks and the level of internationalisation of the SMME

Social networks may be built and maintained via many social applications today. The Internet has impacted significantly on business practices and the manner in which people across continents communicate.

2.2.2.7 The Internet on internationalisaton

“The internet is a recognised forum whose imbalance is in favour of the consumer” (De Chernatony, 2001). International entrepreneurial creativeness, risk taking and pro activeness to internationalisation, is slowed down if there is a lack of resources (Hutchinson, 2006). SMMEs have scarce resources and the low cost of the internet dilutes the financial risk involved in internationalisation. Firms do not require a physical presence in a country to capitalise on its opportunities. “Not only do large firms with sizeable capital capabilities have the ability to internationalise through the internet, but small and medium companies also do so with moderate investment” (Arnott & Bridgewater, 2002, pp. 86-95). SMMEs are the grease behind large corporations that enable development of economic activity. It has been well-established that the Internet provides SMMEs with the capabilities of offering their products or services on a global platform, where this may not have been possible without the Internet (Aspelund & Moen; 2004; Bennett, 1997; Hamill, 1997; Simpson & Docherty, 2004). The internet allows international transactions and communications to occur with operational efficiencies. There is greater access to information which in turn, enhances the capabilities of SMMEs. It is clear that the Internet has improved the firm’s ability to interact with consumers, suppliers, distributors and business partners.

The Internet has changed the information search for consumers, information control for the firm, interactive capabilities, trust, disintermediation and internal firm issues. The Internet decreases the cost of the information search to the consumer (Mathur & Gleason; 1998; Kolesar & Galbraith; 2000; Rowley; 2000). Global media is transforming the perception of distance and creating a platform

which shares a global time, characterised by diffusion of cultures, social networks and virtual mobility. It has enabled people living in distant geographic locations to form relationships online, which in turn proves advantageous for international firms that are geographically isolated from major trading partners and customers. Information based products and services that are highly intangible, such as the banking, and computer software have a significant advantage online (Arnott & Bridgewater, 2002). It also makes use of communication tools such as Skype, Linkedin, Facebook, Twitter and other online tools to communicate and market firms.

The psychological orientation of the manager influences whether or not the manger will utilise the Internet in the internationalisation process (Siegel, 2004). If the firm is consumer focused, it will integrate the Internet to better service their clientele in the international markets. Research has shown that with higher levels of internet usage, there is a greater propensity for the firm to have international ambitions (Moen, 2002). Traditional firm-based competitive advantages are transferred online as core competencies and can springboard the marketing strategy (Porter, 2001; Murphy & Bruce, 2003). The Internet is a powerful tool in execution of a marketing plan (Aspelund & Moen, 2004). An interactive website has positive influence on purchasing behaviour as the perceived decision-making process may become more emotionally intense experience, and therefore a more involved experience for the consumer.

In summary, social networks may serve as a source of information for new business opportunities in the foreign markets. (Ellis, 2011) and Christensen (1991) pointed out that prior knowledge about and contacts in specific markets, influence the type of entry into these markets. The saying, “who you know is more important than what you know,” may be true in the case of foreign relationships and internationalising an organisation. Chen (1998) views networking as an adaptation process that reduces transaction costs and learning processes. International network relationships act as a function to

increase the integration of international business activities. A firm positioned within a foreign network enables the newly internationalised firm to develop relationships which in turn, can lead to further linkages with other actors (Axelsson & Johanson, 1992; Johanson & Vahlne, 1992).

2.2.3 Human capital

Social and Human capitals are intertwined and have numerous influences on each other. An organisation is able to acquire pertinent international knowledge from the network it belongs to (Holm, 1996; Chetty & Eriksson, 1998). Market knowledge is composed of foreign business knowledge and foreign institutional knowledge. The foreign business knowledge component seeks to capture experiential knowledge relating to customers, competitors and the market in which it operates. Foreign institution knowledge is concerned with the knowledge of government, culture, and institutional frameworks. Both these types of knowledge raise an organisation's awareness of opportunities and challenges in the foreign market. Experiential knowledge reduces an organisation's perception of market uncertainty, which then impacts the commitment to international markets. The experience an individual gains from working in a foreign market place is transformed into knowledge which can be used to resolve problems related to international operations (Brockman & Anthony, 1998). The development and utilisation of foreign networks is closely related to the learning process in that it underlies the overall internationalisation. It plays an important role in the firm's knowledge which is created and maintained via actors within the relevant networks. If the firm is exposed to a large number of knowledge sources, without relying on internal capabilities, the firm's network offers numerous opportunities for vicarious learning (Osland & Yaprak, 1995; Inkpen, 1996).

Human capital represents an investment in education and skills. Human capital plays a significant role in the growth and development of economic growth (Novak & Bojnec, 2005). Entrepreneurs provide tangible and intangible resources to a firm. These intangible resources are the property of individuals

that have accumulated them through education and experience. Human capital is split into two categories i.e.: general and specific capital (Becker 1975). With regards to internationalisation, Human capital refers to the level of education and managerial experience (Chandler & Jansen, 1992; Fletcher, 2001). In totality, Human capital comprises of general Human capital characteristics, management know-how and foreign work experience, (Cooper et al., 1994) suggest that education is linked to knowledge, skills, problem- solving ability, discipline, motivation and self-confidence. Entrepreneurs with more diverse levels of Human capital are purported to have the ability to develop relevant skills and contacts and are able to draw on dense resource and information networks.

There are striking characteristics of the firm's top management team that differentiates between its successes and failures. These characteristics heavily influence the firms' strategic decisions, such as internationalisation (Carpenter & Frederickson, 2001; Calof & Beamish, 1994). In principle, international knowledge and work experience allows internationalisation to occur successfully.

There are four elements which contribute to an entrepreneur's Human capital: general Human capital, management know-how, specific industry know how and ability to acquire Financial capital. The experiences, skills and competencies that an entrepreneur possesses are determining features which influence business survival and development (Storey, 1994). Entrepreneurs that have a University degree, have high expectations for success and as a result opt to further their studies. Thus the more highly educated the entrepreneur, the higher their problem-solving skills. The entrepreneur is exposed to a wider social and business network at University, which enables them to be more aware of business opportunities in foreign markets.

"The Human capital of an entrepreneur and the internal resources of a firm may influence the competitive strategies pursued by firms as well as their

performance" (Reynolds, 1987, pp. 231-246; Romanelli, 1989, pp. 369-387; Kalleberg & Leicht, 1991, pp. 136-161; Westhead, 1995b, pp. 5-27; Gimeno, Folta, Cooper & Woo, 1997, pp. 750-783; Bates, 1998, pp. 133-130). The key to the internationalisation strategy is the manner in which the entrepreneur manages employees and decision-making. "Superior performance is an outcome of the firm's entrepreneurial and managerial knowledge" (Autio et al., 2000, pp. 909-921; Penrose, 1959). The Human capital employed in a firm can determine its success or failure.

2.2.3.1 Knowledge management

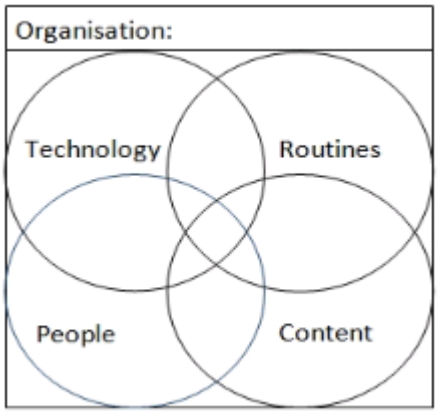


Figure 8: <u>Knowledge management within an organisation (Source: Norbert Herrmann, 2011)</u>

Management is comprised of people, content, routines and technology (Figure 8). All of these elements cross-over into each other's spheres and as a result are inter-related. Knowledge management is a concept in which an enterprise consciously and comprehensively gathers, organises, shares, and analyses its knowledge in terms of resources, documents, and employee skills. Knowledge management involves data mining and a method of operation to push information to users. It also involves the display of procedures and techniques that are utilised in order to get the most from an organisation's tacit and codified know-how (Teece, 2000), and it indicates how firms create, retain, and share knowledge (Argote, 1999; Huber 1991). Ron Young, CEO of Knowledge Associates International, defines knowledge management as "the discipline of

enabling individuals, teams and entire organisations to collectively and systematically create, share and apply knowledge, to better achieve their objectives". The figure below (Figure 9) is an illustration of the importance of knowledge in the internationalisation process.

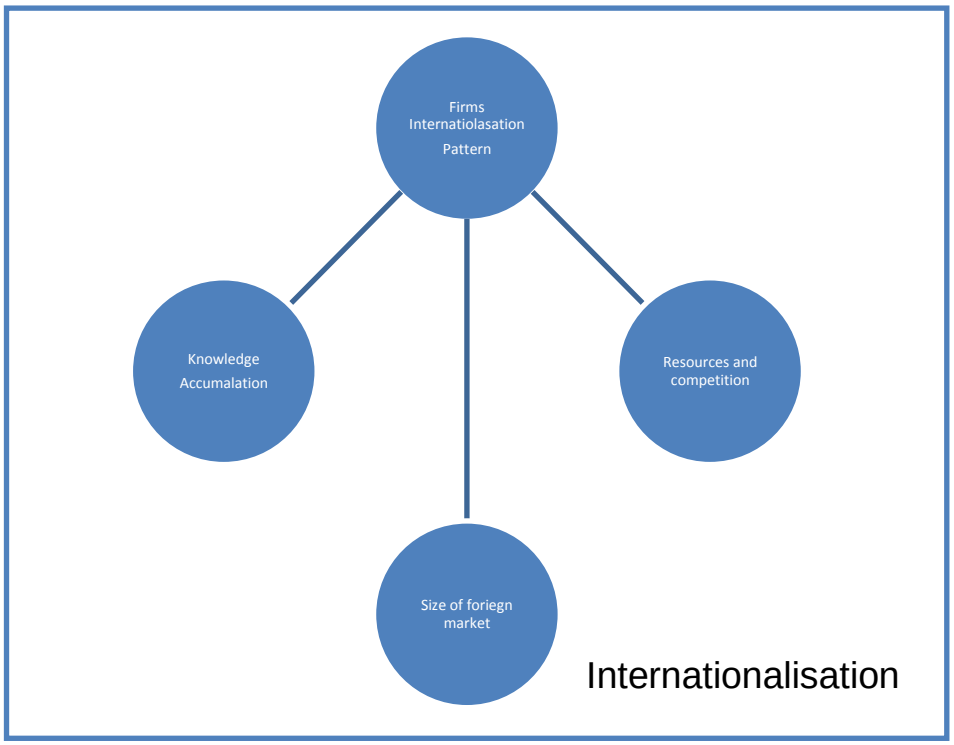


Figure 9: <u>The role of knowledge in the firms' internationalisation process (Source: Own)</u>

When a South African company wishes to expand its operations internationally, it is imperative to transfer the technical knowledge and skill required for the firm to be successful. As previously mentioned in Social capital, culture and demographics play a role in the transfer. In order to implement an organisational change, a common language must be set, as well as a clear and consistent definition of the key elements. In the process of cultural organisational change, models serve as support for setting the basic concepts on which to work. Therefore, these models must comprise of the key factors of the strategy, growth and future employees. This will allow the company to establish standardised operating practices and policies. Knowledge of foreign markets developed through experience is advantageous to overcoming

challenges associated with the differences in language, culture, business practices, and legislation (Morosini & Shane, 1998).

Human capital of an SMME has five dimensions which enables entrepreneurs to relate positively to internationalisation. These are: international business skills, international orientation, perception of environmental risk, management know-how and industry know-how.

In an international business setting, tacit knowledge is an asset of geographically dispersed markets within which a company is willing to operate. International business skills gained via experience in foreign markets exposes entrepreneurs to information and contacts in these foreign markets. “Knowledge of foreign markets enhances the likelihood of export engagement and expansion” (Reid, 1983, pp. 44-56). These increases the investment entry modes with full ownership and impacts positively on internationalisation. Knowledge learnt on international assignments leads to a higher understanding of international trade policies and exchange rate risks, which will yield skills and capabilities with broad international applicability (Carpenter, 2000). In essence, international experience of managers and entrepreneurs are a resource to the firm. The effect of international business skills (international experience and international schooling) on internationalisation, correlates positively to the international experience of the firm’s top management teams but showed no relationship to the top management team’s international schooling, towards internationalisation (Bloodgood, 1996).

The amount of time an entrepreneur has spent abroad can be a determining factor that could differentiate firms in relation to its export propensity, aggressiveness, development, and performance. An entrepreneur’s exposure to foreign cultures through living, working, or travelling abroad could increase his or her international orientation. Managers involved in the actual foreign market acquire and maintain tacit knowledge of the firm’s international activities (Athanassiou & Nigh, 2000). Each local market is different, and by the mere fact

that an entrepreneur has been exposed to multiple local markets, he or she can fair in the face of ambiguity. Entrepreneurs who have lived abroad are more likely than their counterparts who have not, to respond favourably to export market opportunities. When entrepreneurs travel abroad, they gain experience about foreign business practices, meet with prospective clients, and recognise market opportunities (Leonidou *et al.*, 1998; Reid, 1981).

A firm's tendency to globalise its operations is positively related to its entrepreneur's level of risk taking (Wiedersheim-Paul et al., 1978). Risk management tools are necessary in an internationalisation process, in order to predict and manage the issues that can emerge during the process. These tools are very useful to make decisions that reduce the effect of such risks. When venturing into a foreign market, there is a greater amount of risk involved, therefore may be hesitant to initiate, develop, and sustain the global operation (Wiedersheim-Paul et al., 1978). The safest form of internalisation is export, due to the fact that it involves the least amount of risk. Entrepreneurs that take risks, respond promisingly to export opportunities opposed to those who are risk-averse (Leonidou et al., 1998). Cavusgil (1993) stated that an entrepreneur's attitude to risk-taking was positively correlated to the success of export process and export performance. Once a firm gains entry into distant overseas markets, a variety of risks involving physical, Social, Financial, and Human capital, may inhibit its internationalisation progress.

Management know-how is crucial to success. The entrepreneur secures supplies based on their management know-how and their ability to identify appropriate partners, investors and advisors which can be nurtured to supply the firm with necessary resources (Carter et al., 1997). The advantage of an organisation that possesses a wide array of management know-how, is that it can institute improved human resource practices, undertake more promising competitive strategies and identify new market opportunities in foreign markets. Management know-how is a form of Social capital that represents the non-

economic knowledge accumulated by individuals which has a direct influence on the individual's economic behaviour (Greene & Brown, 1997). Further, management know-how can be accumulated by the entrepreneur and is also drawn from their backgrounds, whereby their parents were also entrepreneurs, and acted as role models (Duchesneau & Gartner, 1988). The entrepreneurs, who come from homes which have had a business owning backgrounds, may be better prepared to tackle market opportunities in domestic and international markets. Cooper (1981) suggests that the most important influence upon the ability of an individual is the previous work experience of a founder. Cooper (1994) has stated that the level of prior management experience provides the opportunity to nurture skills for monitoring diverse functions and interacting with various components and to develop contacts with potential suppliers and customers.

Long established entrepreneurs are more likely to have financial security (Cressy & Storey, 1995). It is these individuals that generally have wider social and business contacts, as well as extensive experience, to ensure that their businesses survive. Furthermore, these entrepreneurs are able to capitalise on their wider social and business networks and sell their products and services abroad (Westhead, 1995a). Cooper (1994) suggests that with the presence of partners, there is an increase in the legitimacy of the organisation, and liabilities associated with the firm's age and size, are reduced. By having more than one owner, there is a greater number of skills and expertise that govern the firm, accompanied by a wider social and business networks. The business entities owned by partners have far more diversified skill and competence bases to draw upon, which can inevitably be used to obtain resources from the external environment. Businesses that are owned by multiple entrepreneurs are at an advantage as they start-off with more financial resources pooled by each other (Slevin & Covin, 1992). Investors may view that firms owned by partners are more credible.

Industry specific know-how is the sum of the previous experiences with specific customers, suppliers or shareholders. Entrepreneurs with pre-ownership experience in the same industry as their current firm provide them with detailed knowledge of the task environment. Chandler (1996) found that industry specific experience allowed entrepreneurs to become acquainted with a customer base locally, nationally and internationally and to develop more appropriate market niches. There is a positive relationship between an entrepreneurs' prior experience within a specific industry and with a new firm's success (Cooper & Bruno, 1977).

2.2.3.2 Organisational Learning theory

Learning is defined as a "cognitive change based on the actors' ability to perceive the world in a new way" (Argyris, 1982; Garvin, 1993, pp. 78-91; Dodgsson, 1993, pp. 375-394; Nieminen & Törnroos, 1997). Internationalisation is a learning process in itself. It aims to meet the demands and challenges of complex, international business landscapes by developing, maintaining and terminating business relationships. Knowledge and learning for internationalisation is extremely crucial in order to develop the organisation, and it is an intense and active process. With the increase of internationalisation in all industries, there has been a significant rise in the number of small firms operating in the international market place. Small firms are internationalising more rapidly and earlier than before. Governments across the globe are encouraging SMMEs to internationalise in order to promote wealth creation and international competitiveness, however, internationalisation is a high risk activity. Internationalisation is viewed as a series of incremental decisions and in order to minimise the degree of uncertainty and risk, as firms gain momentum by acquiring knowledge and experience in a country, they increasingly invest in more advanced ways of operating in that market. Lack of knowledge and resources are defining obstacles. To decrease the risk involved in foreign market investment, firms select markets that are physically or psychologically similar to their home market.

Knowledge acquisition drives a firm's international behaviour with regards to market attractiveness, selection of foreign market, choice of market entry and the speed of the launch. The subsequent speed of internationalisation, involves the pace in which a firm's percentage of foreign sales increase and number of countries that have participated. From an international entrepreneurship perspective, knowledge influences internationalisation at the level of the individual, company and inter-organisational networks. Entrepreneurs and top management teams provide prior international knowledge, abilities and experience, and are influenced by their backgrounds. However, this prior experience may become outdated or less relevant over time, and new learning is required. It is stated that the speed of learning drives the speed of internationalisation.

As firms operate in foreign markets, they accumulate specific market knowledge and experience. This has been identified as business knowledge of clients, competitors, market conditions, institutional knowledge of government and institutional frameworks. This knowledge enables an organisation to be successful and further enhance its operations in that market. This facilitates transferable market knowledge to the firm and is not specific to any country. It is transferable knowledge from market to market that influences the information search processes and evaluation of opportunities. This knowledge can be utilised to expand geographically, which in turn, leads to strategic market entry decisions. The transferability of technological knowledge across borders enables early and rapid internationalisation. Technological learning enables organisations to recognise and develop new product opportunities. Knowledge intensive firms develop learning capabilities necessary for the development of technologies and adoption of products for successful growth in new markets, and to avoid stagnation in existing markets.

The diagram below (Figure 10) represents how data is collected through scanning, then interpreted and learning takes place.

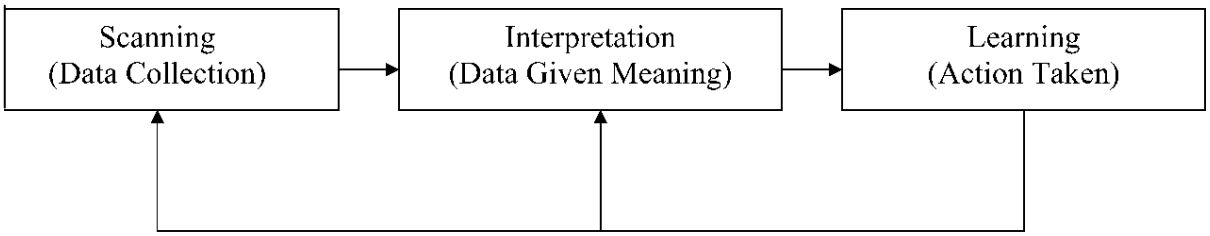


Figure 10: The Learning Process (Source: Daft & Weick, 1984)

The condition of organisational performance is to attain survival and profitable long-term growth. In order to achieve profitable long-term growth, firms align with their environments to remain competitive and innovative (Barnard, 1938; Lawrence & Dyer, 1983; Lawrence & Lorsch, 1967; Thompson, 1967). The basic rule of strategic management is to ensure congruency between the organisation and its environment (Hambrick, 1983; Summers, 1980). Alignment implies that the firm must have the potential to learn, unlearn, or relearn, based on its previous behaviours. Companies are flexible and dynamic to adapt to an ever changing environment. (Miles, 1982). Thus, it is said that organisational performance affects the organisation's ability to learn and to adapt to a changing environment.

Argrys and Schon (1996) identify three levels of learning which are present within an organisation: the single loop learning, double loop learning and deuterolearning. Single loop learning consists of one feedback loop, where the strategy is altered in response to an unexpected circumstance that has arisen in the environment. Double loop learning involves learning that results in a change in theory-in-use. These are the values, strategies, and assumptions that govern action which are changed to create a more efficient environment. Deuterolearning encompasses knowledge about improving the overall learning style. This is composed of structural and behavioural components which determine how learning takes place, thus it revolves around learning how to learn. Cognitive learning allows an individual to observe learning through

insight, understanding, and interpretation (Pawlowsky, 2001). We live in a knowledge intensive society. This means that knowledge has become the most valuable asset a firm can possess. Knowledge is embedded in management mechanisms and organisational routines, which in turn are influenced by societal institutions (Lam, 2000).

“Organisations, unlike individuals, develop and maintain learning systems that not only influence their immediate members, but are then transmitted to others by way of organisation histories and norms” (Mitroff & Kilmann, 1976, pp. 180-207; Martin, 1982, pp. 225-305; Lawrence & Dyer, 1983). These learning systems become the standard operating procedures or practises and norms. It is learning that permits firms to build an organisational understanding and interpretation of their working environment (Daft & Weick, 1984; Donaldson & Lorsch, 1983; Starbuck et al., 1978). There are four contextual factors that affect the probability that learning will occur, these include: a corporate culture that is conducive to learning, a strategy that is flexible, an organisational structure that permits innovativeness and the environment. Lower-level learning occurs when an organisation provides an outline of a set of rules and it leads to the development of simple associations of behaviour and outcomes, and is maintained for a short period of time. Duncan (1974) speaks of a process similar to this, behavioural level learning, which refers to the level of learning that is concerned with controlling the firm as it adapts to the environment. Conversely, higher-level learning strives to adjust overall rules and norms rather than specific activities or behaviours by means of using heuristics, skill development, and insights.

	Lower-level	*Higher-level*
Characteristics	• Occurs through repetition	• Occurs through use of heuristics and insights
	• Routine	• Nonroutine
	• Control over immediate task, rules & structures	• Development of differentiated structures, rules, etc. to deal with lack of control
	• Well-understood context	• Ambiguous context
	• Occurs at all levels in organization.	• Occurs mostly in upper levels
Consequence	• Behavioral outcomes	• Insights, heuristics, and collective consciousness
Examples	• Institutionalizes formal rules	• New missions and new definitions of direction
	• Adjustments in management systems	• Agenda setting
	• Problem-solving skills	• Problem-defining skills • Development of new myths, stories, and culture

Figure 11: Levels of learning (Source: C.M Fiol & M.A Lyles, 1985)

The knowledge of the firm is socially embedded and coordination mechanism and routines are heavily influenced by social structures. Organisational learning is in essence a social, interactive process. An element of learning is learning from others or learning that others have vital knowledge for internationalisation. Rapid internationalisation means high levels of competition, electronic commerce, economies of scale, the internet, more demanding customers and longer distance to end-customers. This pushes distribution systems to integrate SMMEs and force organisations to develop its learning capabilities.

The concept of knowledge has two dimensions which are tacit and explicit knowledge. Explicit knowledge refers to “knowledge that is transmittable in formal, systematic language” (Polanyi, 1966), whereas tacit knowledge has a personal quality, that is deeply rooted in action, commitment, and involvement in a specific context, which makes it difficult to formalise and communicate. With tacit knowledge, there is a strong cognitive element in which it is how the actor perceives the world. Nonaka, Toyama and Konno, (2000) have divided knowledge assets into four categories; explicit knowledge as conceptual and systemic knowledge assets and tacit knowledge as experiential and routine

knowledge assets. Both conceptual knowledge and systemic knowledge as explicit knowledge can be transferred easily.

Explicit knowledge is voiced through images, symbols and language, design, brand equity, product specifications, manuals, and documented and packaged information about customers and suppliers. Therefore it takes the form of documents, specifications, manuals, database, patents and licenses (Nonaka et al., 2000). Experiential knowledge is built through first-hand experience amongst the members of the organisation. Skill and know-how that are acquired and accumulated by an individual through experiences at work are examples of experiential knowledge assets. Collective knowledge is accumulated knowledge of an organisation's norms. It can be data, rules, procedures, routines and shared interactions. Collective knowledge resides between individuals rather than within an individual (Lam, 2000).

On an individual level, tacit knowledge is action oriented, and on a collective level, it is embedded knowledge and rooted in an organisation's communities-of-practice. The individual undergoes a personal practical experience, whereas the embedded knowledge of organisations is in the routines and shared norms. It stems from shared beliefs within an organisation, which makes effective communication possible. "Embedded knowledge is relation-specific, contextual and dispersed" (Lam, 2000, pp. 487-513). Learning is an interactive, human process and is thus socially constructed. Explicit knowledge is not attached to individuals as tightly as the tacit knowledge. Tacit knowledge is personal and contextual. However, according to Nonaka and Takeuchi (1995) new knowledge is generated via the dynamic interaction and combination of tacit and explicit knowledge. New knowledge is based on existing knowledge, it is either acquired or created. Networks provide firms with unique learning opportunities of bringing together firms with different skills and knowledge. New knowledge is a source of innovation and change.

The Organisational Learning theory states that, in order to be competitive in a changing environment, organisations must change their actions to reach goals. The organisation must work to unlearn undesired actions and learn desired actions and behaviours. “Organisational Learning theory suggests that the development of new knowledge occurs best under conditions in which there are little or no existing organisational routines to unlearn” (Autio et al., 2000, pp. 909-924; Cohen & Levinthal, 1990, pp. 128-153). Individual learning becomes organisational learning, once knowledge is shared, transferred and accessed on recurring situations to attain organisational goals.

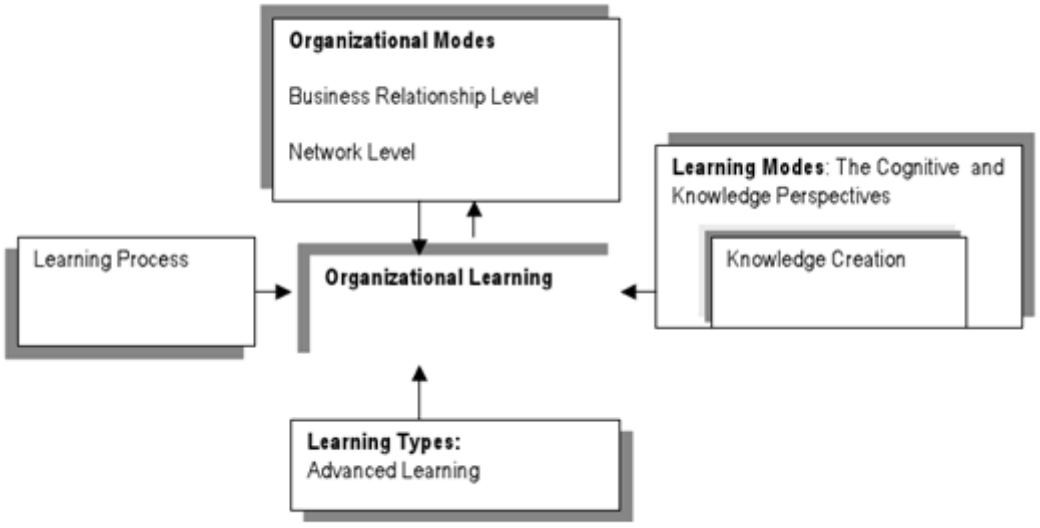


Figure 12: A conceptual model of organisational learning (Source: Adapted Rauni *Seppola*, 2002, Pawlowsky 2001)

The interaction between tacit and explicit knowledge is of utmost importance for knowledge creation. According to Nonaka (2002), internationalisation is acquiring tacit knowledge in practise. In Figure 12 the learning process, learning mode, learning type and organisational modes impact upon organisational learning.

As mentioned previously, learning occurs first on an individual level then on an organisational level. It is obvious that there is a dynamic relationship between individual and collective level learning. A company with a global presence must adopt a “universal” stance of learning and absorb successful lessons in each

market that it operates in. Bartlett and Ghoshal (1988) differentiate the international firm by its strategic goals of global efficiency, local responsiveness, and worldwide learning. They identify a “strong interdependence between the corporate headquarters, centralised specialist units and national subsidiaries of the firm that allows it to simultaneously ‘think globally and act locally’” (Bartlett & Ghoshal, 1988, pp. 54-74). A precondition for this mutual dependency is a two way flow of knowledge between all global units that includes the regular rotation of expatriates (Bartlett & Ghoshal, 1989; Edström & Galbraith, 1977). An expatriates international mobility and diversity of experience allows them to transfer crucial tacit knowledge across continents (Argote & Ingram, 2000; Bonache & Brewster, 2001). Competitive advantages arise from the individual’s managerial, technical and organisational know-how (Subramaniam & Venkatraman, 2001). The expatriate transfers knowledge and heads the operations abroad, such that it meets the organisation’s global efficiency and profit targets. The expatriate also captures local subsidiary knowledge and is able to apply it to the global operations while maintaining the firm’s worldwide learning imperative. “Knowledge transfer can be measured either by changes in knowledge or changes in performance” (Argote & Ingram, 2000, pp. 150-169).

Expatriates must impart the knowledge that they gained in an abroad market. This type of communication includes their sharing of knowledge via network channels, which accelerate coordination and negotiation needed for information exchange and trial-and-error problem solving (Ancona & Caldwell, 1988; Teigland & Wasko, 2003). By undertaking a knowledge sharing exercise, the expatriate benefits the company as a whole, and other employees may learn new styles of thinking, doing tasks or other lessons. Within global enterprises, where there are cross-border exchanges, the individual’s communication can be described by its frequency, geographic coverage, mode of interaction, and final outcomes (Kostova & Roth, 2003).

The knowledge transfer process relies heavily on the context in which the information is shared. As Szulanski (2000) emphasizes, context is a fundamental element of the knowledge transfer process. The expatriate's knowledge access and communication role is defined as local, when it is restricted to the host country and global, when it extends to locations outside the host country. The expatriate's recurrent knowledge access and communication activities may create knowledge applications and learning responses. The expatriate's tacit knowledge includes: managerial know-how, including being associated with business relations and network development, technical know-how, including its teaching to others and organisational know-how, which relates to corporate culture, policies, procedures and best practice systems (Edström & Galbraith, 1977; Harzing, 2001; Hocking, Brown & Harzing, 2004; Welch & Welch, 1993). An expatriate's main source of learning comes from experiential learning or learning-by-doing (Kolb, 1984; Nonaka, 1994) and this represents their cumulative internalisation knowledge.

In order for the expatriate to contribute and add value to the firm's global efficiency, he or she must access the corporate knowledge sources and have high levels of interaction with the firm's product centres, to determine task requirements and acquire knowledge resources for task execution. This will assist in the coordination of the product or service and the systems and procedures to the host country's environment. Ghoshal and Bartlett (1988, pp. 365-388) have stated that "the subsidiary-based managers of global enterprises should communicate regularly with their headquarters counterparts, as often as a daily basis, so that the host country can adopt the technical innovations." It is said that "frequent boundary-spanning communication enables these individuals to introduce new knowledge from outside their host business unit, rather than simply reconfiguring the existing local knowledge" (Teigland & Wasko, 2003, pp. 261-286). When an expatriate has made contacts in the host country, he or she would be more willing to contact these people, once having gone home. An individual that has had previous experience with other divisions of an organisation, which is common trait for expatriates, they are then more likely to

engage in regular international communication via their extended interpersonal networks (Nohria & Ghoshal, 1997). These networks connect the expatriate to well-established relational ties which are valued because of their expertise, reliability and accessibility (Borgatti & Cross, 2003).

Knowledge processing in the work environment is often reliant upon verbal mechanisms such as direct personal contact, team meetings and task forces. These personal modes include face-to-face interaction and telephone exchange. It ensures the sense making, shared understanding and context building that is necessary for knowledge applications (Daft & Lengel, 1987). People can learn from others and pick up queues such as body language and emotion towards the subject, through face-to-face interaction. Informal channels add to an individual's personal network (Bartlett & Ghoshal, 1989; Edström & Galbraith, 1977). Non-personal modes such as e-mails and website access exist, but these incur time lags, and as a result will be less effective.

As a newcomer to the assignment host location the expatriate is usually in unfamiliar territory. In order to contribute significantly to a firm's national responsiveness and worldwide learning objectives, the firm must access a wide range of knowledge about the local culture and language, the local business setting, the local organisational structure and the local business networks (Berthoin Antal, 2000; Torbiörn, 1982; Welch & Welch, 1983). In this research, the Organisational Learning theory is used to examine the firm's propensity to invest in future cross-border activities.

Organisational learning efforts are activities aimed at exploiting existing knowledge and exploring new knowledge, with regard to domestic and foreign markets. There is a greater amount of information available in networks than once before, thus learning is fast becoming the new focus of work in the information society. This has made the model of classroom learning obsolete.

Calof and Viviers (1995) found that South African firms favoured to gradually learn about the international arena by entering markets that are perceived to be less risky, which are markets that have geographic proximity and cultural closeness to the home market. Its internationalisation focuses on a firm's gradually increasing international involvement, through a series of incremental steps. An important driver for increasing international commitment is the development of knowledge relevant to foreign markets.

To summarise Human capital, it is clear that firms must undergo learning as a conscious process. Learning is an active process, in which awareness and consciousness levels are heightened (Pawlowsky, 2001). Initial learning takes place at the individual level however, it does not become organisational learning until the information is shared, stored in organisational memory in such a way, that it may be transmitted and accessed, and used for organisational goals. The organisational theory follows the sequence of data acquisition, interpretation and adaptation and or action. Knowledge management is essential to assisting the internationalisation process. Technological advances make the internationalisation process more efficient (Zahra et al., 2000). Learning by doing is an optimum method of study, as it is a practical application.

Employees are an asset to an organisation, together with their knowledge, skills and expertise that they possess. An entrepreneur's previous experience is beneficial to the success of the business. Managers with international experience understand the workings of foreign market and are better able to respond to unpredictable market factors. This way individuals, employees and teams directly influence the overall internationalisation experience. It is imperative to learn about the new market, the routines, and the legal, political and financial climate when going global. The managers will help direct teams to achieve goals and meet targets. At the core of internationalisation, Human capital, being employees, knowledge, processes and other knowledge aspects, play a pivotal role.

2.2.3.3 Sub-problem 3: low levels of international knowledge and experience of management, prohibits South African SMMEs from expanding internationally

Case analyses showed that new ventures led by mangers with foreign work experience were able to quickly internationalise their operations and do so successfully (Oviatt & McDougall, 1995; McDougall et al., 1996). Essentially, if a competent management team is not in place, efficiency and productivity may not be attained. Managers' motivation to achieve growth can influence a firm's international entrepreneurship activities.

2.2.3.4 Hypothesis 3: There is a positive relationship between possession of international knowledge and experience and the SMME's ability to internationalise

Research into the literature about international entrepreneurship has established that Financial and Social capital are just as important as the role played by Human capital in internationalisation. In conclusion, these three capitals combined, highly influence the rate and success of an organisation wishing to take its operations global. Internationalisation is the end product of a combination of several resources and competencies that are possessed and controlled by an SMME (Laghzaoui, 2006).

Financial capital research supports Hypothesis one, which is the larger the amount of Financial capital available to the SMME, the higher are the levels of internationalisation. The Resource-Based theory expands on the available resources an organisation has, in order to penetrate a foreign market. These resources and competencies influence the intention and the propensity of internationalisation. The resources can act as either stimuli or barriers in internationalisation. Thus the more resources available for the SMME to utilise, the greater the international penetration will be. A key incentive for any organisation to take their operations global is the market attractiveness and the

gains that the company will derive from entering that market. This may be determined by the growth rate and size of the market as well as its financial benefits. The market selection is powered by finances and dependent on the geographic, demographic, political, legal, and economic and market factors. Once the firm has selected its market and mode of entry, it will execute its strategy in order to achieve its goals of that foreign market. The firm can follow one of the internationalisation strategies: exporting, licensing, joint venture, sole venture, investments or contracts. The decision to internationalise directly depends on these factors, as well as the Financial capital which is needed to fuel this process.

The core research of Social capital contributes by stating that there is significance in Hypothesis 2, that there is a positive relationship between social networks and levels of SMME acquisition and mobilisation. This shall be explored further in the study. Social capital, the influence of the Network approach, Social Network theory, strategic alliances, strength of weak ties and the internet were examined. The Network approach looked at the firm's networks, which included the entrepreneur's or owner's business and social networks, as well as those of managers, employees and others in the web of contacts of the business. It is noteworthy to realise, that the more contact the business has, the more likely it will be able to acquire more resources through them. The Social Network theory further elaborated on the possession of social networks in overseas markets, enabling the firm to make contact and utilise them, which in turn benefits the internationalisation process. From the research it is captured that culture is a huge factor to consider when globalising. Another component that effects the overall globalisation of a company is the culture of the host country. Culture consists of the shared beliefs and norms that influence organisational action-taking in the foreign market. The potential customers need to believe that the product or service offering falls into their cultural belief system. With regards to the strength of ties, the most important facet is the element of trust. It is the strength of the ties that provides a strategic position and creates a strategic alliance. In strategic alliances there is mutual gain that

enables an organisation to go international with more ease. The internet has allowed entrepreneurs to access new markets, perform detailed research, improve international promotion, make social ties and communicate efficiently. All these elements of Social capital tend to enhance the acquisition of resources and assist in going global.

Human capital is made up of the knowledge, skills and experience of the entrepreneur, managers and employees. International knowledge research supports Hypothesis 3, which states that there is a positive relationship between the possession of international knowledge and experience with the SMME's ability to internationalise. It has been said that tacit and explicit knowledge increases the realms of the manager's knowledge and enables the manger to better manage employees. Knowledge management is central to ensure a successful globalisation process. The management know-how, industry specific know-how and the international knowledge of foreign markets and trade policies**,** is crucial. As firms operate in foreign markets, they accumulate specific market knowledge and experience. It is the managers in an international operation that drive the internationalisation process. A foreign market network relates to the learning process that underlies overall internationalisation.

From this research, various capital factors which promote or prevent South African SMMEs from internationalising have been identified. The central influences on globalisation are the following main types of capital: Financial, Social and Human. Under each category of capital, there are stimuli which make it difficult for South African SMMEs to go global. These sub-problems are: financial constraints, a small social and business network and managers that lack international knowledge and skills. The mere fact that the South African outward flow of investments are far below what they should be, is motivation enough for South African SMMEs to start globalising. If SMMEs expand their operations on a greater international scale, in the long-term, the organisation, society and most certainly, South Africa as a whole will benefit.

2.3 Conclusion of Literature Review

Below is a proposed conceptual framework that can serve as a foundation for theory building and testing of the hypotheses, which links the forms of capital and their hypotheses to the internationalisation process. These hypotheses need to be tested in order to find which factors prohibit companies from internationalising and in turn, recommendations may be made to enhance globalisation rates and grow the South African economy in the future.

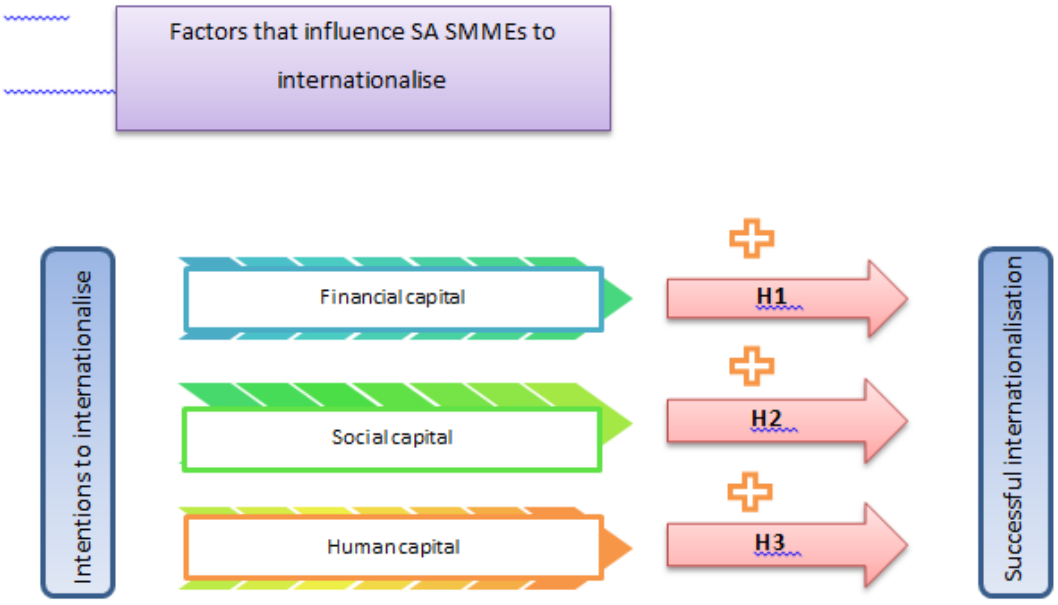


Figure 13: Conceptual Framework

2.3.1 Hypothesis 1: The larger the amount of Financial capital available to the SMME, the higher the levels of internationalisation

2.3.2 Hypothesis 2: There is a positive relationship between social networks and the level of internationalisation of the SMME

2.3.3 Hypothesis 3: There is a positive relationship between possession of international knowledge and experience and the SMME's ability to internationalise

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research methodology / paradigm

This study has followed a quantitative conceptual research framework using quantitative analysis, analytical research, deductive reasoning and descriptive research methods. Quantitative analysis was appropriate for this research because its objective was to develop hypotheses from theory and to have tested these hypotheses on observations or data collected from samples in order to have gathered support (ideally) for our original theory. It had connected empirical observations and mathematical expressions of quantitative relationships. Quantitative data had been represented as a numerical figure relating to statistics and percentages. This allowed the quantitative researcher to ask direct and narrow questions, which the researcher had collected and analysed, using statistical approaches. The results were required to be unbiased and had to reflect true generalisations of the population. Previous knowledge and research findings from major theorists of internationalisation were considered. The research objective was to quantify the data and generalise the results from the sample to the population of interest. The type of sample investigated were owners or directors of South African SMMEs. There was an expected sample size of 150 potential respondents. The data collection method had to be highly structured and the nature of the data analysis was statistical (Cooper & Schindler, 2008).

Assumptions of this quantitative research were; reality is single and tangible, social facts have an objective reality, and variables within an experiment can be isolated, identified, and controlled. The tangible portion of this study essentially had been the fact that success was measured on growth and profits in the past three years and that internationalisation was measurable, and conclusions were drawn up based upon these measures. These assumptions were necessary to prove this study valid. The quantitative research intended to generalise the results.

3.2 Research Design

The research design was a correlation design for a cross sectional, quantitative survey which had attempted to support the hypotheses. An online questionnaire was the primary method of quantitative research. It was the optimum research instrument to test a study of this nature. It had also provided the potential to conduct complicated research due to its user friendly nature.

Advantages of utilising an online questionnaire for this research included;

- Being cost effective, as it only cost R200 per month to subscribe to www.misurvey.co.za which had ease of accessibility for respondents. The data was also being stored and saved.
- Misurvey was also able to deliver accurate feedback and data analysis via visually appealing statistics.
- As opposed to traditional paper surveys (which had its faults, such as the high volumes of time wastage), a fully customisable online survey conveyed a truly cohesive image of the research content and its academic professionalism.
- The respondent was able to answer at his or her own pace and was not faced with time constraints.
- The responses were gathered in a standardised way, thus making the questionnaire more objective and avoiding bias responses.
- The online questionnaire system had enabled the respondent to remain anonymous, thus encouraging more honest answers, and also assuring the respondent, privacy and confidentiality.
- The questionnaire was a relatively quicker method of collecting information as opposed to interviewing each respondent. It was also more accurate in terms of exporting data, instead of manually writing or typing the responses.

- Closed-ended questions enabled the interpretation and analysis to be a highly time efficient process.
- The online questionnaire enabled the researcher to view the results graphically and in real time.
- On the actual online questionnaire, the usage of graphical animation made the survey far more appealing.

In this study, the dependent variable was internationalisation, and the independent variables were the dimensions of Financial, Social and Human capital. The questionnaire was modelled on existing tools based on Wright and Ricks (1994) definition of internationalisation, “a firm-level activity that crosses international borders”. The definition and the preliminary research were used to develop a framework that defined the relationship between internationalisation and the capital factors.

In the questionnaire the interviewees were asked to indicate how important each of the motives was, for the internationalisation of their business. A Likert-type scale was utilised whereby the ratings were; 1 = strongly disagree, 7 = strongly agree. As a self-evaluation tool, there were a handful of general questions that all users had to respond to. Every question had to be answered in order to have submitted the survey.

The key benefits of utilising this method included the simplicity and efficiency of creating an online questionnaire. These responses were captured electronically, via incoming emails and these were saved directly onto a data base.

3.3 Population and sample

3.3.1 Population

The population of this research were South African SMMEs that either had, or were planning to have business entities in international markets. According to

the National Small Business Act 102 of 1996, the SMMEs were defined as separate and distinct business entities in any sector of the economy, being managed by one owner or more. These included co-operative enterprises and non-governmental organisations, as well as branches or subsidiaries if any (Rwigema & Venter, 2004: 314). The South African Government had defined the SMME sector according to various factors, namely: ownership, employment size and formality (Government Gazette, 1995: 8). The employment size of the firms were as follows: micro, less than five staff, very small, between six and 10 staff, small, between 11 and 50 staff and medium, between 51 and 200 staff. Therefore, the population analysed in this research, were companies that employed fewer than 200 people and companies that had started their operations in South Africa.

This study was not industry or market specific, all types of markets and industries were examined. These included: manufacturers, service firms, high-technology firms, low-technology firms and a mix of low and high-technology firms. All companies were established enterprises and had been in existence for more than 3 months in South Africa.

3.3.2 Sample and sampling method

The sampling strategy used, was the judgment sampling method. It was a common non-probability method, in which the researcher selected the sample based on judgment (Cooper & Schindler, 2008). It was an extension of convenience sampling. When using this method, the researcher had to be confident that the chosen sample was truly representative of the entire population. Within the parameters of this study, the population was not truly represented as respondents were given a choice in whether to participate or not, thereby not making it a mandatory exercise. The pros of using the judgemental sampling method meant that there were a select number of people who were known to be related to the topic, and were part of the study.

The sampling method for this study ensured that each individual had a numerical identifier (the IP address and survey number) and contact information, such that each person could be contacted via email. The sampling frame was organised in a logical and systematic manner. It was important to note that every element of the population of interest had been present in the frame, being both, the internationalised and non-internationalised SMMEs. No elements from outside the population of interest were present in the frame although some of these were in the sampling frame and were eliminated later. Firms that had more than 200 employees were excluded by definition of an SMME.

The sampling frame, were owners of the company or those that had a directorship position within the company. They were aware of the company's global strategy or future global expansion strategy. They may or may not have possessed a bachelor's undergraduate or postgraduate degree. They also could or could not have had experience by working in a foreign market. The sampling parameters were SMMEs and those who already had an international presence or wished to pursue one in the near future. The selection criteria included SMMEs that began operating in South Africa, with global plans to either export, open subsidiaries overseas or expand globally.

The respondents identified in this sample included: pre-existing social contacts, successful entrepreneurs from the media, family and friends. The author of "South Africa's Greatest Entrepreneurs", Moky Makura, was contacted and was also made part of this research. From her book, successful entrepreneurs were identified and included the likes of: Robbie Brozin (Nandos), Jenna Clifford (Jewellery), Anant Singh (Videovision), Carol Boyes (Kitchenware) and Pam Golding's son, Dr A. Golding (Property). The Ernst and Young entrepreneurs of the year, Willy Govender, Willem Roos and Shona McDonald were also engaged and a part of this research. The following companies had allowed access to their database of SMMEs, whom have internationalised or exported

South African goods: SEDA, Anglo American Zimele, RMB and Business partners.

The total sample size were 159 respondents. Of the 159 respondents, 23 respondents had companies with an employee number greater than 200, thus they were excluded from the research. The remaining sample size were 136 respondents, whereby 69 SMMEs had not internationalised and 67 SMMEs had done so.

Participation was encouraged through personal meetings, as well as through social networked contacts, whereby a link of the questionnaire was emailed to the social network and this enabled them to forward it on to their various networks. A good incentive was offered to all individuals answering this questionnaire, in the form of a random lucky draw, whereby a tablet PC could be won. This may have encouraged people to want to answer the questionnaire but it may also have had the unintended consequence of introducing respondents who carelessly completed the survey, in order to be part of the draw.

The questionnaire had a limited number of questions so that a high response rate could be encouraged. It also had an interactive opening so that the readers' attention could be caught. An email was sent to every respondent explaining the nature of the questionnaire and the outcomes that wished to be derived (Refer to Appendix A for this email letter). The purpose of sending an email letter was basically to inform the potential respondent of the cause of the research. If the respondent wished to participate, he or she could have clicked on the link, thereby giving his or her consent to be involved in the research process.

3.4 The research instrument

The independent variables researched were Financial, Social and Human capital. The dependent variable was internationalisation success. The criteria used were: (1) the SMME had to be internationalised, (2) it had to be making a profit and (3) how much the level of internationalisation of the SMME had grown in the last three years or the extent to which it had met expectations of internationalisation over the last three years.

The questionnaire was modelled on existing tools and was based on Wright and Ricks (1994) definition of internationalisation, “a firm-level activity that crosses international borders”. The definition and the preliminary research were used to develop a framework that defined the relationship between internationalisation and the capital factors.

The actual instrument was an online questionnaire. Refer to Appendix A for the actual questionnaire. The online questionnaire was interactive and visually appealing. The questionnaire comprised closed-ended questions. It used a seven point Likert scale rating, where the ratings were; 1 = strongly disagree, 7 = strongly agree. A Likert scale was a summated scale that expressed favourable or unfavourable attitudes towards the topic of research. Each response was given a numerical score to reflect its degree of attitude favourableness, and the scores were averaged to measure the respondent’s attitude.

This scale was assumed to produce interval data. Interval scales are metric measurement scales that provide the highest level of measurement precision, allowing most mathematical operation to be performed. It has constant units of measurements such that differences between any two adjacent points on any part of a scale are equal. This enables statistical parametric testing.

A Likert scale was different from an ordinal scale, because an ordinal scale was non-quantitative as it indicated only relative positions in an ordered series. On the other hand, ordinal scales provided no measure of the actual amount or

magnitude in absolute terms, only the order of the values. (Cooper & Schindler, 2008).

Conclusions were derived using the responses from the questionnaire, and from that, recommendations could be made. The questionnaire extensively explored each capital: Financial, Social and Human capital. There were questions under each capital heading. It attempted to extract the respondent's thoughts on internationalisation, and what he or she believed were the most inhibiting factors to internationalisation. There was also a section on general questions, such as the firm's age, size, etc. The last section covered multiple choice questions which referred to the hypotheses, and the answers assisted in making recommendations and drawing up the conclusions. The instrument had been made easy by providing one set of instructions to follow through the entire questionnaire.

Refer to questionnaire in Appendix A.

Questions 1 to 14 were general questions, whereby general information about the respondent and the SMME were extracted. This information included the size, age and current status of the SMMEs internationalisation. Questions 15 to 23 looked at the impact of Financial capital on the internationalisation process. These questions wished to obtain data about the factors that prevented internationalisation of South African SMMEs. Questions 24 to 32 analysed how social capital influenced internationalisation. These questions examine social networks, cultures and social media. Questions 33 to 43 were information, regarding human capital and its effect on internationalisation. The purpose of these questions were to find out information on the type of people employed and their knowledge of foreign markets. Questions 15 to 43 tried to identify which capitals prevent internationalisation. These questions are based on a seven point Likert rating scale.

Questions 43 to 51 tried to gain the respondents insight in terms of future recommendations to increase the rate of internationalisation by South African SMMEs. These were multiple choice questions with answers that led to more

accurate recommendations and reinforced the precision of the proposed hypotheses.

Table 5: Questions from online questionnaire and its measures

Question numbers:	Designed to measure:
Questions 1 to 14	General information about the respondent and the SMME
Questions 15 to 23	Impact of Financial capital on internationalisation
Questions 24 to 32	Impact of Social capital on internationalisation
Questions 33 to 43	Impact of Human capital on internationalisation
Questions 43 to 51	Gain respondents insight on recommendations to increase internationalisation

In the questionnaire, four questions were worded in a negative direction for Financial capital and one for Social capital.

Table 6: Type of capital and the negatively phrased question

Type of capital	Negatively phrased question
Financial capital	The South African requirements of audited financial statements, liquidity tests and cash flow are unreasonable for an SMME
	South African trade tariffs (import, export and environmental) inhibit / obstruct SMME business

	It is financially exhausting to adapt my product or service to the international market
	If I failed in an international market due to financial circumstances, I would not attempt entering an international market again
Social capital	Cultural barriers in international markets make it difficult to create social ties

All the other questions were worded in a positive direction. Reversals were done in order to test for the respondents' tendency to answer positively to all items, irrespective of their content.

A response set bias is the tendency for an individual to respond to questions in a similar fashion regardless of the content of the questions. In this questionnaire majority of the questions were worded in a positive direction, such that agreement to these items, represented a positive attitude, and the remaining items were worded in a negative direction, such that disagreement to these items represented a positive attitude. Furthermore, these items were presented in a random order within Financial capital particularly, and one in Human capital. The reason this was done was to get a more accurate representation of the respondent's attitude, with the effects of the agreement or disagreement response bias, removed. However, it seemed as if this did not occur and more specifically, the results had an influence of acquiescence bias and social desirability bias. Acquiescence bias was when the respondent agreed to the positive and negatively phrased items and social desirability bias was the tendency of respondents to answer questions in a manner that would be viewed favourably by others.

In an attempt to validate the criterion measure of internationalisation success, the top SMMEs in the survey were sourced. These SMMEs were seen as the

most successful in terms of the success criterion, profit and level of internationalisation

In total there were 19 SMMEs, thus named the 'Top 19' SMMEs category. This category of respondents served as a check on the internationalisation success of the respondents. These 19 SMMEs were identified by means of the most successful SMMEs based on a combination of profit in the past financial year with the highest performance indicators. These performance indicators were SMMEs that have a presence in at least five or more international markets, attain annual returns of at least ten million Rand or more, and are still planning to expand their operations to more countries and gain market share. There were 19 of these high performance SMMEs identified in this sample.

Refer to Appendix A for the actual research instrument questionnaire.

Issues of bias were raised in terms of the obtained results. An element of both acquiescence and social desirability bias were found underlying the results. Winkler, Kanouse and Ware (1982, p. 555) had defined the acquiescence response set as the "tendency to agree to agree with attitude statements regardless of contents" and had noted that this response set was problematic "because it heightens the correlations among items that are worded similarly, even when they are not conceptually related." Podsakoff delved further into the research, by speaking of a specific response bias, which was acquiescence bias. This spoke of the propensity for respondents to agree or disagree with questionnaire items independent of their content (Podsakoff PM, Philip M, MacKenzie SB & Jeong-Yein L; 2003). It was commonly named 'yah-saying' as the respondent merely agreed. This could be due to the sole fact that in the attempt to providing an incentive for people to answer this questionnaire, it was stated that they would be entered into a random draw to win a Tablet PC, which inevitably could have led to the detriment of the quality of responses received.

Crowne and Marlowe (1964) found that social desirability was the need for people to have social approval and acceptance and that it was attainable

through culturally acceptable behaviours. This could have been apparent with regards to SMME owners feeling that they would have liked to answer in a certain manner and wanted to be viewed in that manner, that would have placed them in higher social rankings.

In order to account for these shortcomings, a decision was taken to look closely at the results of the Top 19 SMMES, and the conclusions were derived accordingly.

3.5 Procedure for data collection

The following steps were carried out in gathering the data in the research process;

- In depth reading of journals, articles and books were undertaken in order to have enhanced the necessary knowledge to have written up the Literature Review.
- The knowledge gained from the literature and theories, assisted in formulating the questionnaire.
- The questionnaire was created electronically on http://misurvey.dev.co.za and specific multimedia features and question types were added (drop down box, multiple choice, and Likert scales).
- Made contact with the appropriate owners and executives who were required to answer the questionnaire in the SMMEs via:
    - Pre-existing social contacts, family and friends
    - Visiting companies, doing the ground work, explaining the cause for research and establishing and making new contacts
    - Moky Makura's book enabled the researcher to identify highly successful entrepreneurs in the South African landscape, thereby allowing contact with them and making them part of the study.
    - SEDA was approached, thus providing access to their South African export companies database
    - Anglo American Zimele also allowed access to their database

    - A private banker from RMB had forwarded the questionnaire onto 50 SMME owners
    - A contact at Business Partners also forwarded the questionnaire to SMME owners
- Respondents were sent an email specifying the outline of the survey, together with the link and also stating that one could win a Tablet PC simply by answering the online questionnaire.
- The respondents had provided consent for participation by accessing the link to the questionnaire.
- A three to four week window period for responses were provided. Once the results were in, the analysis was formulated.

3.6 Data analysis and interpretation

The data was analysed through a variety of statistical techniques: descriptive statistics and multivariate analysis. The hypotheses were tested using multivariate techniques such as correlation and regression analysis. Graphs were drawn up in order to have analysed the descriptors of both the respondents and SMMEs. The analysis of Chapter four commenced with an examination of the respondents and the SMMEs. This was done through graphs and a division of specific variables. This showed the differences in what was expected to be obtained from the results and what were actually obtained.

Reliability and validity were also tested by statistical techniques, these being further elaborated below. Factor analysis followed to check the dimensionality of the scales designed to measure the constructs of the model, which was used to reduce a large number of variables to a smaller number of factors for data reduction and finding patterns among the variables to discover if an underlying combination of the original variables could summarise the original set. There were several factors influencing internationalisation, Financial, Social and Human capital were investigated and tested, thus a large number of variables must be reduced to a smaller number of factors (Cooper & Schindler, 2008).

Within the factor analysis framework, the Bartlett test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was used. The Bartlett test of sphericity was a statistical test for the overall significance of all correlations within a correlation matrix, see Appendix A for the correlation matrix. A statistically significant Bartlett's test of sphericity (significance > 0.05) indicates that sufficient correlations existed among the variables in order to proceed. The Scree test was used to identify the number of factors that could be extracted before the amount of unique variance began to dominate the common variance structure and had an Eigenvalue greater than one.

Scatterplot graphs showed the relationship between two sets of data, in this case, the relationship between successful internationalisation and the independent variable (Financial, Social and Human capital). Normality of the distributions were looked at next. The Kurtosis measure of peakedness or flatness of a distribution was measured against a normal distribution and the tests for normality including the Shapiro-Wilks and Kolmogrov-Smirnov, were utilised to calculate the level of significance for the differences from a normal distribution. In terms of the results, they were normally distributed with some variables possessing a slight skew to the right.

In the analysis of the dependent variables, a success criterion was developed. The all-possible-subset regression was used to predict internationalisation success. This approach was used to source the Top 19 SMMEs in the sample that showed the most reliability and consistency.

Multivariate analysis (MVA) was utilised for observation and analysis of more than one statistical variable at a time and it assessed the relationship between two or more dependent variables. In this research, the MVA was used to test the differences among samples of SMMEs and explore the prohibiting factors of internationalisation. Multivariate analysis of variance (MANOVA) was a

statistical technique that could be used to simultaneously explore the relationship between several independent variables and two or more metric dependent variables (Cooper & Schindler, 2008). This was applied by testing the independent variables and their relationships with factors that prohibited internationalisation.

In analysing the role of capital factors in internationalisation and the differences between internationalised SMMEs and non-internationalised SMMEs, histograms were plotted with the number of observations versus the independent variables. Lastly the statistical technique of t-testing, Chi square and stack bars were used to discover the differences that exist between internationalised and non-internationalised firms. These showed the differences that exist between internationalised and non-internationalised SMMEs.

The hypotheses were tested via correlation and regression. The correlations showed the strength of the variables relationship and were examined through both the Spearman Rank order and Pearson co-efficient to check on the consistency of the two sets of results. Multiple regression analysis was a statistical technique that was be used to analyse the relationship between the criterion variable (success) and the several independent (Financial, Social and Human capital) variables. For two variables to be correlated, the correlation coefficient had to be significant.

3.7 Limitations of the study

The major limitation to this study was the acquiescence and social desirability biases present in the responses. At the launch of this study, questions were worded in both the positive and negative direction to test for biases. To overcome this, all negatively worded items should be eliminated.

3.8 Validity and reliability of research

3.8.1 External validity

External validity is the validity of generalised inferences in scientific studies, thus external validity could be enhanced in this study by selecting subjects from the same population as the generalisations of that population arose from.

To investigate the construct validity in this study, an inter-correlation matrix (See Chapter 4) of the item responses were created.

The purpose of having used the inter-correlation matrix was to measure the construct validity and ensure that concepts that should be related theoretically, were significantly inter-correlated and concepts that should not be related theoretically were, in fact, not significantly inter-correlated.

3.8.2 Internal validity

To enhance internal validity the actual research instrument had to measure what it purported to measure. The questionnaire was not time consuming. It was a set of short and comprehensive questions thereby preventing the respondent from becoming tired, bored or uninterested. Therefore it did not have a negative influence on the responses.

To ensure that the learning effect did not occur, whereby respondents took a second test, a code was emailed to the respondent on the link of the questionnaire, which meant that the individual could only answer and access the questionnaire once. This also ensured that the respondent could not modify the questionnaire and answers at a later stage.

Also good practices of procedures were followed. This was done by ensuring the research was designed in a manner that the respondent did not suffer physical harm, discomfort, pain, embarrassment or loss of privacy. The respondent was made aware of the benefits of the research, and that their

rights and well-being were protected by confidentiality agreements and informed consent had to be given by the participant.

3.8.3 Reliability

Reliability is the degree to which the observed variable measured the “true” value and are “error free” (Kwan, Fong, Kwok & Lam, 2011). It is an assessment of the degree of consistency between multiple measurements of a variable (Khosrow-Pour, 2011). The objective was to ensure that the responses were consistent over periods of time, such that a measurement taken at any point in time, was reliable. It referred to the quality of a measurement procedure that provided repeatability and accuracy. When measures are reliable, there is greater consistency in the study. This must be determined in the data analysis phase. The online questionnaire was locked to a single IP Address, such that respondents could only answer the questionnaire once, especially since all responses were immediately entered into a competition. This meant that the competition winner could be selected by means of the IP address which had to be traced by the IT company in charge.

The reliability co-efficient Cronbach’s alpha, assessed the consistency of the entire scale. Cronbach’s alpha ranges from 0 to 1, with values of 0.6 to 0.7 deemed the lower limit of acceptability. It is correlated with the number of items in a scale and thus the average inter-item correlations was also used and the criterion of 0.3 (Anderson, Babin, Black & Hair, 2009). The Cronbach alpha for this research was above the lower limit of acceptability for all the scales studied.

CHAPTER 4: PRESENTATION AND DISCUSSION OF THE RESULTS

4.1 Introduction

The results of this study are both presented and described in this chapter, with an analysis and interpretation of the results of the responses to the online questionnaire. The structure of this chapter has involved a simple flow of presentation and discussion on the demographic profile of the respondents (4.2.1), a brief description of the SMMEs in the study (4.2.2) and followed by an analysis of the measurement scales of the model (4.3), in terms of their reliability and validity. The comparison of internationalised and non-internationalised SMMEs were explored (4.4) along with the structure of the model (4.5) and finally, a summary of the results and a conclusion to chapter 4 (4.6).

4.2 Demographic profile of respondents

The achieved sample size was 159 respondents, of which 23 companies had more than 200 employees, thus these companies were excluded from the SMME category. This then left 136 SMMEs in the sample. The sample was further divided into SMMEs which had internationalised, which were 67 SMMEs and those which had not internationalised, being 69 SMMEs. The total sample was described in terms of the respondents' education level and in terms of the SMMEs that they represented.

4.2.1 Description of the respondents

The respondents were described with the highest education level they had attained.

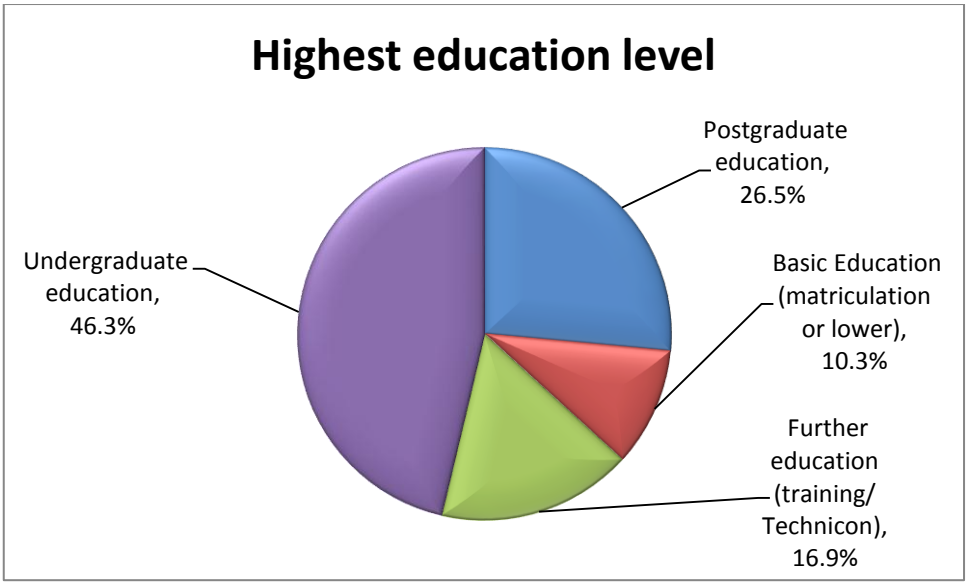


Figure 14: <u>Frequency distribution of highest education level of respondents</u>

Out of the total sample of 136 respondents of both internationalised and non-internationalised SMMEs, the education level of the respondents of the SMMEs were as follows: those that obtained a basic education, being matriculation or lower were 10.3 %, 16.9 % have a further education which is training in their specified field or attending a Technicon, almost half (46.3 %) have an Undergraduate Bachelor degree, and approximately a further quarter (26.5 %) have a Postgraduate University education.

The differences in terms of the demographics of what was planned to be obtained and what was obtained, is primarily the assumption that business owners' education levels would be concentrated at about 35 % at an Undergraduate Bachelor's level, and less than 10 % at the Postgraduate education level, with the remaining 55 % falling below the categories of further education and basic education. The main reason for this assumption was that the GEM Report of 2011 states that, South Africa ranks 125th out of 139 countries with respect to the quality of its education. It also stipulates that the key factor constraining entrepreneurship in South Africa is education and

training, with 53 % of South African experts citing this factor in the GEM Report of 2011.

However, in terms of the actual results, it appears that about 73 % (72.8 %) are in the Undergraduate Bachelor and Postgraduate Degree categories, with the remaining 27.2 % below these. This result is unexpected and definitely a good indication of how important an education is to grow one's own business entity. From the SMMEs researched in this study, it is recorded that 78 % of the population have reported a profit in their business. This statistic of 78 % may be misrepresented due to the social desirability bias within the sample.

Refer to the table below (Table 7) for the descriptor distributions in the total sample of internationalised and non-internationalised SMMEs.

Table 7: Descriptor distributions in the sample of SMME respondents (n = 136)

		%	n=136
Highest education completed	Basic Education (matriculation or lower)	10.3%	14
	Further education (training/Technicon)	16.9%	23
	University	46.3%	63
	Postgraduate university education	26.5%	36
Number of employees	Fewer than 10	27.3%	37
	10-50	40.2%	55
	51 – 200	32.6%	44
Age of company	Less than 3 months	2.9%	4
	3 months - 4 years	19.9%	27
	5 years - 10 years	36.0%	49
	11 years - 20 years	26.5%	36
	Older than 20 years	14.7%	20
The SMME's financial performance for past year	Profit	77.9%	106
	Break-even	17.7%	24
	Loss	4.4%	6
The SMME has internationalised or will internationalise based on	An opportunity	91.2%	124
	A necessity to survive	8.8%	12
The age of the SMME when it internationalised	Not applicable	54.4%	74
	Less than 3 months	1.5%	2
	3 months - 4 years	25.7%	35
	5 years - 10 years	9.6%	13
	Older than 20 years	2.2%	3
	11 years - 20 years	6.6%	9
What percentage of your company's total sales is generated outside of South Africa	6 - 10 percent	5.9%	8
	11 - 20 percent	11.8%	16
	21 - 50 percent	13.2%	18
	More than 50 percent	6.6%	9
	0 percent	50.7%	69
How many countries does your company operate in	2 - 5 countries	37.5%	51
	More than ten countries	5.9%	8
	6 - 10 countries	5.2%	7
	1 country	51.5%	70

4.2.2 SMMEs represented

The characteristics of the SMMEs measured were the size, age, financial performance in the past year, SMME internationalisation, the age of the SMME when it internationalised, the total sales generated outside of the South African market and the number of countries the SMME operated in. Also, how much the level of internationalisation had grown in the past year and the past three years.

The distributions of the SMMEs on these characteristics are presented in Table 1. The characteristics are interpreted and presented graphically. (Figures 2 – 11).

4.2.2.1 Number of employees

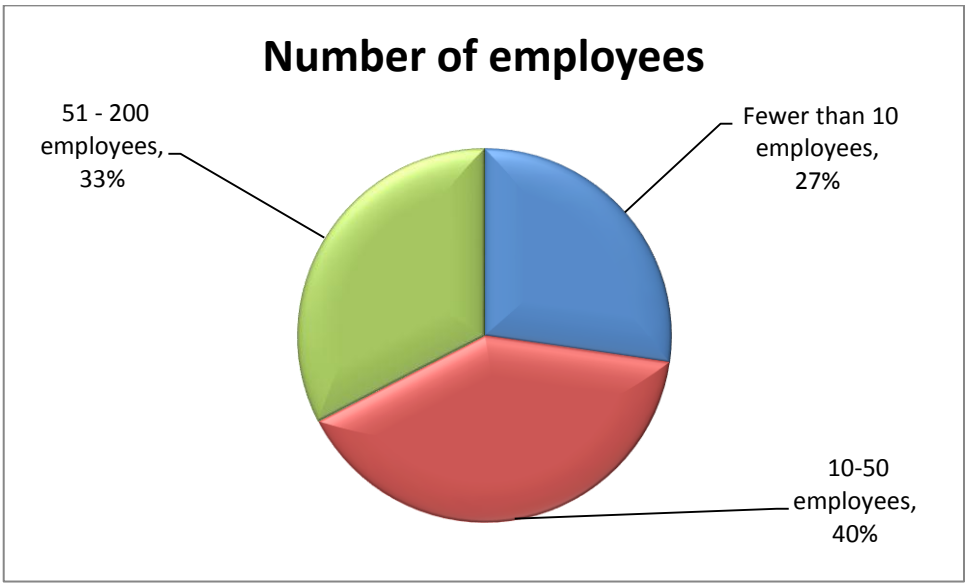


Figure 15: <u>Frequency distribution of the percentage of the total sample and the number of employees in their SMME</u>

The sizes of the SMMEs involved in this sample of internationalised and non-internationalised organisations are approximately evenly split between fewer than 10 employees (27 %), 10 – 50 employees (40 %) and 51 – 200 employees (33 %) (**Error! Reference source not found.**). Another descriptor of the SMME ould be the age of the firm.

4.2.2.2 Age of the SMME

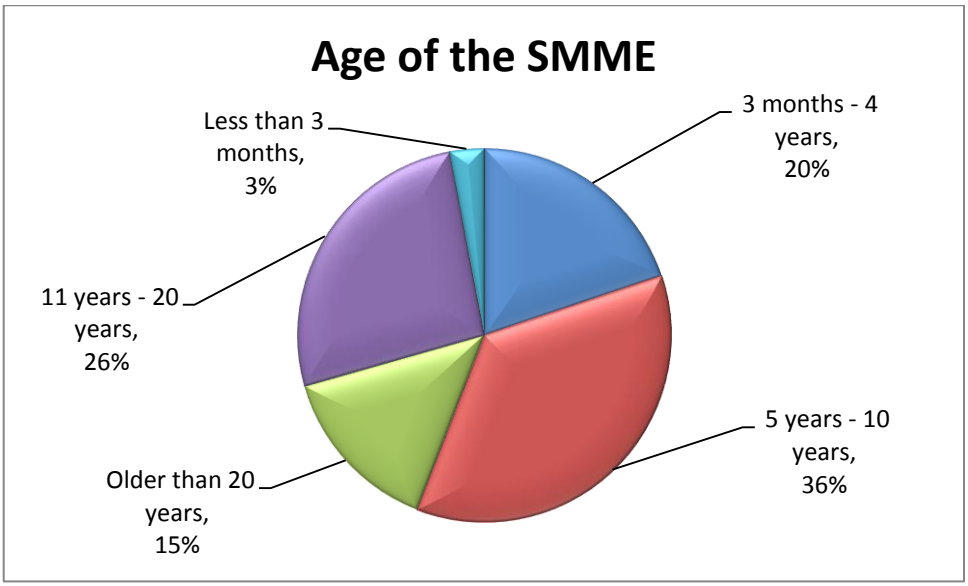


Figure 16: Frequency distribution of the age of the SMME

The age of an organisation may be related to its financial success. The rationale behind this would be, that the older a firm is, the more time it has had to grow its resources base. The SMME sizes in this sample were 3 % for less than three months old, 20 % for three months – four years old, 36 % for SMMES with an age of five years – 10 years old, 26 % for 11years – 20 years old and lastly, 15 % for older than 20 years. It is evident that approximately three-quarters (77 %) of the SMMEs in this study were five years old and older. It was necessary to examine how well financially the SMMEs have done for the past year and the past three years of the SMMEs.

4.2.2.3 Financial performance for the past year 3 years

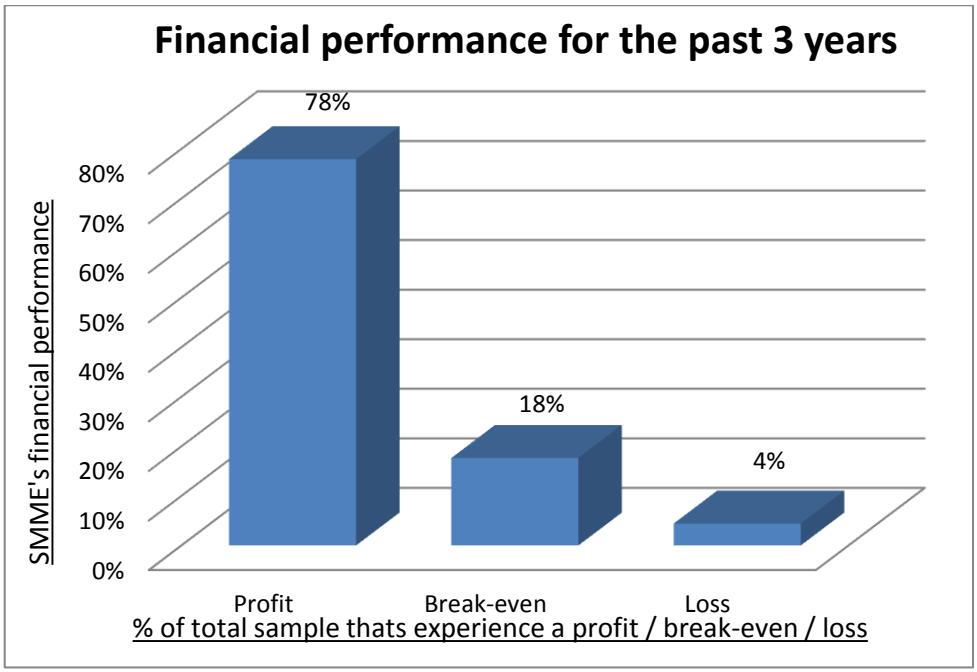


Figure 17: Frequency distribution of the financial performance of the SMME for the past year

Of the total group (n=136) of SMMEs, the overall financial performance was as follows, 4 % of the sample reported a loss, and 17.6 % reported breaking-even, while 78 % of the total sample reported having made a profit.

These figures seem unrealistically positive, perhaps due to the presence of socially desirability responses. It was expected that the overall SMMEs would be making a profit, but the value of 78 % is above expected.

It is also interesting to examine SMMEs' motivation for internationalisation (accomplished in the past or future intention) in terms of opportunity or survival.

4.2.2.4 Reasons for SMME internationalisation (accomplished or future intention) (n=136)

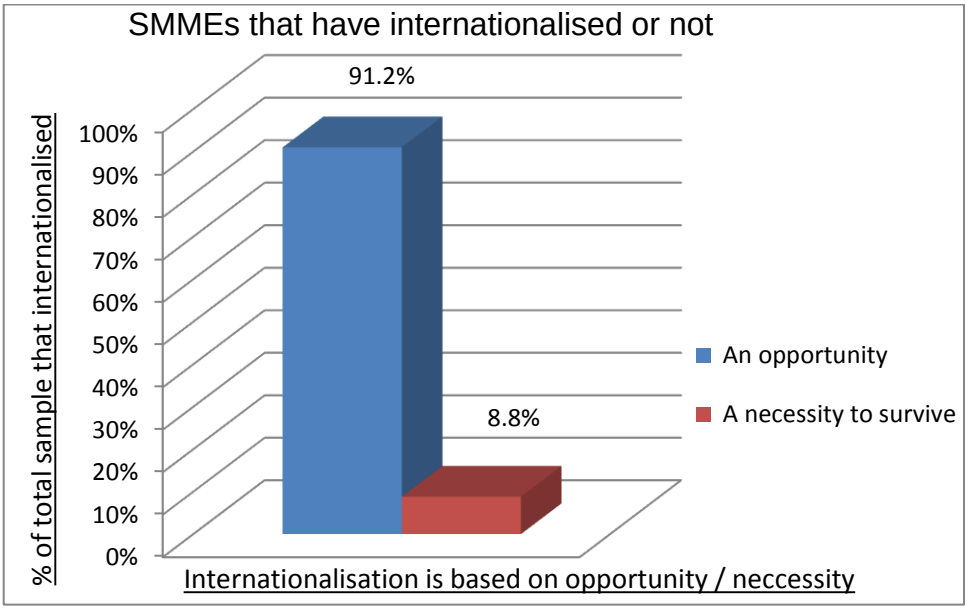


Figure 18: Frequency distribution of entrepreneurs that internationalised or will internationalise based on an opportunity or a necessity to survive

It is clear that opportunity (rather than survival) is the principal motivator for internationalisation, with over 90 % of SMMEs endorsing opportunity as their motivator.

It was expected that most SMMEs would internationalise based on necessity, as the GEM Report states that studies have confirmed that the proportion of necessity entrepreneurs is higher in developing countries like South Africa, because of the high rates of unemployment and the starting of a business is done out of the necessity to survive. Thus, it is interesting to see that these businesses are opportunity driven.

In this study, approximately half (49 %) of the SMMEs have internationalised. (Figure 6).

4.2.2.5 Percentage of SMMEs by internationalisation

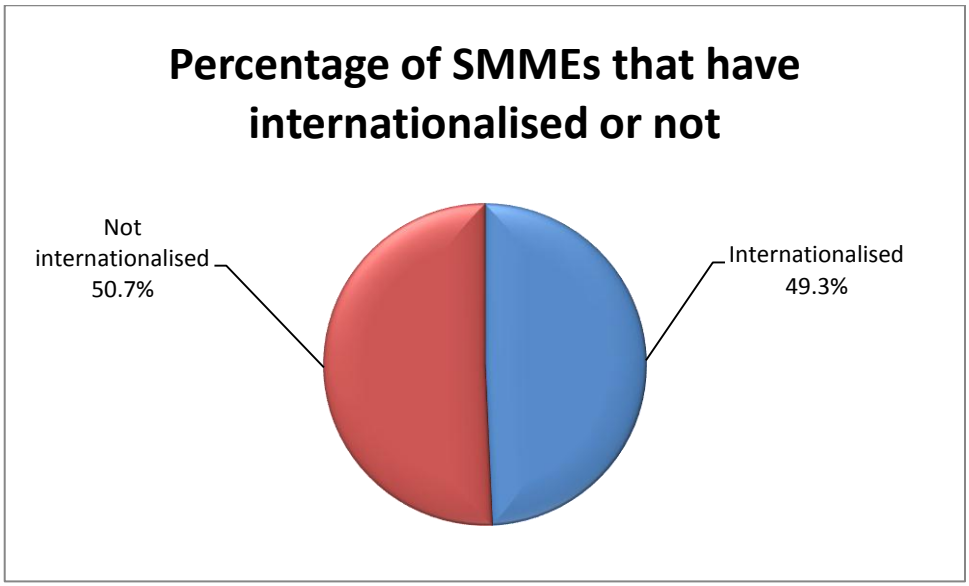


Figure 19: Percentage of SMMEs that have internationalised

From the sample of 136 SMMEs, approximately half (49.3 %) have internationalised and the other 50.7 % have not internationalised, or plan to internationalise in the near future.

The subsequent SMME descriptors are for internationalised SMMEs only, starting with the age of the SMME when it internationalised.

4.2.2.6 Age of the SMME when it internationalised (n = 67)

The following figures and tables apply to the internationalised SMMEs only

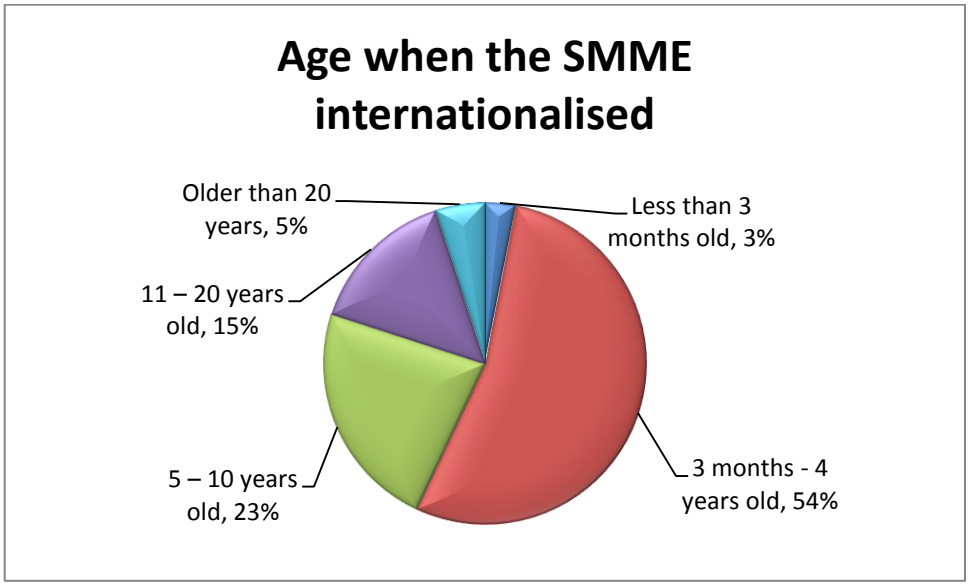


Figure 20: <u>Frequency distribution of the age of the SMME when it went international</u>

Looking at the SMMEs that have internationalised, 3 % had internationalised early in their existence, i.e., less than being three months old, 54 % between three months - four years old, 23 % between five years – 10 years old, 15 % between 11 years – 20 years old and 5 % older than 20 years. Just over half (57 %) of the internationalised SMMEs at an age younger than four years old, and the SMMEs older than five years only accounted for 43 % of the total sample. This was not expected, as it would be expected that SMMEs globalise at an older age once they have built a long standing resource base of which to operate.

4.2.2.7 Percentage of total sales generated out of South Africa (n = 67)

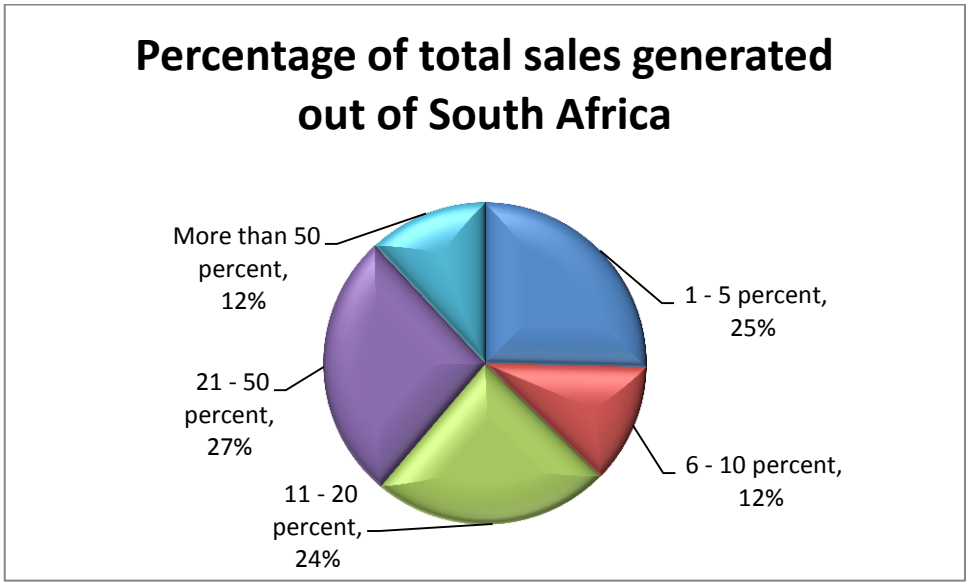


Figure 21: <u>The percentage of the total sample that generated a percentage of the SMME's total sales out of South Africa</u>

Almost two third's (63 %) of the SMMEs had achieved over 10 % of their total sales outside of South Africa. This illustrates that penetrating markets may be profitable for an SMME. It is important to note the number of countries the SMME has a presence in, as it may indicate its success and potential of future expansion.

4.2.2.8 The number of countries the internationalised SMMEs has a presence in (n = 67)

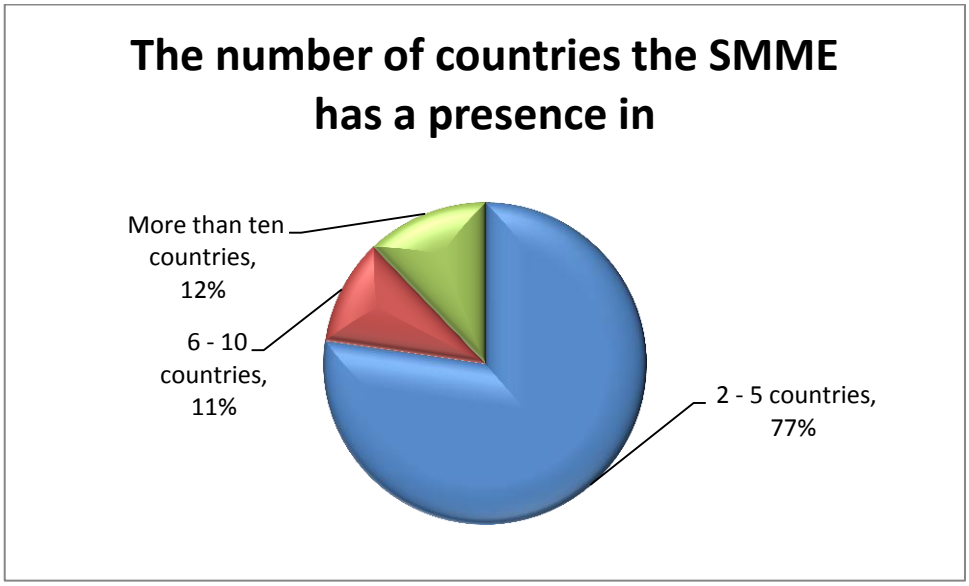


Figure 22: <u>The frequency distribution of SMMEs, by number of countries operated in</u>

The internationalised SMMEs have a high concentration of 77 % in two to five countries. 11 % of the sample has operations in six to 10 countries and the remaining 12 % have operations in more than 10 countries.

4.2.2.9 The SMME's gross profit derived is higher in a foreign market than compared to a South African market (n = 67)

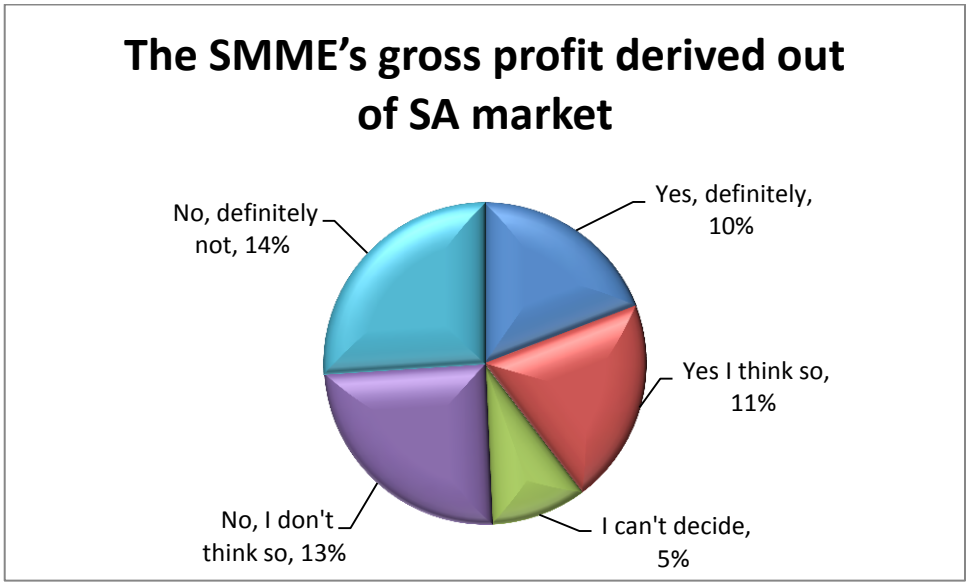


Figure 23: <u>The SMME's gross profit derived from foreign markets is higher than that derived in the South African market</u>

It is clear that 21 % of the sample have reaped the profits of working in a foreign market as opposed to the almost one third (27 %) who have not. It seems like the profit margin would be related to the market, industry and external environmental conditions. The growth of the level of internationalisation of these SMMEs will follow.

4.2.2.10 Successful internationalisation i.e.: description of the growth in the SMME's level of internationalisation over the past three years and its profit (n = 67)



Figure 24: <u>Successful internationalisation i.e.: description of the growth in the SMME's level of internationalisation over the past three years and its profit</u>

Of the respondents representing internationalised SMMEs, the majority (80 %) state that the level of internationalisation and growth has been above their expectations, compared to those (20 %) who have met expectations, or have attained below the SMME's expectation. Based on the current Balance of Trade, it is advisable for South Africa to increase its outward flow of direct foreign investment.

The above descriptors of the SMMEs define how old, how small or large they are, as well as the financial performance of them.

4.3 Measurement scales of the model

The psychometric properties of the scales are discussed for the independent and dependent variables of the model in sections 4.3.1 and 4.3.2 respectively.

4.3.1 Measures of the Independent variables

The independent variables of the model are Financial capital, Social capital and Human capital.

The psychometric properties of the scales of the independent variables are presented in terms of reliability (4.3.1.1) and construct validity (4.3.1.2). The factor analysis was carried out in (4.3.1.3). The psychometric properties and distributions of the scales are then reconsidered to form the adjusted measures of the constructs and finally, the frequency distributions of the resultant measures, are presented graphically (4.3.1.4).

4.3.1.1 Reliability of scales of independent variables

Table 9 presents the internal consistency reliability values in terms of Cronbach alpha and inter-item correlations for the scales of Financial, Social and Human capital.

In this table, the first line of values for the Financial and Social scales represent the Cronbach alpha and inter-item correlations for the scales, with the relevant items appropriately reversed. Thus a score of ‘1’ was reversed to a ‘7’, a score of ‘2’ was reversed to a ‘6’ etc.

In the case of the scale measuring Financial capital, four of the items were phrased in the opposite direction from the other four. These negatively phrased items were:

- The South African requirements of audited financial statements, liquidity tests and cash flow are unreasonable for an SMME
- It is financially exhausting to adapt my product or service to the international market

- If I failed in an international market due to financial circumstances, I would not attempt entering an international market again
- I believe a low level of financial capital is a major preventative factor that obstructs SMMEs from globalising

In the case of the scale measuring Social capital, one item was phrased in the opposite direction from the other eight, this was:

- Cultural barriers in international markets make it difficult to create social ties

Lastly, all items of the Human capital scale were phrased in the same direction, and all nine were utilised.

The internal consistency reliability measures in the case of the Financial capital scale based on appropriately reversed responses, proved particularly poor, with Cronbach alpha value of 0.34 and average inter-item correlation of 0.06. When the four item responses were (inappropriately) not reversed, Cronbach alpha value for the Financial capital scale was somewhat higher at 0.55 and average inter-item correlation of 0.38. This finding is indicative of response bias, specifically acquiescence response set, whereby the consistency of the responses is greater when analysing the items as they appeared in the questionnaire, rather than reversing their direction as dictated by their content. The complete item analysis results of the correlations between each item and the Financial capital scale total, are presented in Appendix A, showing negative correlations between the reversed items and the total scale score in the analysis of the responses to the Financial capital items, including the appropriate reversals.

The reliability result for the Social capital scale based on the appropriately reversed responses to the single item, showed a similar pattern with the reliability measure lower when the reversed item was included in the scale, compared to when it was omitted (Cronbach alpha values of 0.79 compared to 0.82 and the inter-item correlations of 0.33 and 0.40 respectively). However, the effect of the reversal was not as severe as in the case of the Financial capital scale, as there was only one reversed item in the Social capital scale. Once again, the complete item analysis results of the correlations between each item and the Social capital scale total are presented in Appendix A, showing a particularly weak correlation between the reversed item and the total scale score in the analysis of the responses to the Social capital items including the appropriate reversal.

The Cronbach alpha result for the Human capital scale of all nine items was 0.81 and the inter-item correlation of 0.46. This was reliable, with no reversals needed as all the items were all phrased in one direction.

Table 8: <u>Reliability testing of the independent variables</u>

Scale	Items included	Cronbach alpha	Average inter-item correlation
Financial capital	All eight Financial capital items including four reversed items	0.34	0.06
	Based on the four positively phrased items i.e.: no reversed items	0.55	0.38
Social capital	All eight Social capital items	0.79	0.33
	Excluding one reversed item on Cultural barriers	0.82	0.40
Human capital	All nine items	0.81	0.46

4.3.1.2 Validity of scales of independent variables

The construct validity of the scales of the independent variables is examined using the inter-correlation matrix of the item responses and exploratory factor analyses of these item responses. Owing to the acknowledged presence of acquiescence response set in the data, the analyses are restricted to positively phrased items only, as the few negatively phrased items would introduce error in the analyses.

Item inter-correlations

According to the multi-trait multi-method matrix, items measuring the same trait are expected to correlate more highly than items measuring different traits. Accordingly, in the inter-correlation matrix of the item responses (Appendix A), responses to items of the same scale are delineated in rectangular blocks. These blocks reflect convergent validity coefficients and should contain significant correlations as they are correlations between items intended to measure the same construct. On the other hand, other correlations reflect discriminant validity and should contain lower correlations as they are correlations between items intended to measure different constructs.

In the inter-correlation matrix (Appendix A), it is observed that the convergent validity coefficients within the items of the Financial capital scale are not consistently significant, whereas the items within the Social capital and Human capital show a greater percentage of significant convergent validity coefficients. Thus, the construct validity of the Financial capital scale is suspicious.

Exploratory factor analysis was used for further examination of the construct validity of the scales.

4.3.1.3 Factor analysis

The construct validity of the scales of the three independent variables were investigated via factor analysis of the 20 positively phrased items. Thereafter, factor analyses were conducted on the items of each of the independent variables, considered separately as a check on their factor structure.

Factor analysis on all positively phrased items

Prior to undertaking the factor analysis, the adequacy of the inter-correlation matrix (Appendix A) was checked using the Bartlett test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. Based on the significance of Bartlett's test and the KMO value of 0.77 (Table 9), the overall significance of the correlations within the correlation matrix are considered adequate for factor analysis (based on only positively phrased items of the independent variable scales).

The method of factor analysis considered, was Principal component analysis with Varimax rotation on the items of the scales designed to measure the independent variables. Thus three factors were expected to underlie the items designed to measure the three independent variables. However, the scree plot (Figure 25) suggested the presence of five factors with Eigenvalues greater than one. Cumulatively, the five factors explain approximately 63 % of the total variance of the item scores, with the first factor explaining 26.3 % (Table 11). Based on the items loading relatively highly on the respective factors, it is observed that the items intended to measure Financial capital, have split into two factors, named according to their content as Financial Feasibility and Financial Funding (Table 13). Similarly the items intended to measure Human capital, have also split and have been named according to their content, as Human capital Composition and Human capital Attitudes.

The results of the factor analysis were thus considered generally supportive of the construct validity of the scales, but indicated the presence of two underlying constructs in the case of the items designed to measure the Financial and Human capital scales.

Table 9: KMO and Bartlett's Test for independent variables

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.771
Bartlett's Test of Sphericity	Approx. Chi-Square	1213.337
	Df	190
	Sig.	.000

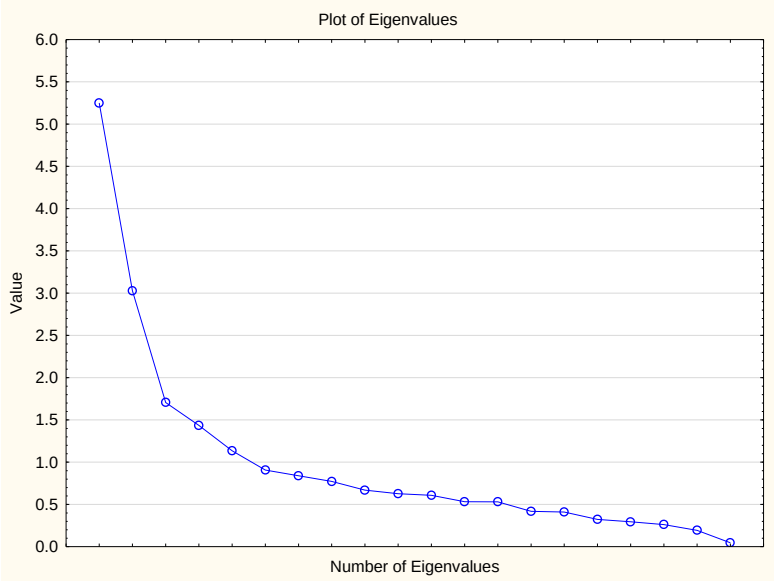


Figure 25: Scree plot illustrating the number of Eigenvalues and value of factors

Table 10: Factor analysis for the independent variables

Factor Loadings (Varimax raw) Extraction Principal components (Marked loadings are >.700000)

	Factor 1: Social	Factor 2: Human composition	Factor 3: Financial funding	Factor 4: Human attitudes	Factor 5: Financial feasibility
In my opinion, global expansion of my company is financially feasible	0.005	0.303	0.252	0.270	0.621
It is easier to obtain financing in the South African market than an international market	-0.005	0.042	0.886	-0.085	-0.011
If funding was available, I would prefer to use it for global expansion rather than reinvesting it in the company	0.009	0.101	-0.024	0.028	0.889
It is simpler to obtain international funding from South African financial institutions than from international sources	0.116	0.025	0.875	0.125	0.066
Social ties and networks make it easier for SMME`s to internationalise	0.726	0.099	0.090	0.149	0.151
Obtaining an international partner or entering an international joint venture is helpful for accessing resources	0.714	0.094	-0.157	0.118	0.119
I think that the internet has a positive effect on SMME`s in international business communications	0.671	0.125	-0.083	0.088	0.014
Social networking tools such as Skype, Facebook, Twitter, etc help SMME`s to grow internationally	0.728	0.080	0.006	-0.020	-0.047
Strong relationships with working partners overseas are important for successful internationalization	0.640	0.109	0.018	0.111	-0.220
Social ties and networks are a good way to find the necessary resources to run the firm	0.774	-0.065	0.220	0.032	0.001
In my opinion, having social networks makes internationalisation simpler	0.774	-0.052	0.104	0.217	-0.016
I have experience working in or with a foreign market	-0.058	0.684	-0.016	-0.198	0.201
I employ managers with international knowledge	0.082	0.913	0.024	0.130	0.068
I employ managers with international experience	0.072	0.900	0.030	0.157	0.083
Employing expatriate managers assist / will assist the internationalisation process	-0.040	0.666	0.061	0.375	0.013
It is important for my employees to have knowledge of international markets and economies	0.326	0.344	-0.014	0.514	0.284
In an international organisation it is beneficial to employ people who reside in the host country of the operations	0.141	0.353	0.138	0.656	0.028
Managers of foreign operations are given the authority to make key decisions in their operations	0.008	0.194	-0.044	0.733	0.006
Sharing knowledge and information with international contacts is important for enhancing the company`s overall learning	0.289	0.090	0.108	0.629	0.129
An SMME`s organisational culture adapts to each geographic location	0.201	0.028	-0.068	0.639	0.115
Expl.Var	3.905	3.008	1.756	2.458	1.431
Prp.Totl	0.195	0.150	0.088	0.123	0.072

Table 11: Eigenvalues

Eigenvalues Extraction: Principal components				
	Eigenvalue	% Total variance	Cumulative Eigenvalue	Cumulative %
1	5.25	26.26	5.25	26.26
2	3.03	15.15	8.28	41.41
3	1.71	8.53	9.99	49.94
4	1.44	7.18	11.42	57.12
5	1.13	5.67	12.56	62.79

Factor analysis of Financial capital

Before embarking upon the factor analysis of the positively phrased items designed to measure Financial capital, the adequacy of the inter-correlation matrix was examined with the Bartlett test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. Based on the significance of Bartlett's test and the KMO value of 0.53 (Table 12), the overall significance of the correlations within the correlation matrix are considered just adequate for the factor analysis.

Table 12: KMO and Bartlett's test for the 4 Financial capital items

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.532
Bartlett's Test of Sphericity	Approx. Chi-Square	92.461
	Df	6
	Sig.	.000

The method of factor analysis was again the Principal component analysis with Varimax rotation on the positively phrased items of the scales designed to measure the Financial capital. Collectively, the two factors explain about 76 % of the total variance of the item scores, with the first factor explaining 44.6 % (Table 14).

Table 13: Factor analysis of Financial capital scale

Factor Loadings (Varimax raw) Extraction: Principal components (Marked loadings are >.700000)		
	Factor 1	Factor 2
In my opinion, global expansion of my company is financially feasible	0.227	0.795
It is easier to obtain financing in the South African market than an international market	0.896	0.014
If funding was available, I would prefer to use it for global expansion rather than reinvesting it in the company	-0.065	0.857
It is simpler to obtain international funding from South African financial institutions than from international sources	0.891	0.100
Expl.Var	1.652	1.376
Prp.Totl	0.413	0.344

Table 14: Eigenvalues for Financial capital

Eigenvalues Extraction: Principal components				
	Eigenvalue	% Total variance	Cumulative Eigenvalue	Cumulative %
1	1.78	44.46	1.78	44.46
2	1.25	31.24	3.03	75.70

Based on the content of the items that load on the two factors, the factors are named Financial funding and Financial feasibility respectively.

Factor analysis of Social capital

The Bartlett test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy were used to check the adequacy of the inter-correlation matrix before the factor analysis was conducted on the positively phrased items designed to measure Social capital (Table 16). Based on the significance of the Bartlett's test and the KMO value of 0.82 (Table 15), the overall significance of the correlations within the correlation matrix are considered to be high for the factor analysis.

There was only one factor in the factor analysis of these Social capital items. This factor explained 53.4 % (Table 16) of the total variance in the items.

Table 15: KMO and Bartlett's test for the 8 positively phrased Social capital items

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.818
Bartlett's Test of Sphericity	Approx. Chi-Square	378.511
	Df	21
	Sig.	.000

Table 16: Factor analysis of Social capital scale

Factor Loadings Extraction Principal components (Marked loadings are >.700000)

	Factor 1
Social ties and networks make it easier for SMME`s to internationalise	-0.758
Obtaining an international partner or entering an international joint venture is helpful for accessing resources	-0.730
I think that the internet has a positive effect on SMME`s in international business communications	-0.674
Social networking tools such as Skype, Facebook, Twitter, etc help SMME`s to grow internationally	-0.715
Strong relationships with working partners overseas are important for successful internationalization	-0.652
Social ties and networks are a good way to find the necessary resources to run the firm	-0.773
In my opinion, having social networks makes internationalisation simpler	-0.802
Expl.Var	3.739
Prp.Totl	0.534

Factor analysis of Human capital

Once again, prior to carrying out the factor analysis on the items designed to measure Human capital, the adequacy of the inter-correlation matrix was tested using the Bartlett test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. Based on the significance of Bartlett's test and the KMO value of 0.79 (Table 17), the overall significance of the correlations within the correlation matrix are deemed acceptable for the factor analysis.

Table 17: KMO and Bartlett's test for the 9 positively phrased items

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.790
Bartlett's Test of Sphericity	Approx. Chi-Square	589.120
	Df	36
	Sig.	.000

Once again, the method of factor analysis considered was Principal component analysis, with Varimax rotation on the items of the scales designed to measure the Human capital variables. Consistent with the results of factor analysis conducted on all the positively phrased items of the scale, two factors were extracted from the Human capital variables (Table 18). Together, these two factors explain about 60 % of the total variance of the item scores, with the first factor explaining 42.2 % (Table19). Based on the items loading relatively highly on the respective factors, the factors are named Human Composition and Human Attitudes.

Table 18: Factor analysis for Human capital scale

	Factor 1	Factor 2
I have experience working in or with a foreign market	0.707	-0.158
I employ managers with international knowledge	0.914	0.167
I employ managers with international experience	0.907	0.187
Employing expatriate managers assist / will assist the internationalisation process	0.654	0.359
It is important for my employees to have knowledge of international markets and economies	0.347	0.651
In an international organisation it is beneficial to employ people	0.334	0.676

who reside in the host country of the operations rather than employing South Africans only		
Managers of foreign operations are given the authority to make key decisions in their operations	0.174	0.676
Sharing knowledge and information with international contacts is important for enhancing the company`s overall learning	0.087	0.734
An SMME`s organisational culture adapts to each geographic location, for example by altering the way in which managers make decisions	0.018	0.672
Expl.Var	2.856	2.543
Prp.Totl	0.317	0.283

Table 19: <u>Eigenvalues for Human capital</u>

Eigenvalues Extraction: Principal components				
	Eigenvalue	% Total variance	Cumulative Eigenvalue	Cumulative %
1	3.800051	42.22279	3.800051	42.22279
2	1.599048	17.7672	5.399099	59.98999

Conclusion on the scales of the model

Based on the inadequate reliabilities of the items originally designed to measure Financial capital, the obvious presence of acquiescence response set and the factor analysis results showing two dimensions of Financial capital (Financial Funding and Financial Feasibility) and two dimensions of Human capital (Human Composition and Human Attitudes) , the reliabilities of the new combinations of items were assessed (Table 20) with a view to adopting these new combinations of items to measure the various dimensions of Financial, Social and Human capital.

Table 20: New scales derived from factor analysis

Items	Cronbach alpha	Average inter-item corr
Financial Funding items (two items)	0.55	0.38
Financial Feasibility items (two items)	0.76	0.62
Human Composition items (four items)	0.63	0.31
Human Attitudes items (five items)	0.75	0.44

The normality of the distributions of the resultant scales of the variables are assessed in the following section.

4.3.1.4 Distributions

The descriptive statistics of central tendency and variability, as well as the skewness and kurtosis of the score distributions of the Financial capital subscales, the Social capital scale and the Human capital subscales are presented in Table 21 for each scale, the normality of the score distribution is further assessed using the Kolmogorov-Smirnov (K-S), Lilliefors and Shapiro-Wilk tests (Figures 26 - 31). Although these tests reflect significant deviations from normality, the skewness and kurtosis values of the distributions are not considered sufficiently large to transform any the scales. The negative skewness in the data distribution of the human capital attitudes is reduced when the internationalised SMMEs are considered.

See Appendix A for histograms for internationalised and non-internationalised SMMEs separately.

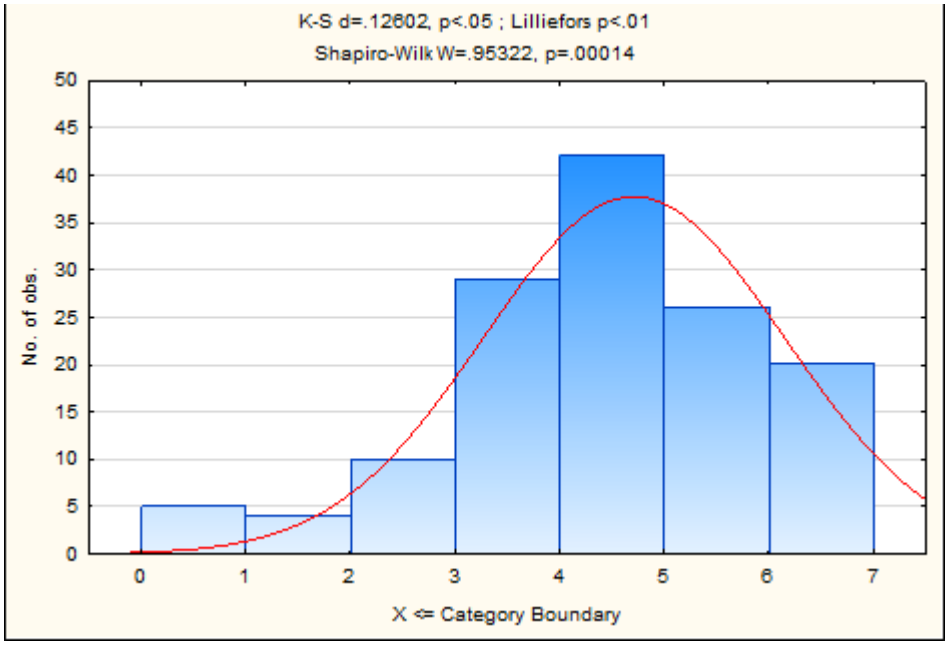


Figure 26: Distribution of Financial Funding scores

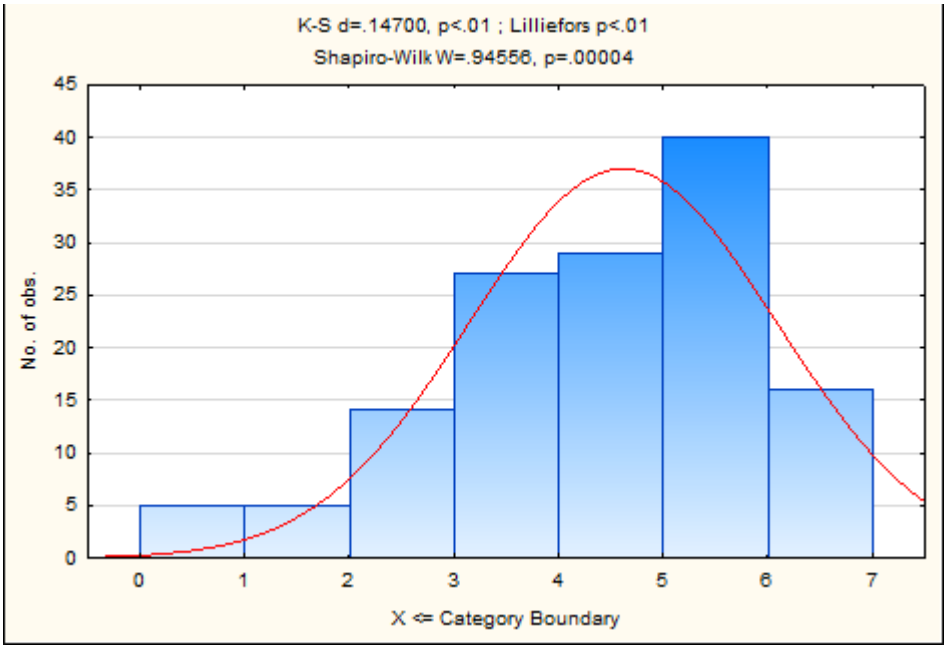


Figure 27: Distribution of Financial Feasibility scores

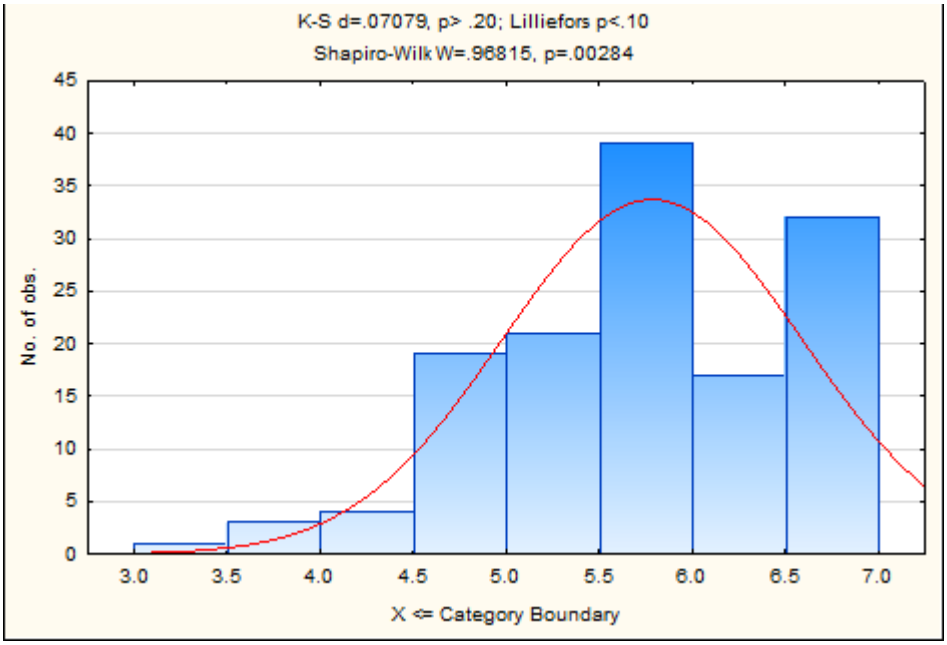


Figure 28: Distribution of Social capital scores

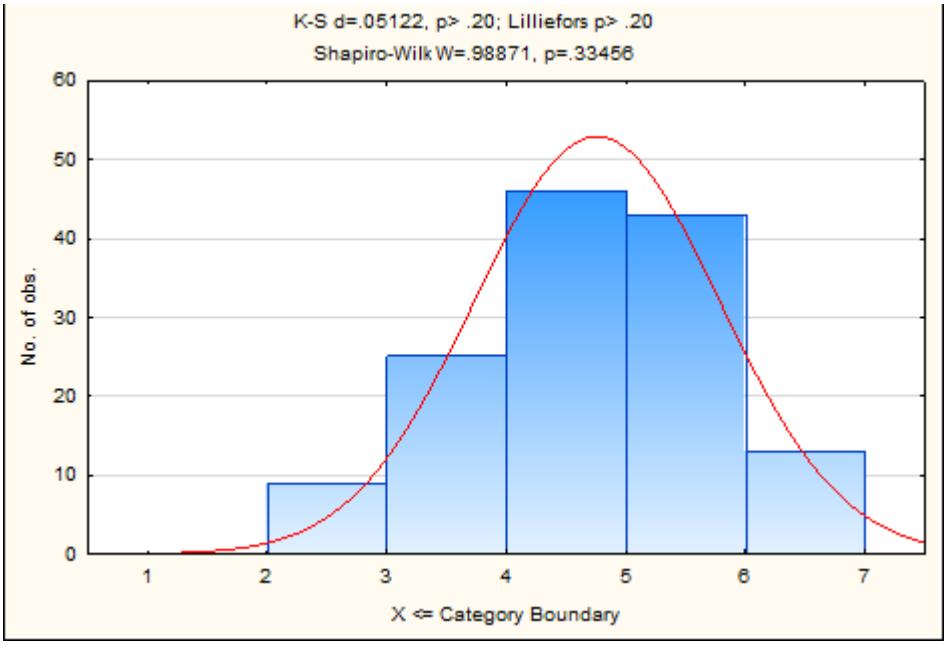


Figure 29: Distribution of Human capital scores

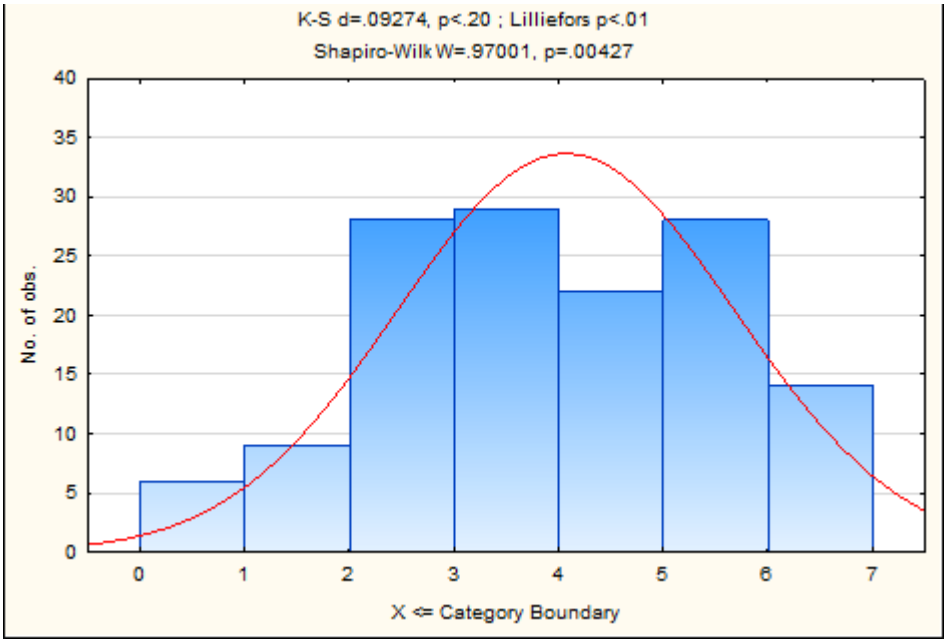


Figure 30: Distribution of Human capital scores

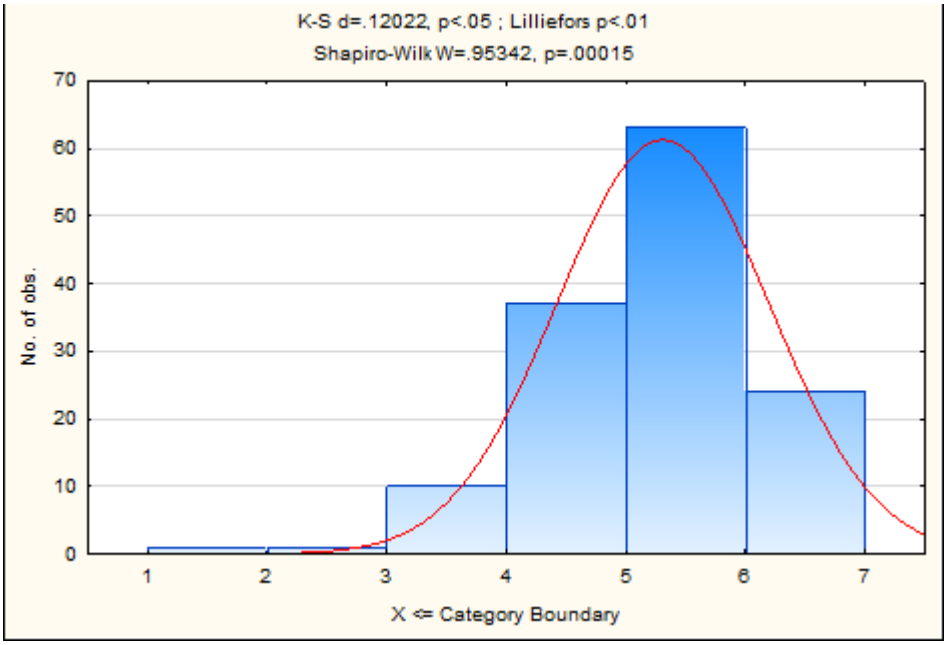


Figure 31: Distribution of Human capital attitudes

Table 21: Financial, Social and Human capital subscales

	N	Mean	95% Confidence interval for the mean		Median	Min	Max	Std.Dev.	Skewness	Kurtosis
Financial funding	136	4.71	4.47	4.96	5.00	1.00	7.00	1.44	-0.50	0.20
Financial feasibility	136	4.62	4.37	4.87	5.00	1.00	7.00	1.47	-0.65	-0.16
Social capital	136	5.79	5.65	5.92	5.86	3.43	7.00	0.80	-0.37	-0.27
Human capital	136	4.76	4.59	4.93	4.67	2.22	7.00	1.03	-0.22	-0.24
Human composition	136	4.07	3.80	4.34	4.00	1.00	7.00	1.61	-0.01	-0.91
Human attitudes	136	5.31	5.16	5.46	5.40	1.80	7.00	0.89	-0.88	1.55

Comparison of internationalised versus non internationalised SMMEs

Table 22: Internationalised SMMEs

	N	Mean	95% Confidence interval for the mean		Median	Min	Max	Std.Dev.	Skewness	Kurtosis
Financial funding	67	4.94	4.60	5.28	5.00	1.00	7.00	1.41	-0.52	0.26
Financial feasibility	67	5.18	4.89	5.47	5.50	2.50	7.00	1.18	-0.50	-0.53
Social capital	67	5.82	5.63	6.01	5.86	3.86	7.00	0.78	-0.17	-0.71

Human capital	67	5.19	4.98	5.40	5.22	2.89	7.00	0.86	-0.41	0.10
Human composition	67	4.79	4.47	5.12	5.00	1.00	7.00	1.35	-0.55	0.04
Human attitudes	67	5.50	5.33	5.68	5.60	3.40	7.00	0.71	-0.65	0.18

Table 23: <u>Non-internationalised SMMEs</u>

	N	Mean	95% Confidence interval for the mean		Median	Min	Max	Std.Dev.	Skewness	Kurtosis
Financial funding	69	4.49	4.15	4.84	4.50	1.00	7.00	1.44	-0.52	0.25
Financial feasibility	69	4.07	3.71	4.44	4.00	1.00	6.50	1.52	-0.50	-0.64
Social capital	69	5.75	5.55	5.95	5.71	3.43	7.00	0.83	-0.52	0.05
Human capital	69	4.34	4.10	4.59	4.44	2.22	6.78	1.01	0.12	0.13
Human composition	69	3.37	3.00	3.74	3.00	1.00	7.00	1.54	0.67	-0.11
Human attitudes	69	5.12	4.89	5.36	5.20	1.80	7.00	1.00	-0.74	1.26

4.3.1.5 Highest education level completed

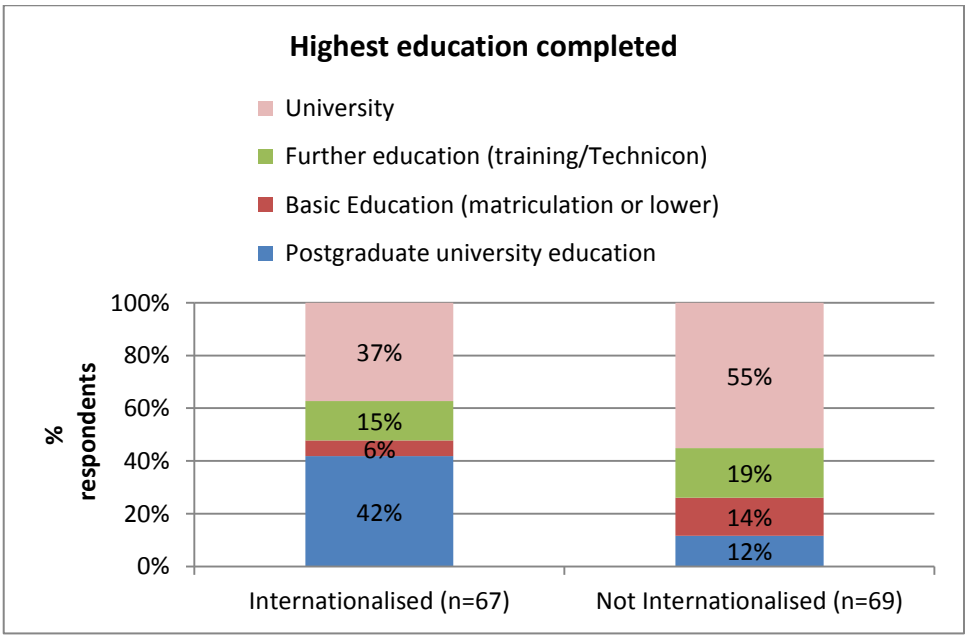


Figure 32: Highest education completed by internationalised and non-internationalised SMME respondents

The total group descriptors show some significance difference for the education level and not for the other descriptors. The highest education level completed by the respondents was significantly different for those representing internationalised SMMEs versus non-internationalised SMMEs with 42 % of respondents of internationalised SMMEs having a Postgraduate education compared to 12 % of respondents of non-internationalised SMMEs (χ^2 (3) = 16.731, $p < 0.001$).

4.3.1.6 Number of employees

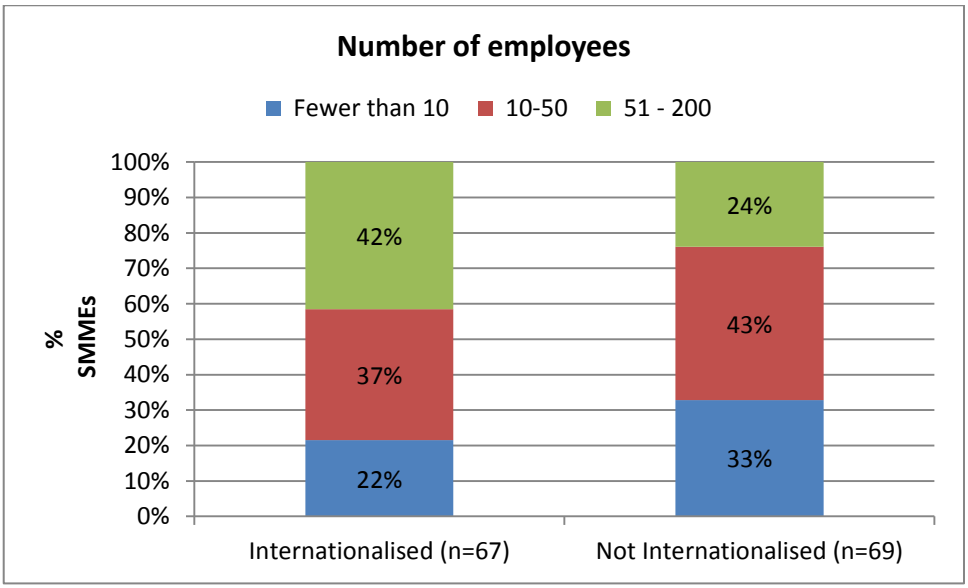


Figure 33: Number of employees of internationalised and non-internationalised SMMEs

4.3.1.7 Age of SMMEs

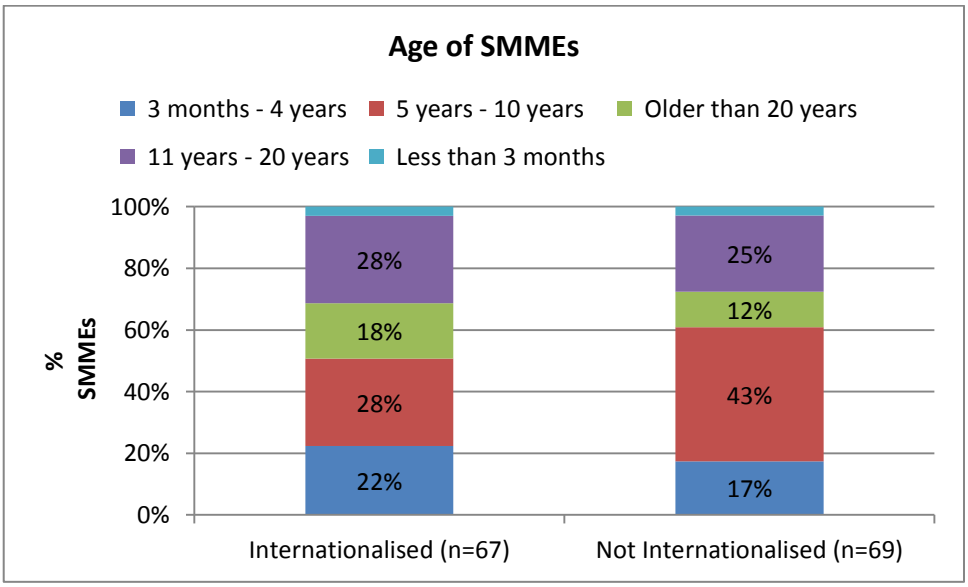


Figure 34: Age of internationalised and non-internationalised SMMEs

4.3.1.8 Financial performance

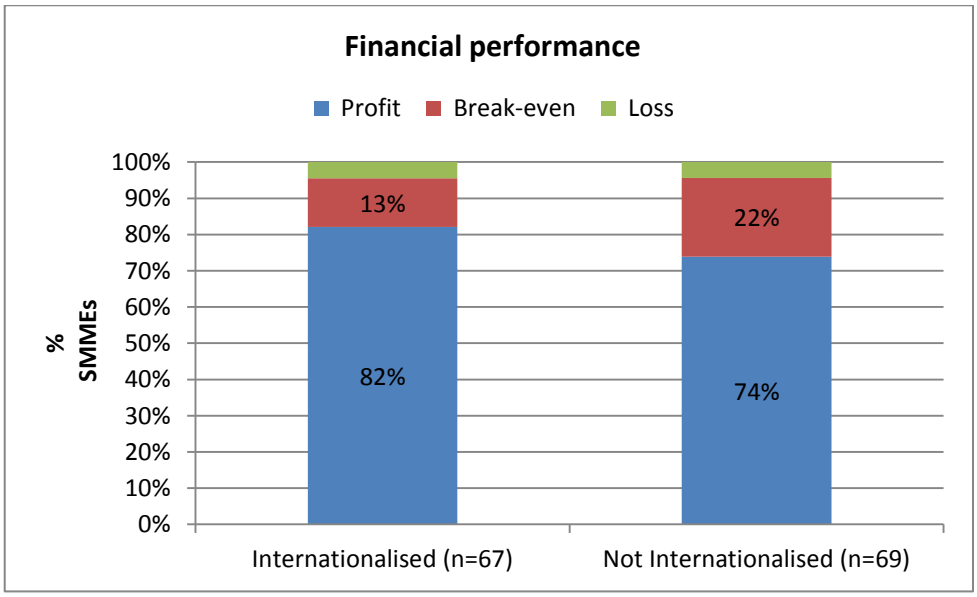


Figure 35: Financial performance of internationalised and non-internationalised SMMEs

No significant differences were found between internationalised and non-internationalised SMMEs on the SMME characteristics of number of employees, age of company and previous year's financial performance (χ^2 (2) = 5.888; χ^2 (4) = 3.685; χ^2 (2) = 1.622 respectively, $p > 0.05$).

4.3.2 Measures of the Dependent variable

The researcher identified three measures of the success criterion as possible measures of the dependent variable of internationalisation success.

i. The first measure of success of internationalised SMMEs was based on a combination of profit in the past financial year and how much the level of internationalisation of the SMME had grown in the last 3 years.
ii. The second measure of success of internationalised SMMEs was based on a combination of profit in the past financial year and the extent to which expectations of the level of internationalisation had been realised over the last 3 years.
iii. The third measure of success of internationalised SMMEs was based on the researcher's identification of the most successful SMMEs based on a

combination of profit in the past financial year, with the highest performance indicators. These performance indicators were SMMEs that have a presence in at least five or more international markets, attain annual returns of at least ten million Rand or more, and are still planning to expand their operations to more countries and gain market share. There were 19 of these high performance SMMEs identified in this sample.

The second and third of these three measures were retained as measures of internationalisation success as they were strongly correlated, with all 19 SMMEs scoring higher than the other SMMEs. The first measure was poorly correlated with the 19 SMME criteria, and was subsequently discarded.

Table 24: Less successful versus Successful internationalised SMMEs and expectations over the past 3 years

		Successfully internationalised based on profit and fulfilling expectation past 3 years		
	Successfully internationalised	Below company expectation	As expected/ above company expectation	Row - Totals
Count	Less successful	19	28	47
Row Percent		40.43%	59.57%	
Count	Successful	0	18	18
Row Percent		0.00%	100.00%	
Count	All Grps	19	46	65

4.4 What is the role of capital factors in internationalisation success of South African SMMEs

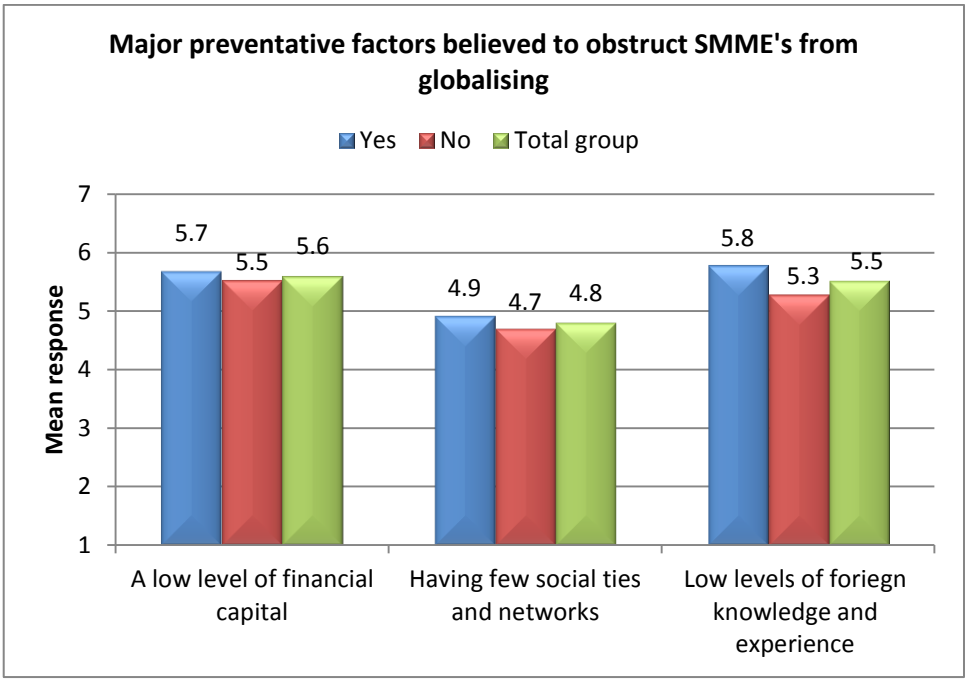


Figure 36: Major preventative factors believed to obstruct SMME's from globalising

From the figure above the 'Yes' group are the internationalised SMMEs, the 'No' group are the non-internationalised SMMEs and the 'Total group' are the sum of the internationalised and non-internationalised SMMEs. This figure presents the mean responses to the factors that obstruct internationalisation. These variables were measured on was a 7 point Likert scale. The results illustrate that the internationalised SMMEs believed that low levels of foreign knowledge and experience are the major preventative factors that were obstructing internationalisation, with a mean score of 5.8. Whereas, the non-internationalised SMMEs believed that the low level of Financial capital is the major prohibitive factor to internationalisation, with a mean score of 5.5. The Total group believed that low level of Financial capital is a preventative factor to internationalisation with a mean score of 5.6. These results suggest that a lack of both, Financial capital and Human capital, will obstruct the internationalisation process.

The following hypotheses were framed to address the above question (major preventative factors believed to obstruct SMME's from globalising). For each hypothesis, the appropriate scatter diagrams are plotted to assess whether the hypothesised linear relations are evident and significant.

4.4.1 Hypothesis 1: The larger the amount of financial capital available to the SMME, the greater the internationalisation success

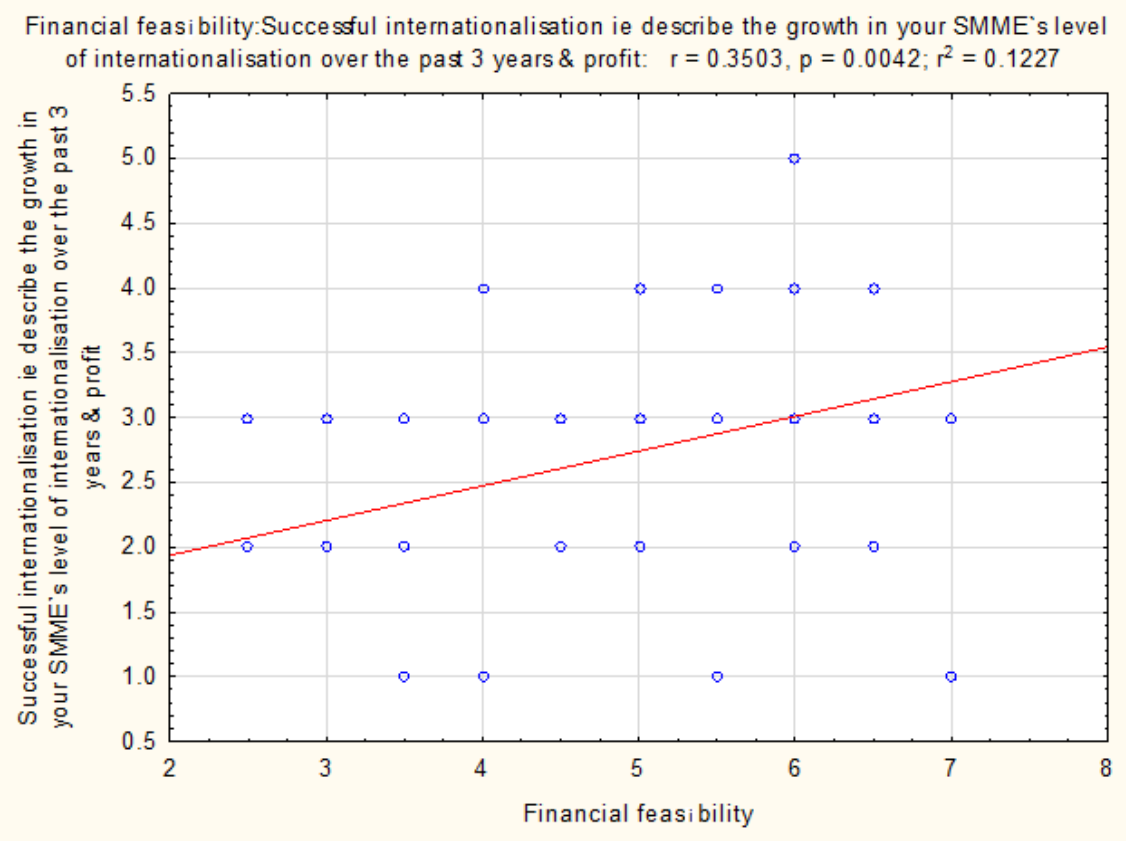


Figure 37: <u>Successful internationalisation and Financial Feasibility</u>

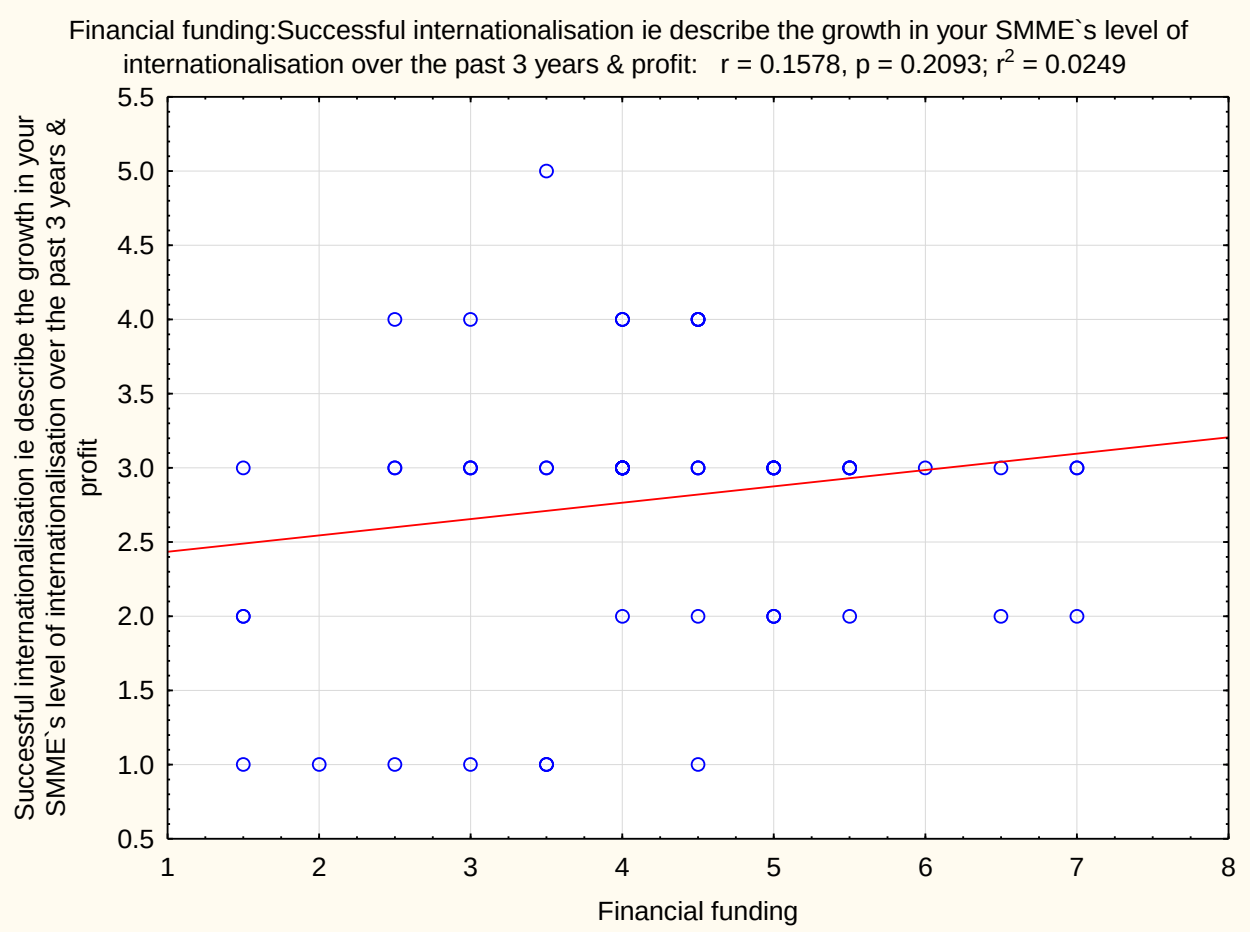


Figure 38: <u>Successful internationalisation and Financial Funding</u>

4.4.2 Hypothesis 2: There is a positive relationship between social networks and levels of SMME internationalisation success

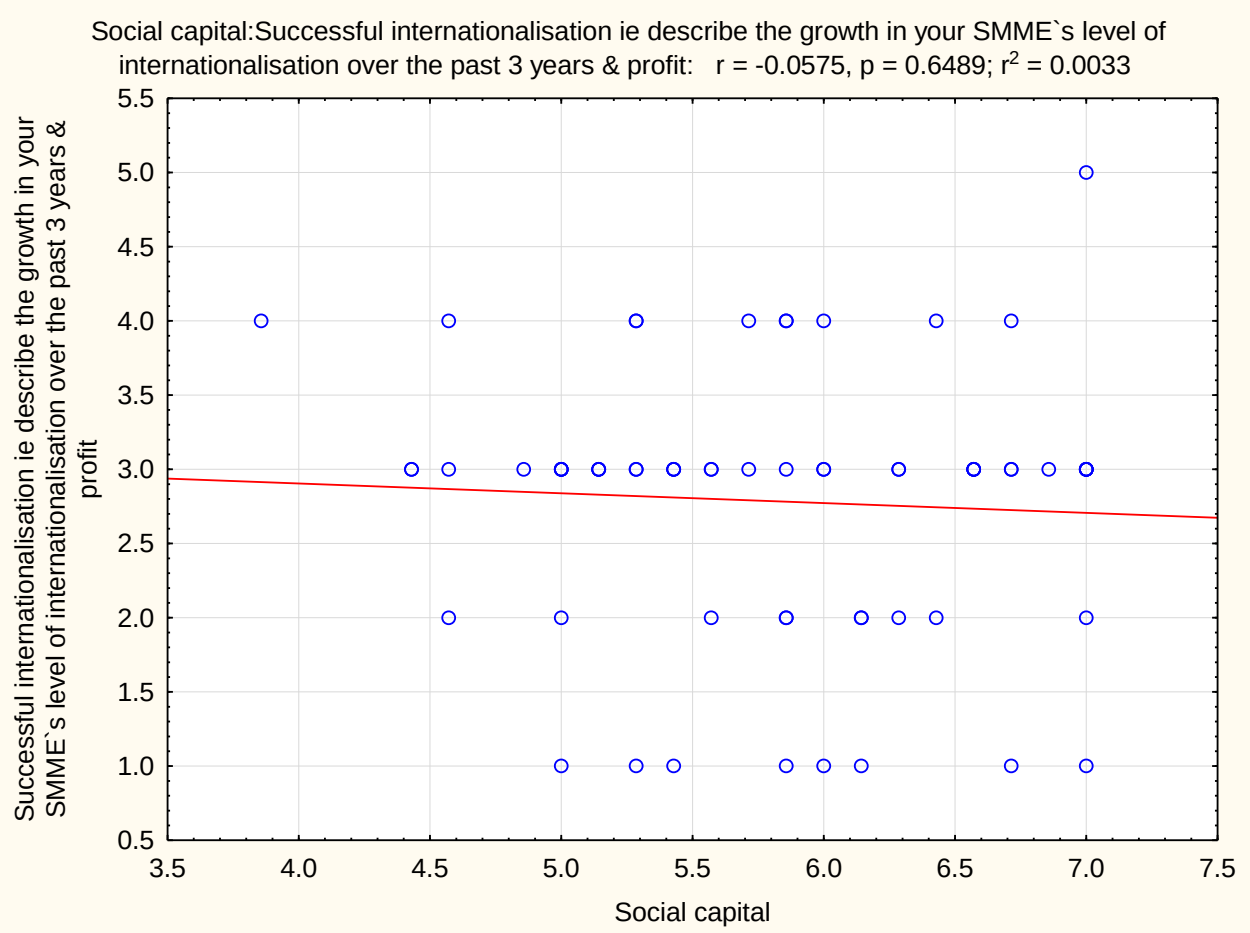


Figure 39: <u>Successful internationalisation and Social capital</u>

4.4.3 Hypothesis 3: There is a positive relationship between possession of international knowledge and experience and the SMME's ability to internationalise

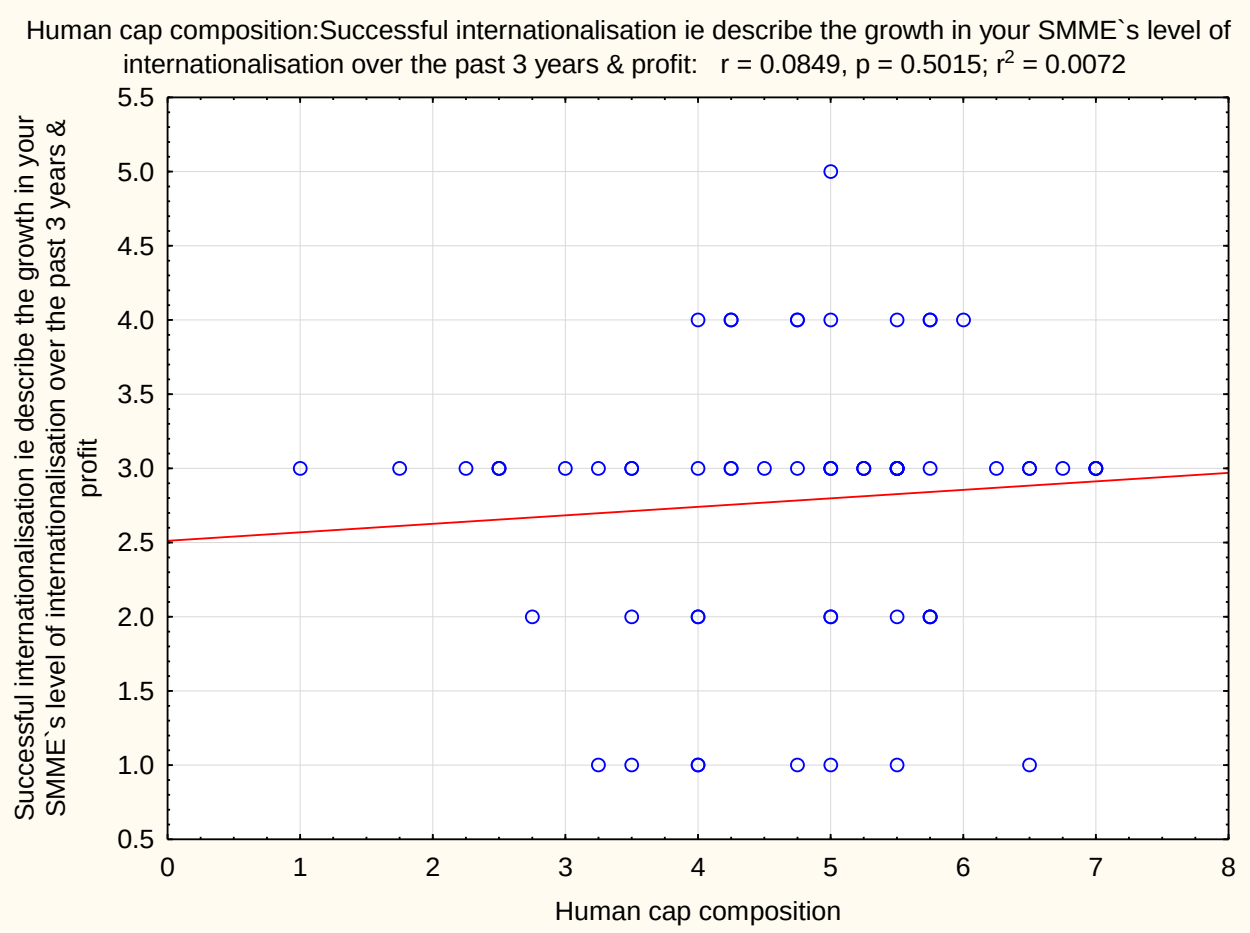


Figure 40: <u>Successful internationalisation and Human capital composition</u>

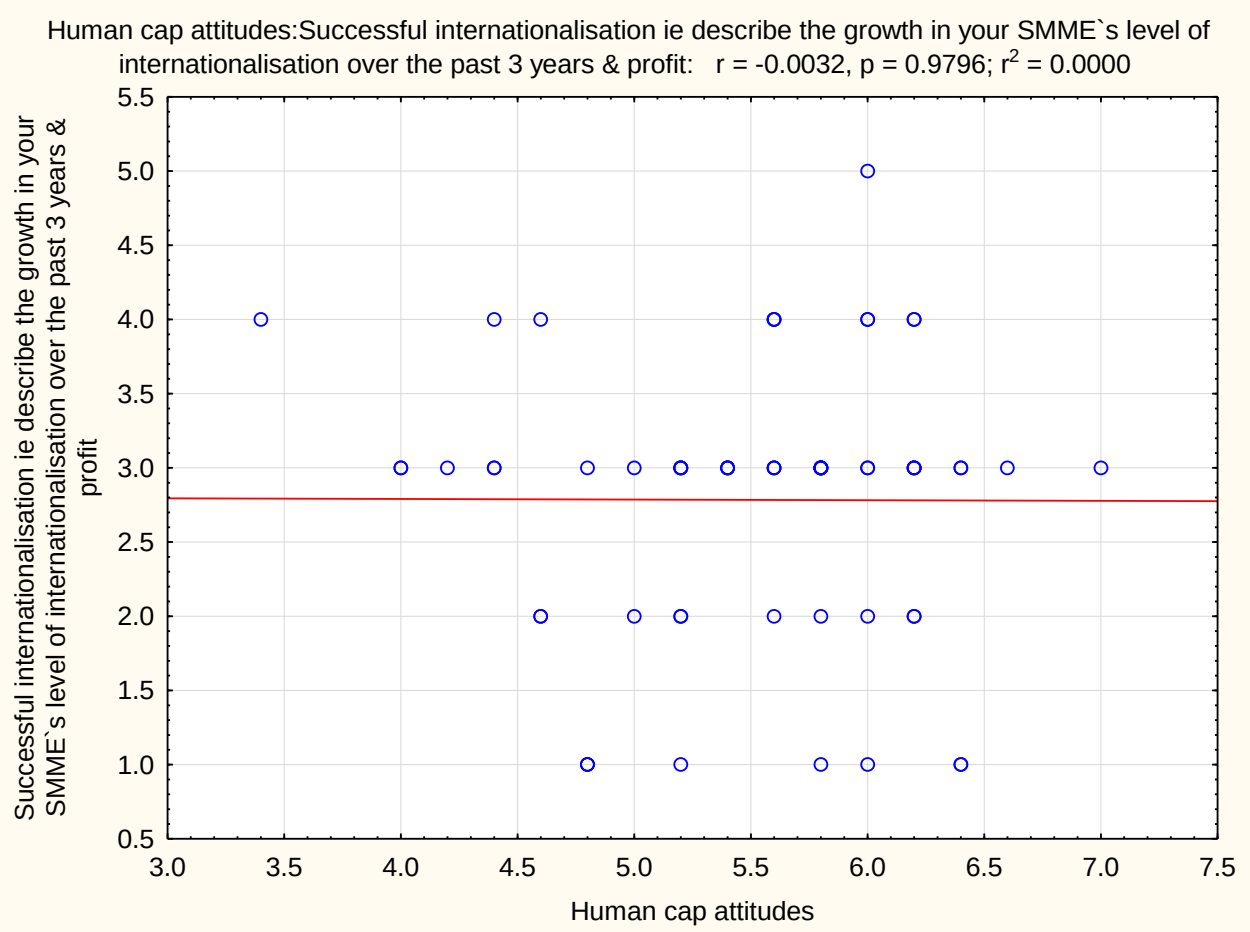


Figure 41: <u>Successful internationalisation and Human capital attitudes</u>

Based on the tests of the correlations displayed in Figures 37 to 41, it can be seen that the only significant predictor of internationalisation success is Financial Feasibility, r = 0,35, p < 0.001. Thus Hypothesis 1 is supported, but no support is found for Hypotheses 2 and 3.

The distributions of the variables are analysed through the Scatterplot diagrams which illustrates the strength and magnitude of the bivariate relationships and correlations. The success criterion was calculated in the following section and its component's will be explained. Briefly, the success criteria comprises of successful internationalisation in terms of the growth of the SMME's level of internationalisation in the past three years. Each capital was examined with this to see if a relationship existed using a 5% level of significance. The model was

found to be significantly correlated for Financial feasibility and not the other measures of capital - Financial funding, Social capital, Human capital, Human capital Composition and Human capital Attitudes, all against the success criterion. Below are these distributions where there is no significance illustrated amongst these variables, besides, between success and Financial feasibility.

Best subsets regression analysis was applied to see whether any combination of the measures of capital could predict internationalisation success significantly. However, no substantial improvement in explained variance was found using any combination of predictors.

Table 25: Best subsets of the Top 19 SMMEs

R square	No. of – Effects	Financial feasibility	Financial funding	Social capital	Human capital	Human cap composition	Human cap attitudes
0.123	1	0.350					
0.025	1		0.158				
0.007	1					0.085	
0.003	1			-0.058			
0.003	1				0.057		
0.000	1						-0.003
0.142	2	0.343	0.140				

Finally, the 19 most successful internationalised SMMEs were compared to the rest on the measures of capital via a test for independent groups. The successful SMMEs were found to be significantly higher on Financial feasibility capital, with strong effect size. Furthermore, this successful group also displayed significantly higher mean scores on Human capitalisation and human attitudes, with strong and medium effect sizes, respectively.

Table 26: <u>Independent variables versus the successful 19 SMMEs and less successful SMMEs</u>

T-tests; Grouping: Successfully internationalised Group 1: less successful Group 2: successful

	Mean - less successful (n=117)	Mean - successful (n=19)	t-value	df		Std.Dev. - less successful	Std.Dev. - successful	effect size D	strength of effect size
Financial feasibility	4.42	5.84	-4.155	134	***	1.43	1.07	1.04	strong
Financial funding	4.19	4.39	-0.651	134		1.29	1.21	0.16	don't consider
Social capital	5.81	5.65	0.767	134		0.80	0.85	0.19	don't consider
Human capital	4.65	5.43	-3.154	134	**	1.03	0.72	0.79	moderate
Human cap composition	3.87	5.30	-3.761	134	***	1.60	1.07	0.94	strong
Human cap attitudes	5.28	5.53	-1.140	134		0.90	0.75	0.28	weak

4.5 Summary of the results and Conclusion

In conclusion to the above study, the total sample size were 136 SMMEs, of which 67 had internationalised, and 69 had not internationalised. The measures of the independent variables, (Financial, Social and Human capital) were derived based on the results of factor analysis and Cronbach alpha reliability and were shown to be reasonably reliable. The assumptions of factor analysis were satisfied through the Bartlett test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. Measures of dependent variables of internationalisation success were derived and validated using a known group of 19 successful SMMEs.

It is evident from the results that an acquiescence bias and a social desirability bias were present. All analyses were conducted on positively scaled items to manage this deficiency in the data.

On the whole, there was significant but weak support for Hypothesis 1: the larger the amount of Financial capital available to the SMME, the higher the levels of internationalisation, is supported by the findings in this study. Whereas, Hypothesis 2: there is a positive relationship between social networks and the level of internationalisation of the SMME and Hypothesis 3: there is a positive relationship between possession of International knowledge and experience and the SMME's ability to internationalise, were not significantly correlated or supported in these research results, although there was some support for the Hypothesis 3, using the external criterion of the 19 most successful SMMEs.

The results from the study show that low levels of Financial capital and Human capital tend to obstruct the internationalisation process.

CHAPTER 5: CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter commences with the conclusions and the results derived from the online questionnaire (5.2). This is then followed by recommendations for South African entrepreneurs to internationalise their businesses (5.3), and lastly, suggestions for future research within this field of study (5.4).

5.2 Conclusions of the study

At the outset of this research, the purpose was to explore and explain the various factors which inhibit South African SMMEs from expanding their business entities globally. This research was directed to examine the influence of Financial, Social and Human capital on internationalisation. Certain conclusions may be drawn with the support of the research findings and the literature.

5.2.1 Financial capital

Financial capital empowers a firm to undertake a wider range of activities and diversify an international expansion plan. It is the driving force behind internationalisation, and without Financial capital, the process would prove to be very difficult. From the literature that exists on Financial capital and its impact on internationalisation, the Resource-Based theory expands on the importance of having resources readily available in the internationalisation process. It outlines that the more Financial capital that is obtainable, the greater the opportunities for the organisation to convert Financial capital into other resources. Overall, in terms of the results obtained and the theory surrounding market attractiveness, firms internationalise due to the exploration of opportunities in foreign markets. These opportunities may be in the form of: financial profit gains, diversification of the business portfolio, an increase in

market share or the attainment of economies of scale (for example, purchasing cheaper raw materials internationally). The market selection is influenced highly by geographic, demographic, legal, political, economic and market related factors. Aharoni (1966) and Reid (1984) both suggested that when a firm selects a market, the market expansion and firm internationalisation plan, is due to growth through strategic decisions. Thus, the organisation choses which foreign borders to penetrate in order to derive maximum benefit to the firm. The choice of entry into an international market is via exporting, licensing, or a joint venture or sole venture. A favourable entry method into a foreign country is through joint ventures (Talaga, Chandran & Phatak, 1985). From the study, it was observed that 40 % of the internationalised SMMEs entered an international market via a joint venture. The theory also acknowledges a growing entry method which is, Born Globals. This means that the organisation has an international presence from inception. These factors also need the financial strength to back them, in order to enable the company to successfully globalise.

Financial capital is needed in all realms of the business, as it influences the decision to internationalise or not. According to the results, 79 % of the total sample agreed that the South African requirements of audited financial statements, liquidity tests and cash flow statements are unreasonable. Exorbitant costs of audited financial documentation is strenuous on small to medium start-up companies. 90 % of the sample also agreed that the South African trade tariffs on imports and exports inhibit internationalisation. These high trade tariffs deter entrepreneurs from exporting. Essentially, they create barriers to internationalisation.

South Africa does not foster an entrepreneurial environment and the consequences for a failed start-up are detrimental. The fear of failure is a great problem, therefore attitudes and perceptions need to be changed. 51 % of the sample agreed that they would not attempt entering an international market, had they previously failed. This is not optimal since most businesses fail in their younger years. Risk taking and perseverance are required to increase the entrepreneurial rates in South Africa. The European Commission of 2004

stated that “the biggest preventative factor to global expansion is the high cost of the internationalisation process”. This is in line with the findings, as there was a strong 95 % of the sample who believe that low levels of Financial capital is a major preventative factor that obstructs SMME`s from globalising.

5.3.2 Social capital

Johanson and Mattsson (1988) and Blankenberg and Johanson (1992) stated that firms with increased mutual knowledge and trust have a competitive advantage and are able to extend their external environment to include foreign markets. This highlights the importance of relationships between entrepreneurs and others. The Network approach analyses how relationships benefit the firm. The proverb of who you know, being more important than what you know, may be proved accurate in terms of social networks. If entrepreneurs link with each other to create mutually beneficial relationships in international markets, it is more likely that they will have access to a greater resource base. The objective for the firm is to create strategic alliances. A network of business contacts, customers, suppliers and distributors will assist in an organisation’s internationalisation process.

The Internet has provided a platform for all sized companies, large or small to compete in the same league, and enables quick communications across the globe. This also enables SMMEs to create and maintain links internationally.

The literature was found to be aligned with the study, as 97 % of the sample agreed that social ties and networks make it easier for SMME`s to internationalise. However, from the results obtained, there was no significant relationship that existed between social capital and internationalisation, which is conflicting, as stated in the literature.

89 % of the sample agreed on the following statement, “I believe having few social ties and networks is a major preventative factor that obstructs SMME`s

from globalising". Therefore, this means that an SMME should ideally make contacts within international networks. Social networks have an element of trust which defines it, and it is imperative that an SMME has mutual trust within the relationship, such that it grows and is beneficial to the entrepreneur.

Culture also plays a significant role in social networks. It is critical to remove all cultural barriers and maintain a relationship such that it is advantageous for both parties.

5.3.3 Human capital

Human capital is the accumulation of management know-how, specific industry know how and the ability to acquire Financial capital. It is the sum of skills, knowledge, experience and expertise that an individual possesses. If an individual has high levels of knowledge about foreign markets, that individual is likely to succeed in one. The Organisation Learning theory deals with the importance of learning in the internationalisation process. Also another imperative component to successful internationalisation is knowledge management and knowledge sharing within the organisation.

It is Human capital that underlies the success of an SMME, which in turn defines its ability to internationalise. 99 % of the sample agreed that sharing knowledge and information with international contacts is important for enhancing the company`s overall learning. This also acts as a catalyst to transfer new technologies and methodologies across continents.

94 % of the sample believe that low levels of foreign knowledge and experience is a major preventative factor that obstructs SMME`s from globalising. Thus, this can be proved valid, as it is common knowledge that once a dynamic team is in place, with the right internal and external environment, the SMME will succeed internationally.

In summary of the three types of capital, the main success factors to internationalisation as stated by the sample were as follows: 28 % believed that it is international knowledge and experience (Human capital), while one quarter (25 %) thought it was making a profit (Financial capital) and the other 35 % thought that it was having a network of international business contacts (Social capital).

38 % believed that low levels of financial capital contributed to being the central challenge to internationalisation, while 34 % felt that it was due to low levels of foreign knowledge and experience and 17 % considered that it was the result of few social ties and networks.

According to the literature, Financial, Social and Human capital are all vital to the success of the SMME in internationalisation. However, in a South African context, it proved apparent that the dominating inhibitors were Financial capital and Human capital, with specific reference to lack of access to funding and inadequate levels of skills of entrepreneurs.

The contribution of this study is to review the current situation of South African SMMEs in terms of their geographic and profitability status. It has analysed and assessed both the inhibitors and enhancers of SMME internationalisation. This study may prove to be a worthwhile piece of literature for South African SMMEs and entrepreneurs wanting to take their businesses globally. It may also serve as a guideline, as it illustrates the preventative factors of internationalisation.

5.3 Implications and Recommendations

A suggestion for future researchers is that a reward should never be offered to the potential respondent, as this may prevent any form of acquiescence bias in the reporting. It is also a good idea to conduct an initial pilot study with about

10 % of the sample size, so that any errors or malfunctioning may be determined prior to sending the final questionnaire to a large number of people.

This research has proved to be highly significant to South African SMMEs and entrepreneurs who would like to internationalise their business entity. There are several recommendations listed below, derived both from the literature and the research found in the questionnaire responses.

5.3.1 Financial capital recommendations

Through extensive research, Financial capital seems to be one of the most determining factors of internationalisation of SMMEs. It has been stated by Smallbone and Wyer (1995) that the lack of finances is a critical constraint for small firms in trying to develop an international orientation. Therefore it is most crucial to assist the internationalisation process of SMMEs by ensuring that financing is available to them. It is imperative that banks put standard policies in place to assist in the availability of funding to new businesses. These policies should encourage industrialisation and discourage the importation of finished products from other countries. It is also advisable for banks to create alternative bank lending methodologies so that informal businesses and the informal sector have better access to financing, as this profitable sector accounts for roughly 6.2 million out of 60 million people. It would be wise to start a co-operative lending scheme such as the “Grameen Bank scheme”.

It is also unfavourable to lend money to an entrepreneur in a start-up, especially if the entrepreneur does not have the knowledge to operate in the business environment. It is said that 50 % of start-ups fail in the first five years of its existence. Thus, it is worthwhile to lend an entrepreneur money, coupled with a mentorship program for at least its first year of operation, especially when it is a high risk project. Grants and subsidies should be more widely available in areas that could potentially increase industrialisation in South Africa. Also, trade tariffs

on exports must be regulated and structured in such a way, that entrepreneurs are more likely to export, rather than imports goods.

Successful private organisations should partner with start-ups to increase the management and control of the start-up's business. The private organisation may act as an incubator, and may either receive returns financially or in ownership and equity of the business. These private companies may be incentivised by commercial banks in a manner that they are offered an expansion on equity loan guarantee schemes or a tax reduction. Also a support infrastructure needs to be made available, like an incubator for businesses that are failing or have failed. The method of blacklisting of individuals should be altered. The failure of a business should not depict the entrepreneur in a completely negative light as this demotivates people from starting their own business and the fear of failure surpasses taking the risk. Once an individual is marked for having a poor credit history, any financial institution will refuse him or her funding. This should not be the case, the bank should rather request a letter of settlement and assist the entrepreneur in sorting out the debt, and this in itself develops and motivates the entrepreneur.

Standard Bank has innovated the loan funding area based on its new assessment tool for small business lending. This tool is a psychometric test that assists in determining the risk of granting loans to entrepreneurs and enables entrepreneurs to get quick access to financing. It is highly recommendable for this tool to be shared with other financial institutions in order to speed up the overall rate of approval of loans.

5.3.2 Social capital recommendations

"Social networks are considered to be one of the most important factors in the process of internationalisation" (Andersson, 2000; Kiss & Danis, 2008). This may be true as it is commonly said that it is not what you know that counts, but

rather who you know. It is always beneficial for entrepreneurs to connect themselves with people involved in their supply chains, distribution and other businesses, as it eases the accessibility to specific resources. It would be advisable to create an entrepreneurial forum that links up entrepreneurs, even something like an entrepreneurial expo that enables social networking and the creation of new contacts within businesses. This can be done on a greater scale, such as an international trade show hosted in South Africa, in order to link up international contacts, and for South African entrepreneurs to be able to identify opportunities in foreign markets, through export or joint ventures etc.

Social network applications and their impact on internationalisation are uncertain, but it is a good podium to market to a large number of people at a low cost. It is essential for policies to be developed to support a greater use of the Internet by SMMEs, especially for e-commerce, as this lowers barriers for internationalisation for smaller companies to compete and share their offerings and services on a global platform.

Cultural norms influence entrepreneurship and how people view it. It is important to evoke positive entrepreneurial attitudes and chose a business role model or champion within a community that others can be inspired by. This will increase the likelihood for individuals to want to become an entrepreneur. It is vital to improve awareness of internationalisation by means of information and counselling campaigns as well as the benefits derived of it. Figure 6 in the results illustrate that 50.7 % of SMMEs are not yet active on international markets, but have intentions to internationalise in the near future. Support programs like this should be put in place for SMMEs so that it eases the process of internationalisation.

5.3.3 Human capital recommendations

The 2010/11 Global Competitiveness Report indicated that “basic education increases the efficiency of each individual worker.” Thus, in order to have efficiency and productivity in the work environment, the individual must have some form of formal education, even if it is just basic education. Entrepreneurship needs to be integrated into an individual’s life at the early stages of their development. Business skills and entrepreneurial thinking and activities should be introduced at a primary school level and carried forward into the secondary school level. This will steer future generations to the entrepreneurial path and upon completion of school, they may choose to study entrepreneurship at a tertiary level, or carry the business skills learnt and developed into other fields of work.

There also needs to be a significant improvement in the quality and performance of educators in South Africa. It is worthy to provide more funding to develop these educators and offer higher remuneration to competent school teachers. It would be wise to tie the education system to industry by means of linkages between university innovation and business development. Both Government and private business investors may adopt product development and allow for the transfer of research and development. This may be done by providing funding for universities, to enhance areas that require research and development. The use of The Centre of Excellence, which is the University of Witwaterstrand’s incubation hub, will be the ideal situation since they help new businesses survive, through management, mentorship and guidance.

A business incubator would be a huge source of learning and development. It would be sensible to create business incubator programmes, as this would reduce the cost of doing business and assist entrepreneurs that are still new to the business world. Having seen the success of Silicone Valley, it is quite evident that the key to success lies in the mere fact of creating business trade zones where start-ups can find information on potential suppliers and distributors and have access to local and global supply chains. South African

SMMEs need to experience the improvement of business efficiency by utilising technology and computers.

The concept of people learning from one another can be used for countries. South Africa must look to booming economies such as India in terms of growing the economy and reversing the brain drain issue. This may be done by providing incentives for South Africans to return to their home country. There are two benefits, as talent and expertise are brought back to South Africa, as well as the transfer of knowledge from the host country.

5.3.4 Government recommendations

Government is the framework which holds up South Africa and its economy. First and foremost, it is of extreme importance for Government to address basic requirements like safety, security, political stability and primary education to ensure foreign investor confidence in the South African market. Also, Government must improve on infrastructure and ensure there is a constant supply of electricity, safe roads and good communication systems.

It should be Government's responsibility to help necessity entrepreneurs and encourage opportunity entrepreneurs. BBBEEE should place a greater emphasis on business linkages and joint ventures which enables transfer of knowledge and skills. Government must create an incentive for successful private companies to invest in, or mentor smaller SMMEs. This could be done via a tax incentive or creation of a specialised business trade zone.

Government must also establish a centralised agency to co-ordinate all entrepreneurship, enterprise development, and funding efforts that would provide all the information an entrepreneur would need for a start-up. Creating

an enabling environment and ecosystem for entrepreneurial activity is also critical

Government programmes generally have incompetent people fulfilling roles they are not suited for, therefore, it is important to reassess these roles and appoint the appropriate candidates rather than having political appointees in these roles. In agencies such as SEDA, individuals should only be employed if they possess the necessary knowledge of the SMME sector.

The time period to start new a business is exhaustive and this must be changed in order for SMMEs to start operations and trading and be established in less than a week, which is already possible in countries like Rwanda and New Zealand. Also the labour laws should be simplified when hiring new employees, as this too, will speed up the process.

The greatest incentive for SMMEs would be to reduce taxation in the small business arena. Taxation laws similar to those that exist in Japan would work best for budding entrepreneurs. Japan uses a sliding scale with regards to taxation, which means, the greater the profits made by the SMME, the less tax the SMME has to pay.

5.4 Suggestions for further research

After having conducted this study, it is apparent that there are gaps in the knowledge. An interesting field to examine is how Social Network mediums such as Facebook, Linkedin, Twitter, Skype etc assist South African SMMEs in the internationalisation process. This may provide SMME owners some factual data as to how helpful and effective these mediums are.

South Africa is an emerging market, which means that there are plenty of opportunities present in this market, yet the ‘brain drain’ effect is a current and distressing problem. South Africa is losing talent and expertise to international

markets. An interesting point of note would be the impact of the brain drain effect on South African SMMEs and their ability to internationalise.

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APPENDIX A

The definitions of SMMEs according to industry sector given in the table below, are based on the National Small Business Act No. 102. 27 November 1996.

South African SMMEs defined according to industry

Sector or subsectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Agriculture	Medium	120	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	120	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade	Medium	120	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Commercial Agents and Allied Services	Medium	120	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering	Medium	120	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Storage	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m

	Very small Micro	10 5	R 2.00 m R 0.15 m	R 0.50 m R 0.10 m
Communications	Medium Small Very small Micro	120 50 10 5	R20.00 m R10.00 m R 2.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m
Finance	Medium Small Very small Micro	120 50 10 5	R20.00 m R10.00 m R 2.00 m R 0.15 m	R 4.00 m R 2.00 m R 0.40 m R 0.10 m
Business Services	Medium Small Very small Micro	120 50 10 5	R20.00 m R10.00 m R 2.00 m R 0.15 m	R 4.00 m R 2.00 m R 0.40 m R 0.10 m
Community	Medium Small Very small Micro	120 50 10 5	R10.00 m R 5.00 m R 1.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m
Social and Personal Services	Medium Small Very small Micro	120 50 10 5	R10.00 m R 5.00 m R 1.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m

Relative TEA ranking 2002 – 2010

Year	SA's TEA ranking	SA's TEA rate	Median	Number of positions above/below median
2002	20th out of 37 countries	6.3	19	1 below
2003	22nd out of 31 countries	4.3	16	6 below
2004	20th out of 34 countries	5.4	17	3 below
2005	25th out of 34 countries	5.2	17	8 below
2006	30th out of 42 countries	5.3	21	9 below
2008	23rd out of 43 countries	7.8	22	1 below
2009	35th out of 54 countries	5.9	27	8 below
2010	27th out of 59 countries	8.9	30	3 above

Letter to Respondents

Dear Respondent,

I am currently completing a Masters in Entrepreneurship and New Venture Creation at Wits Business School, Johannesburg. My dissertation topic is: “Internationalisation of South African SMMEs: The role of capital factors”. I am gathering data on this subject, and would be most grateful if you would take a few minutes out of your busy schedule and click on the below link to answer an online questionnaire regarding this subject.

This questionnaire does not involve questions which require you to divulge undisclosed information. It is rather focused on your thinking and strategic plans for companies going global. Confidentiality will be observed throughout the research process, and the final report will be utilised for academic purposes only.

Please take note of the fact that those who do answer this questionnaire, will automatically be entered into a draw to win a tablet PC.

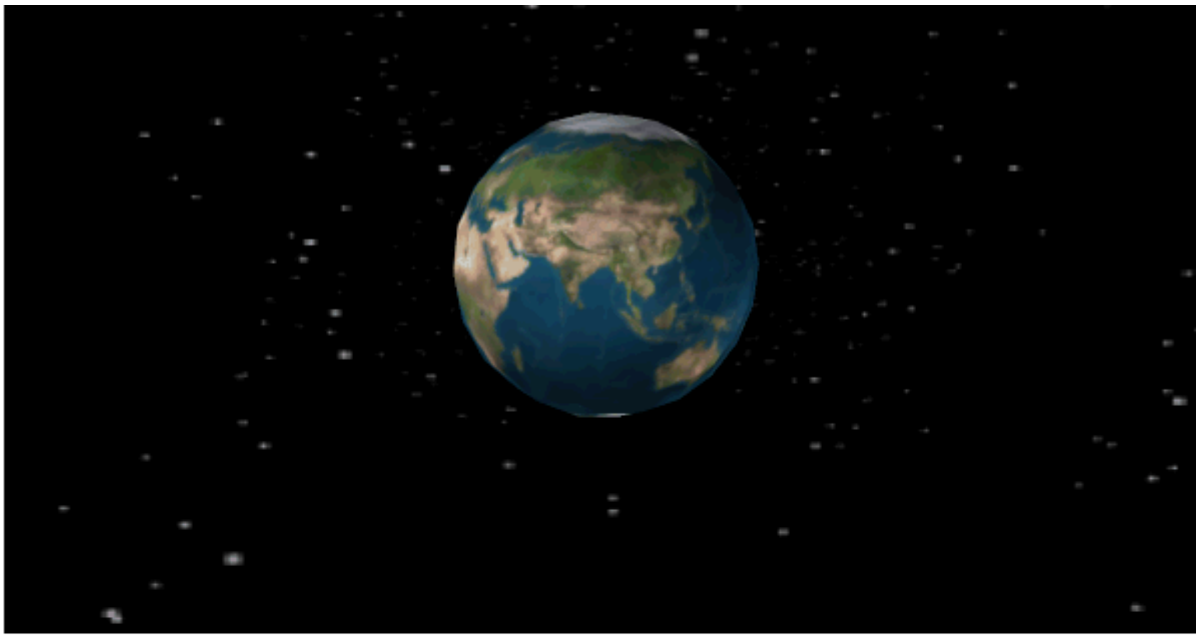
Thank you for your kind assistance.

http://misurvey.dev.co.za//survey.php?profile_id=46

Regards,

Sanam Shree

Actual Research Instrument



Internationalisation of South African SMMEs

The Role of Capital Factors

This questionnaire is designed to investigate strategies used by organisations that have internationalised or plan to internationalise in Africa or other countries outside of South Africa. Please answer the following questions on the internationalisation strategies that you have used or that you may use in the future

1. Highest education completed *

Please select one of the following answers provided

- ○ Basic Education (matriculation or lower)
- ○ Further education (training/Technicon)
- ○ University
- ○ Postgraduate university education

2. Number of employees *

- ○ Not Applicable
- ○ Fewer than 10
- ○ 10 - 50
- ○ 51 - 200
- ○ More than 200

3. Age of company *

- ○ Less than 3 months
- ○ 3 months - 4 years
- ○ 5 years - 10 years
- ○ 11 years - 20 years
- ○ Older than 20 years

4. Your company`s financial performance for past financial year *

- ○ Loss
- ○ Break-even
- ○ Profit

5. My firm has globalise or will globalise based on *

- ○ A necessity to survive
- ○ An opportunity

6. Has your organisation internationalised *

- ○ Yes
- ○ No

7. If so, how old was your company when it globalised *

- ○ Not applicable
- ○ Less than 3 months
- ○ 3 months - 4 years
- ○ 5 years - 10 years
- ○ 11 years - 20 years
- ○ Older than 20 years

8. What percentage of your company`s total sales is generated outside of South Africa *

- ○ 0 percent
- ○ 1 - 5 percent
- ○ 6 - 10 percent
- ○ 11 - 20 percent
- ○ 21 - 50 percent
- ○ More than 50 percent

9. How many countries does your company operate in *

- ○ None
- ○ 1 country
- ○ 2 - 5 countries
- ○ 6 - 10 countries
- ○ More than ten countries

10. Would you say that your company`s gross profit derived from foriegn markets is higher than that derived in the South African Market *

- ○ Not applicable
- ○ Yes. definitely
- ○ Yes I think so
- ○ I cant decide
- ○ No, I dont think so
- ○ No, definitely not

11. How much has the level of internationalisation of your SMME grown in the last year *

- ○ Not applicable
- ○ Substantially
- ○ To some extent
- ○ Stayed the same
- ○ Decreased to some extent
- ○ Decreased substantially

12. How much has the level of internationalisation of your SMME grown in the last 3 years *

- ○ Not applicable
- ○ Substantially
- ○ To some extent
- ○ Stayed the same
- ○ Decreased to some extent
- ○ Decreased substantially

13. Would you describe the growth in your SMME`s level of internationalisation over the last year as *

- ○ Not applicable
- ○ Far below company expectation
- ○ Somewhat below company expectation
- ○ As expected
- ○ Somewhat above company expectation
- ○ Far above company expectation

14. Would you describe the growth in your SMME`s level of internationalisation over the past 3 years as *

- ○ Not Applicable
- ○ Far below company expectatio
- ○ Somewhat below company expectation
- ○ As expected
- ○ Somewhat above company expectation
- ○ Far above company expectation

15. In my opinion, global expansion of my company is financially feasible *

Financial Capital

Please rate the following on a scale 1 to 7; 1= strongly disagree and 7= strongly agree

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

16. It is easier to obtain financing in the South African market than an international market *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

17. The South African requirements of audited financial statements, liquidity tests and cash flow are unreasonable for an SMME *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

18. If funding was available, I would prefer to use it for global expansion rather than reinvesting it in the company *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

19. It is simpler to obtain international funding from South African financial institutions than from international sources *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

20. South African trade tariffs (import, export and enviromental) inhibit / obstruct SMME business *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

21. It is financially exhausting to adapt my product or service to the international market *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

22. If I failed in a international market due to financial circumstances, I would not attempt entering an international market again *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

23. I believe a low level of financial capital is a major preventative factor that obstructs SMME`s from globalising *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

24. Social ties and networks make it easier for SMME`s to internationalise *

Social Capital

Please rate the following on a scale of 1 to 7 ; 1= strongly disagree and 7= strongly agree

- 1
- 2
- 3
- 4
- 5
- 6
- 7

25. Obtaining an international partner or entering an international joint venture is helpful for accessing resources *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

26. I think that the internet has a positive effect on SMME`s in international business communications *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

27. Social networking tools such as Skype, Facebook, Twitter, etc help SMME`s to grow internationally *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

28. Strong relationships with working partners overseas are important for successful internationalisation *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

29. Cultural barriers in international markets make it difficult to create social ties *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

30. Social ties and networks are a good way to find the necessary resources to run the firm *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

32. I believe having few social ties and networks is a major preventative factor that obstructs SMME`s from globalising *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

33. I have experience working in or with a foriegn market *

Human Capital

Please rate the following on a scale of 1 to 7 ; 1= strongly disagree and 7= strongly agree

- 1
- 2
- 3
- 4
- 5
- 6
- 7

34. I employ managers with international knowledge *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

35. I employ managers with international experience *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

36. Employing expatriate managers assist / will assist the internationalisation process *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

37. It is important for my employees to have knowledge of international markets and economies *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

38. In an international organisation it is beneficial to employ people who reside in the host coutry of the operations rather than employing South Africans only *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

39. Managers of foriegn operations are given the authority to make key decisions in their operations *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ 6
- ○ 7

40. Sharing knowledge and information with international contacts is important for enhancing the company`s overall learning *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

41. An SMME`s organisational culture adapts to each geographic location, for example by altering the way in which managers make decisions *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

42. I believe low levels of foriegn knowledge and experience is a major preventative factor that obstructs SMME`s from globalising *

- 1
- 2
- 3
- 4
- 5
- 6
- 7

43. In my opinion, it is more advisable to launch a company on a global platform *

Please select only 1 answer

- Only when it is profitable
- Only when international business contacts are established
- Only when the managers have international experience
- None of the above

44. When finding an attractive market to invest in, the deciding factor to enter is *

- Maximise profits
- Diversify portfolio
- Increase market share
- To attain scales of economies by outsourcing, buying cheaper raw material internationally and manufacturing

45. When finding an attractive market to invest in, the main factors that influence my decision whether or not to invest in that market is *

- ○ Economic, Political and Legal factors
- ○ Demographic factors
- ○ Market factors
- ○ Geographical factors

46. What choice of entry mode did you use, or would use in globalisation *

- ○ Exporting
- ○ Liscensing
- ○ Joint venture
- ○ Sole venture

47. Taking the company global is based on the current position in the domestic market, which is *

- ○ Non-existent
- ○ Weak
- ○ Moderate
- ○ Strong

48. What was / would be the degree of resource commitment during the initial stage of internationalisation *

- ○ Low
- ○ Medium
- ○ High
- ○ Very High

49. What strategies or methods would you suggest to internationalise *

- ○ Injecting financial resources and gaining market dominance
- ○ Entering into foriegn markets through networks / contacts / partners
- ○ Through prior international experience of management and employees
- ○ Other

50. What do you think are the main success factors in internationalisation *

- ○ Making a profit and gaining market dominance
- ○ Having a network of international business contacts
- ○ Having international knowledge and experience
- ○ Other

51. What is or your perception of the central challenge to internationalising your firm *

- ○ Low levels of financial capital
- ○ Few social ties and networks
- ○ Low levels of foriegn knowledge and experience
- ○ other



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Item analysis of correlations between each item and the Financial, Social and Human capitals

	Financial funding	Financial feasibility	Financial capital 3&7	Social capital	Human capital	Successful int	Successful int
Financial funding	1.0000	-.1820	.1450	.1626	.0005	-.0246	-.0156
	p= ---	p=.160	p=.265	p=.211	p=.997	p=.851	p=.905
Financial feasibility	-.1820	1.0000	.0530	.0517	.2380	.2301	.3528
	p=.160	p= ---	p=.685	p=.692	p=.065	p=.074	p=.005
Financial capital 3&7	.1450	.0530	1.0000	-.0197	.1613	.1384	.1260
	p=.265	p=.685	p= ---	p=.880	p=.214	p=.287	p=.333
Social capital	.1626	.0517	-.0197	1.0000	.2995	.0526	-.0986
	p=.211	p=.692	p=.880	p= ---	p=.019	p=.687	p=.450
Human capital	.0005	.2380	.1613	.2995	1.0000	.1783	.0628
	p=.997	p=.065	p=.214	p=.019	p= ---	p=.169	p=.630
Successful internationalisation	-.0246	.2301	.1384	.0526	.1783	1.0000	.5356
	p=.851	p=.074	p=.287	p=.687	p=.169	p= ---	p=.000
Successful internationalisation	-.0156	.3528	.1260	-.0986	.0628	.5356	1.0000
	p=.905	p=.005	p=.333	p=.450	p=.630	p=.000	p= ---

Reliabilities for Financial, Social and Human capital

Summary for scale: Mean=9.23529 Std.Dv.=2.93191 Valid N:136 Cronbach alpha: .549295 Standardized alpha: .550240 Average inter-item corr.: .379539

Financial capital	Mean if - deleted	Var. if - deleted	StDv. if - deleted	Itm-Totl - Correl.	Alpha if - deleted
Global expansion of my company is financially feasible	4.463235	3.307472	1.818646	0.379539	
If funding was available, I would prefer to use it for global expansion	4.772059	2.881866	1.697606	0.379539	

Summary for scale: Mean=40.5000 Std.Dv.=5.63455 Valid N:136 Cronbach alpha: .852135 Standardized alpha: .853475 Average inter-item corr.: .460122

Social capital	Mean if - deleted	Var. if - deleted	StDv. if - deleted	Itm-Totl - Correl.	Alpha if - deleted
Social ties and networks make it easier for SMME`s to internationalise	34.77206	22.92599	4.788109	0.647352	0.826458
Obtaining an international partner is helpful for accessing resources:	34.60294	24.63646	4.963513	0.608472	0.832918
The internet has a positive effect on SMME`s in international business communications:	34.49265	24.89701	4.98969	0.565772	0.838331
Social networking tools help SMME`s to grow internationally:	34.88235	22.28028	4.720199	0.602804	0.835902
Strong relationships with partners overseas are important for successful int.:	34.36029	25.61284	5.060913	0.526911	0.843393
Social ties and networks are a good way to find the necessary resources to run the firm:	34.99265	23.03671	4.799657	0.663001	0.824063
Having social networks makes internationalisation simpler:	34.89706	22.68058	4.762413	0.699718	0.81838

Summary for scale: Mean=42.8456 Std.Dv.=9.22627 Valid N:136 Cronbach alpha: .812637 Standardized alpha: .818933 Average inter-item corr.: .360058

Human capital	Mean if - deleted	Var. if - deleted	StDv. if - deleted	Itm-Totl - Correl.	Alpha if - deleted
I have experience working in or with a foreign market	38.63971	66.89225	8.178768	0.351919	0.825462
I employ managers with international knowledge	39.09559	56.73351	7.532165	0.747055	0.757559
I employ managers with international experience:	39.15441	56.98351	7.548742	0.751892	0.756821
Employing expatriate managers assists the internationalisation process:	38.20588	66.83997	8.175571	0.621218	0.780847
It is important for my employees to have knowledge of international markets:	37.38971	68.69371	8.288167	0.531567	0.791398
It is beneficial to employ people who reside in the host country of the operations:	37.57353	69.99458	8.366277	0.540293	0.791 35
Managers of foreign operations are given the authority to make decisions:	37.82353	75.51298	8.68982	0.419474	0.805242
Sharing knowledge with international contacts is important for company`s learning:	37.26471	76.04758	8.720527	0.399225	0.806972
An SMME`s organisational culture adapts to each geographic location:	37.61765	77.25087	8.789248	0.313062	0.813599

Reliability for Financial capital

Summary for scale: Mean=39.4650 Std.Dv.=5.41428 Valid N:157 (Data1MW with reversals)
Cronbach alpha: .229014 Standardized alpha: .191346 Average inter-item corr.: .028862

	Mean if-deleted	Var. if-deleted	StDv. if deleted	Itm-Totl-Correl.	Alpha if-deleted
Global expansion of my company is financially feasible	34.61	20.84	4.56	0.36	0.02
It is easier to obtain financing in the South African market	34.71	25.76	5.08	0.04	0.23
R The South African requirements of financial statements are unreasonable for an SMME	36.01	27.55	5.25	-0.05	0.28
I would prefer to use it for global expansion	35.06	23.62	4.86	0.12	0.18
It is simpler to obtain international funding from South African banks	34.89	24.54	4.95	0.14	0.17
R South African trade tariffs obstruct SMME business	36.41	28.68	5.35	-0.10	0.30
R It is financially exhausting to adapt my product to the international market	35.29	23.20	4.82	0.21	0.13
R If I failed in a international market, I would not enter an international market again	34.83	24.09	4.91	0.11	0.19
Low level of financial capital is a major preventative factor that obstructs SMME`s from globalising	33.90	28.81	5.37	-0.10	0.29

Summary for scale: Mean=40.8535 Std.Dv.=6.95205 Valid N:157 (Data1MW) Cronbach alpha: .581553 Standardized alpha: .597048 Average inter-item corr.: .145222

	Mean if-deleted	Var. if-deleted	StDv. if deleted	Itm-Totl-Correl.	Alpha if-deleted
Global expansion of my company is financially feasible	35.99	42.76	6.54	0.11	0.60
It is easier to obtain financing in the South African market	36.10	38.38	6.20	0.34	0.53
The South African requirements of financial statements are unreasonable for an SMME	36.31	38.82	6.23	0.34	0.53
I would prefer to use it for global expansion	36.45	40.08	6.33	0.20	0.58
It is simpler to obtain international funding from South African banks	36.28	37.67	6.14	0.42	0.51
South African trade tariffs obstruct SMME business	35.90	39.90	6.32	0.35	0.53
It is financially exhausting to adapt my product to the international market	37.03	39.08	6.25	0.31	0.54
If I failed in a international market, I would not enter an international market again	37.48	42.40	6.51	0.11	0.60
Low level of financial capital is a preventative factor obstructing SMME`s from globalising	35.29	40.27	6.35	0.35	0.53

Key to inter-correlation matrix

1. In my opinion, global expansion of my company is financially feasible.
2. It is easier to obtain financing in the South African market than an international market.
3. If funding was available, I would prefer to use it for global expansion rather than reinvesting it in the company.
4. It is simpler to obtain international funding from South African financial institutions than from international sources.
5. Social ties and networks make it easier for SMMEs to internationalise.
6. Obtaining an international partner or entering an international joint venture internationally is helpful for accessing resources.
7. I think that the internet has a positive effect on SMMEs' international business communications.
8. Social networking tools such as Skype, Facebook, Twitter, etc help SMMEs to grow internationally.
9. Strong relationships with working partners overseas are important for successful internationalisation.
10. Social ties and networks are a good way to find the necessary resources to run the firm.
11. In my opinion, having social networks makes internationalisation simpler.
12. have experience working in or with a foreign market.
13. I employ managers with international knowledge
14. I employ managers with international experience.
15. Employing expatriate managers assists / will assist the internationalisation process.
16. It is important for my employees to have knowledge of international markets and economies.
17. In an international organisation it is beneficial to employ people who reside in the host country of the operations rather than employing South Africans only.
18. Managers of foreign operations are given the authority to make key decisions in their operations.
19. Sharing knowledge and information with international contacts is important for enhancing the company's overall learning.
20. An SMMEs organisational culture adapts to each geographic location, for example by altering the way in which managers make decisions.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	1.00	0.16	0.38	0.23	0.19	0.08	0.05	0.00	-0.03	0.08	0.10	0.24	0.37	0.36	0.28	0.34	0.32	0.28	0.21	0.24
2	0.16	1.00	0.02	0.62	0.04	-0.07	-0.01	0.00	0.06	0.10	0.03	0.02	0.04	0.04	0.05	-0.05	0.08	-0.06	0.05	-0.08
3	0.38	0.02	1.00	0.05	0.08	0.13	0.02	-0.02	-0.07	-0.02	-0.01	0.19	0.16	0.20	0.12	0.29	0.14	0.07	0.12	0.11
4	0.23	0.62	0.05	1.00	0.21	-0.02	0.06	0.11	0.07	0.24	0.16	0.02	0.07	0.08	0.10	0.14	0.19	0.07	0.21	0.08
5	0.19	0.04	0.08	0.21	1.00	0.54	0.47	0.48	0.34	0.51	0.51	-0.03	0.18	0.18	0.15	0.35	0.24	0.15	0.28	0.25
6	0.08	-0.07	0.13	-0.02	0.54	1.00	0.42	0.32	0.49	0.44	0.53	0.02	0.16	0.16	0.09	0.26	0.24	0.11	0.31	0.21
7	0.05	-0.01	0.02	0.06	0.47	0.42	1.00	0.56	0.38	0.32	0.36	0.04	0.13	0.10	0.12	0.38	0.12	0.16	0.28	0.17
8	0.00	0.00	-0.02	0.11	0.48	0.32	0.56	1.00	0.33	0.46	0.51	0.03	0.11	0.09	-0.01	0.24	0.15	0.09	0.19	0.15
9	-0.03	0.06	-0.07	0.07	0.34	0.49	0.38	0.33	1.00	0.45	0.41	0.01	0.11	0.10	0.05	0.26	0.27	0.04	0.17	0.24
10	0.08	0.10	-0.02	0.24	0.51	0.44	0.32	0.46	0.45	1.00	0.71	-0.09	0.04	0.05	-0.02	0.24	0.09	0.02	0.28	0.14
11	0.10	0.03	-0.01	0.16	0.51	0.53	0.36	0.51	0.41	0.71	1.00	-0.14	0.09	0.12	0.00	0.27	0.26	0.16	0.32	0.28
12	0.24	0.02	0.19	0.02	-0.03	0.02	0.04	0.03	0.01	-0.09	-0.14	1.00	0.48	0.45	0.30	0.12	0.13	0.02	0.07	0.03
13	0.37	0.04	0.16	0.07	0.18	0.16	0.13	0.11	0.11	0.04	0.09	0.48	1.00	0.95	0.55	0.37	0.35	0.30	0.22	0.16
14	0.36	0.04	0.20	0.08	0.18	0.16	0.10	0.09	0.10	0.05	0.12	0.45	0.95	1.00	0.56	0.38	0.38	0.32	0.22	0.17
15	0.28	0.05	0.12	0.10	0.15	0.09	0.12	-0.01	0.05	-0.02	0.00	0.30	0.55	0.56	1.00	0.47	0.47	0.28	0.23	0.21
16	0.34	-0.05	0.29	0.14	0.35	0.26	0.38	0.24	0.26	0.24	0.27	0.12	0.37	0.38	0.47	1.00	0.51	0.34	0.45	0.29
17	0.32	0.08	0.14	0.19	0.24	0.24	0.12	0.15	0.27	0.09	0.26	0.13	0.35	0.38	0.47	0.51	1.00	0.43	0.38	0.34
18	0.28	-0.06	0.07	0.07	0.15	0.11	0.16	0.09	0.04	0.02	0.16	0.02	0.30	0.32	0.28	0.34	0.43	1.00	0.39	0.34
19	0.21	0.05	0.12	0.21	0.28	0.31	0.28	0.19	0.17	0.28	0.32	0.07	0.22	0.22	0.23	0.45	0.38	0.39	1.00	0.39
20	0.24	-0.08	0.11	0.08	0.25	0.21	0.17	0.15	0.24	0.14	0.28	0.03	0.16	0.17	0.21	0.29	0.34	0.34	0.39	1.00

Correlations of successful internationalisation and the independent variables using Spearman Rank Order

Spearman Rank Order Correlations MD pairwise deleted Marked correlations are significant at p <.05000

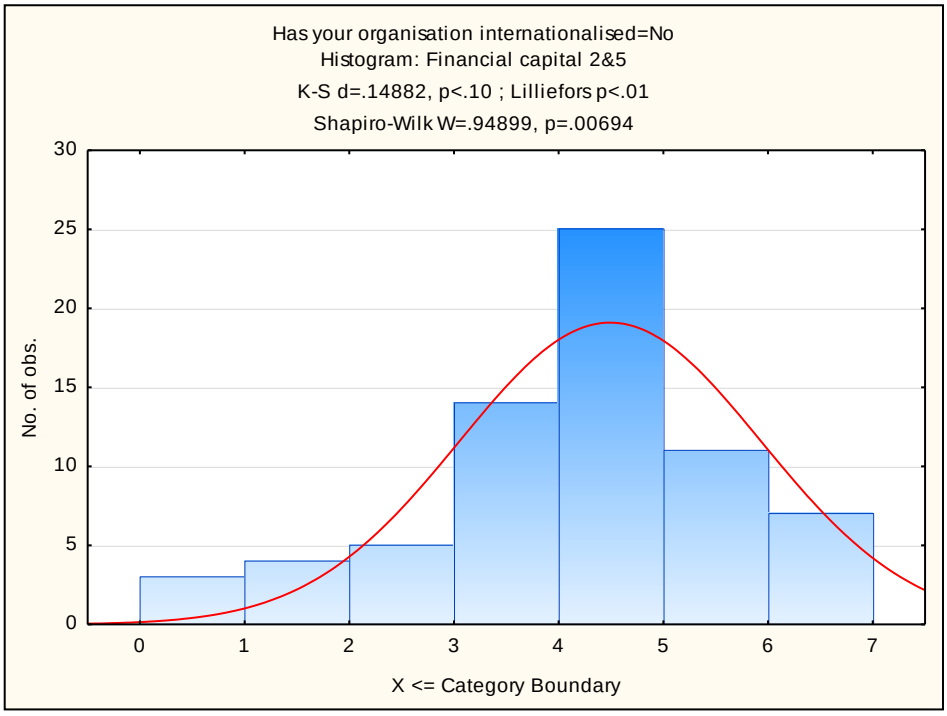
	Successful internationalisation	Successful internationalisation
Financial feasibility	0.27	0.34
Financial funding	0.18	0.09
Social capital	0.08	-0.06
Human capital	0.12	0.06
Human cap composition	0.13	0.10
Human cap attitudes	0.05	0.03

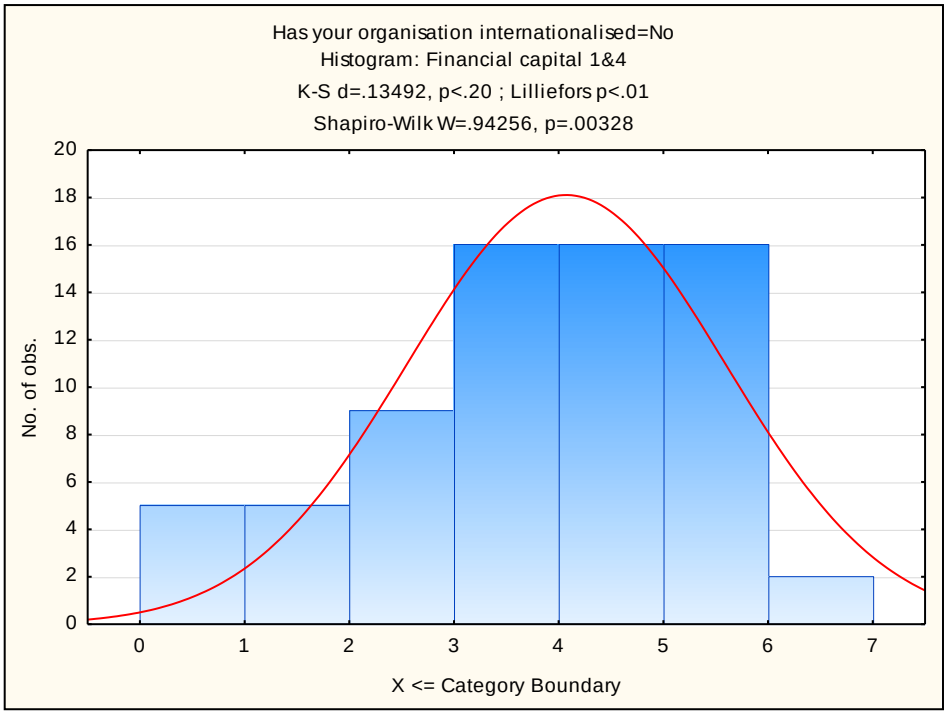
Correlations of successful internationalisation and the independent variables using Spearman Rank Order

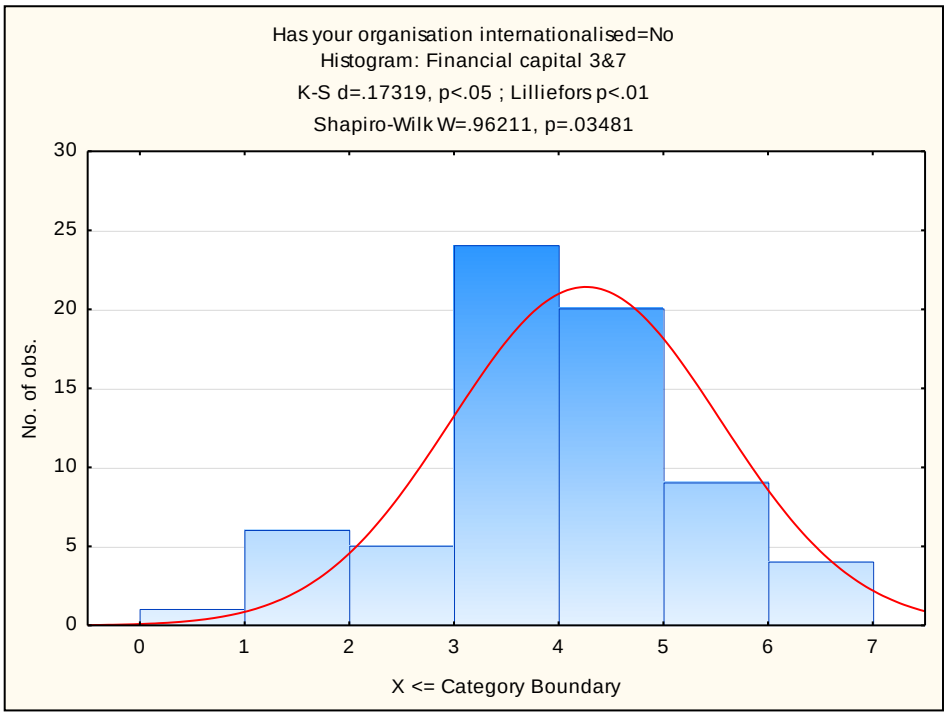
Spearman Rank Order Correlations MD pairwise deleted Marked correlations are significant at p <.05000

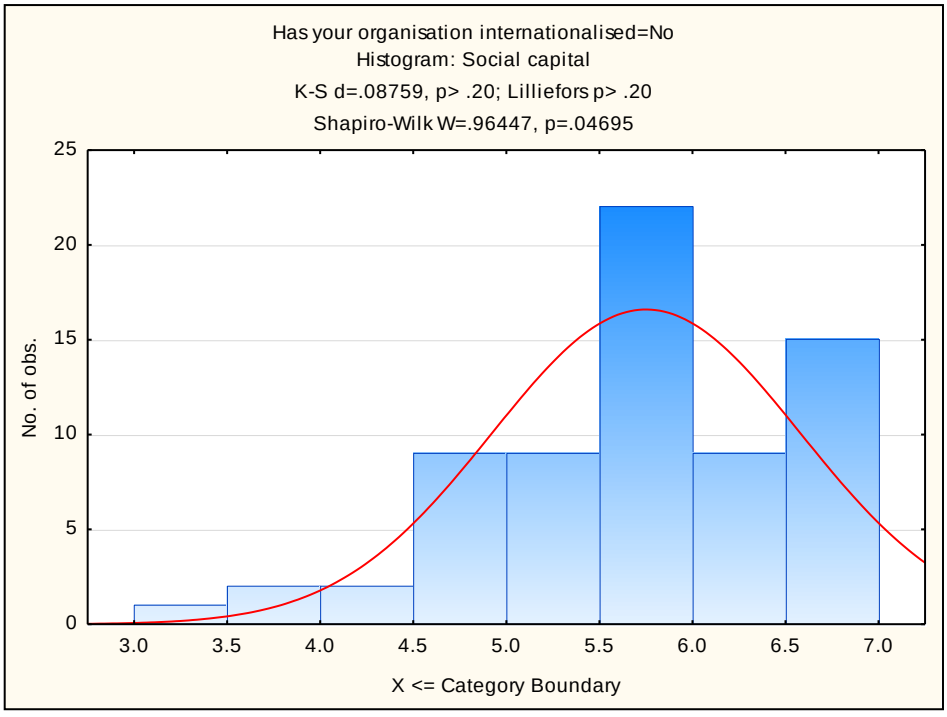
	Valid – N	Spearman – R	t(N-2)	p-value
Financial feasibility & Successful internationalisation	66	0.266729	2.214042	0.030395
Financial feasibility & Successful internationalisation	65	0.341005	2.879223	0.00544
Financial funding & Successful internationalisation	66	0.176528	1.434755	0.156226
Financial funding & Successful internationalisation	65	0.090956	0.724948	0.471168
Social capital & Successful internationalisation	66	0.084921	0.681831	0.497806
Social capital & Successful internationalisation	65	-0.064085	-0.50971	0.612037
Human capital & Successful internationalisation	66	0.117679	0.94802	0.346685
Human capital & Successful internationalisation	65	0.061475	0.488866	0.626634
Human cap composition & Successful internationalisation	66	0.129769	1.047007	0.299035
Human cap composition & Successful internationalisation	65	0.102485	0.817757	0.416578
Human cap attitudes & Successful internationalisation	66	0.05339	0.42773	0.670284
Human cap attitudes & Successful internationalisation	65	0.029012	0.230371	0.81855

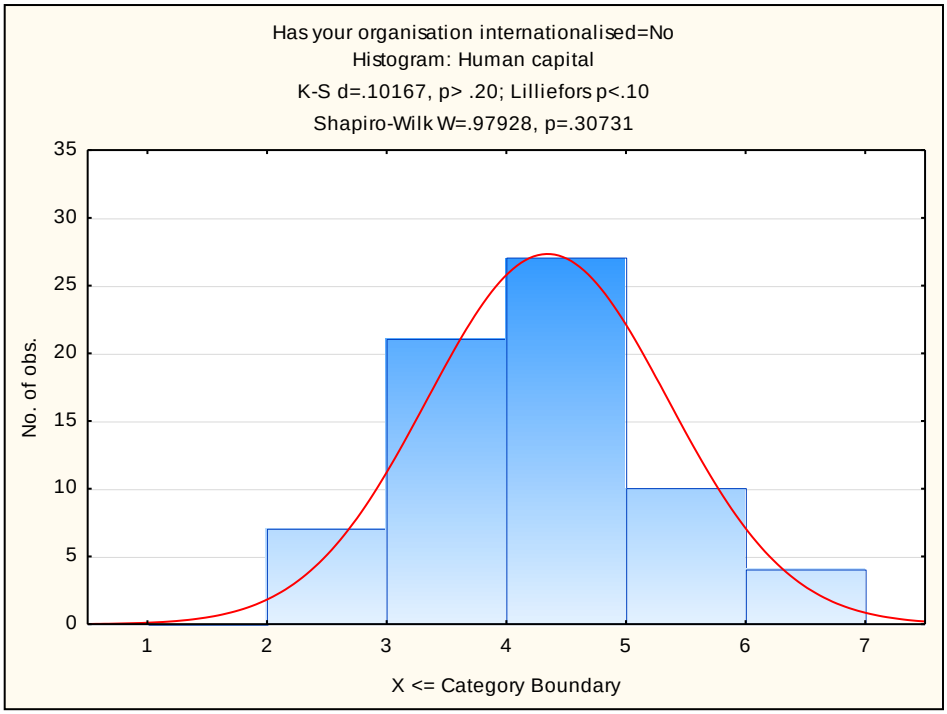
Distributions for non-internationalised SMMEs

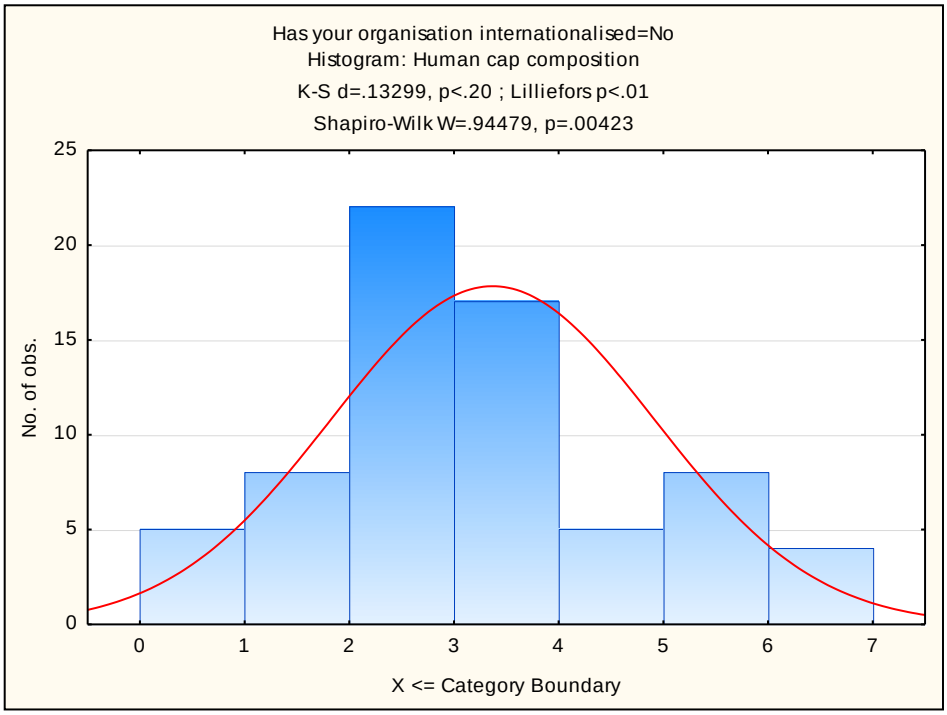


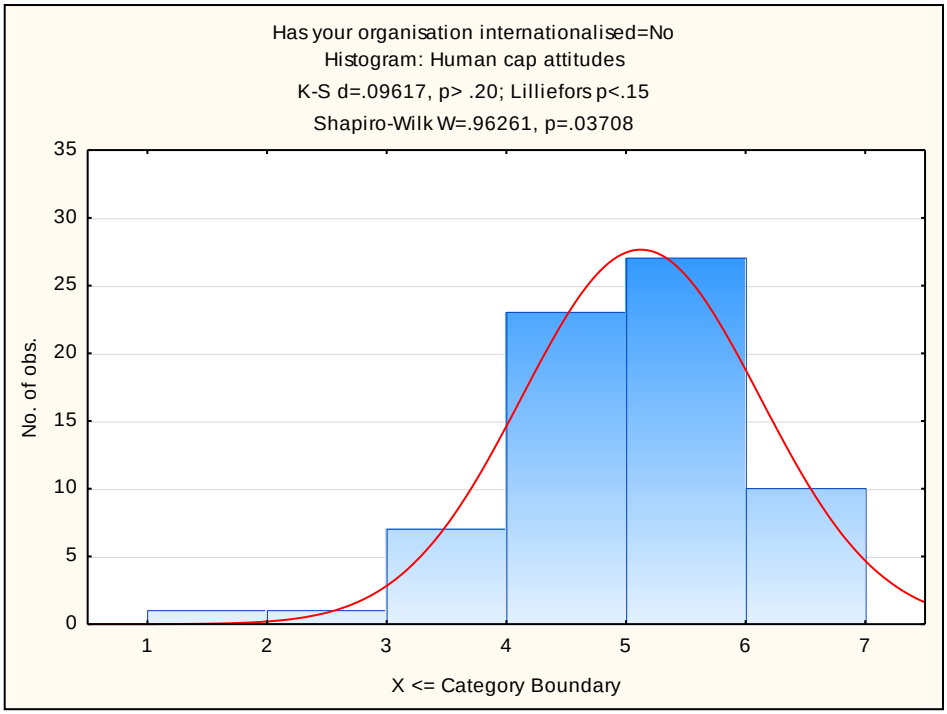



Has your organisation internationalised=No
Histogram: Financial capital 3&7
K-S d=.17319, p<.05 ; Lilliefors p<.01
Shapiro-Wilk W=.96211, p=.03481
No. of obs.
X <= Category Boundary

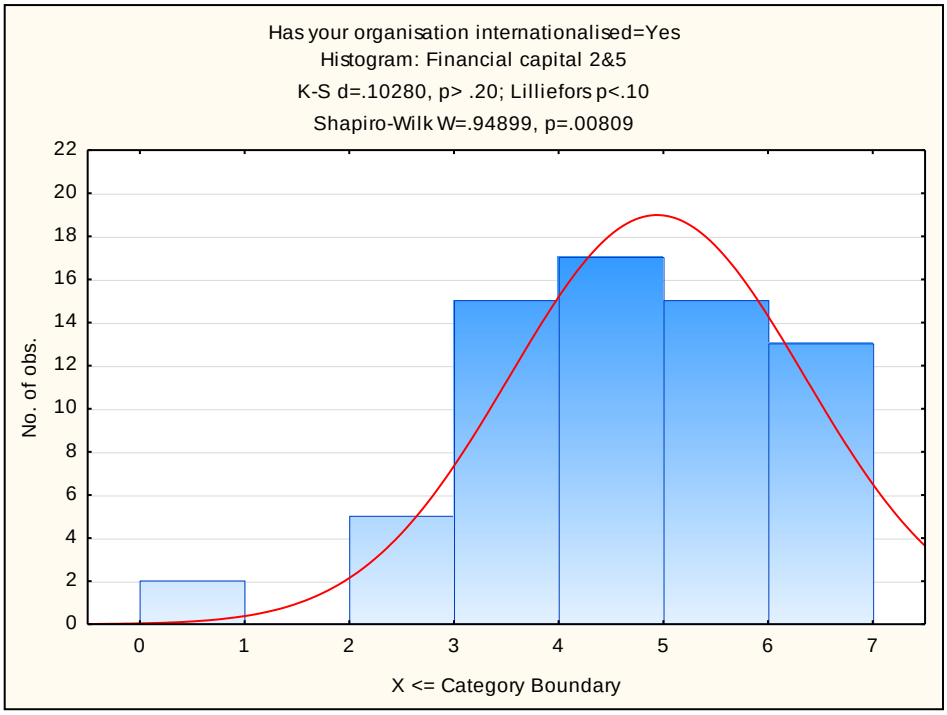

Has your organisation internationalised=No
Histogram: Social capital
K-S d=.08759, p> .20; Lilliefors p> .20
Shapiro-Wilk W=.96447, p=.04695
No. of obs.
X <= Category Boundary

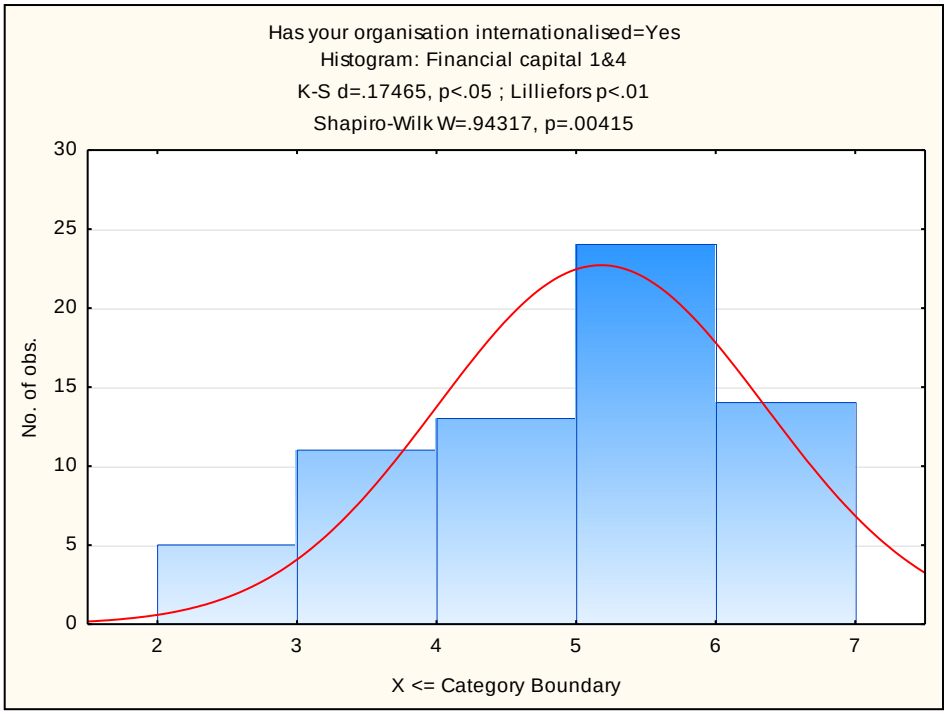

Has your organisation internationalised=No
Histogram: Human capital
K-S d=.10167, p> .20; Lilliefors p<.10
Shapiro-Wilk W=.97928, p=.30731
No. of obs.
X <= Category Boundary

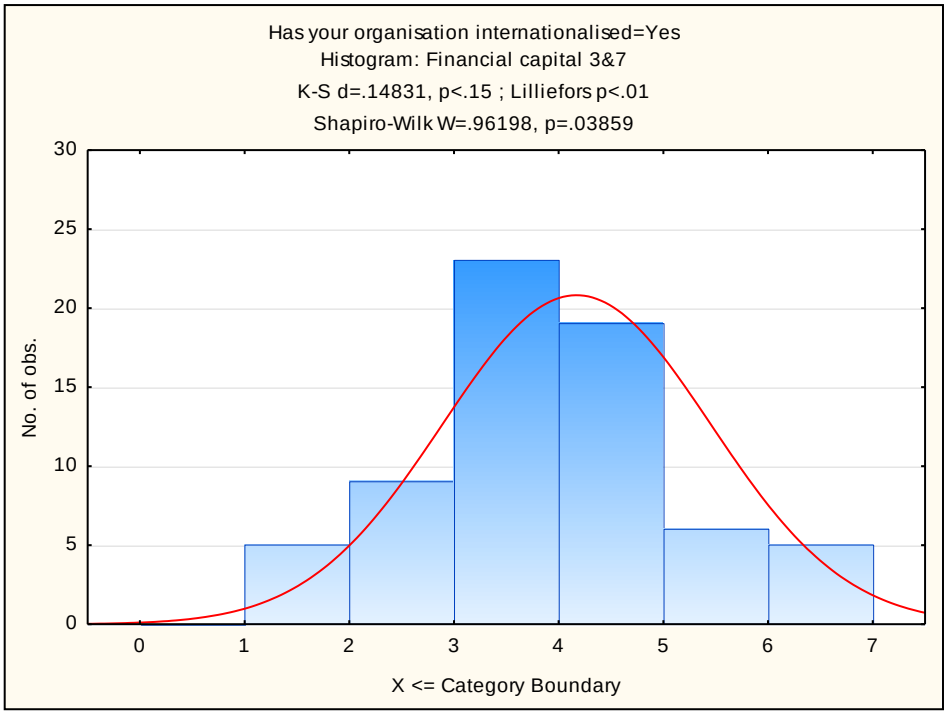

Has your organisation internationalised=No
Histogram: Human cap composition
K-S d=.13299, p<.20 ; Lilliefors p<.01
Shapiro-Wilk W=.94479, p=.00423
No. of obs.
X <= Category Boundary

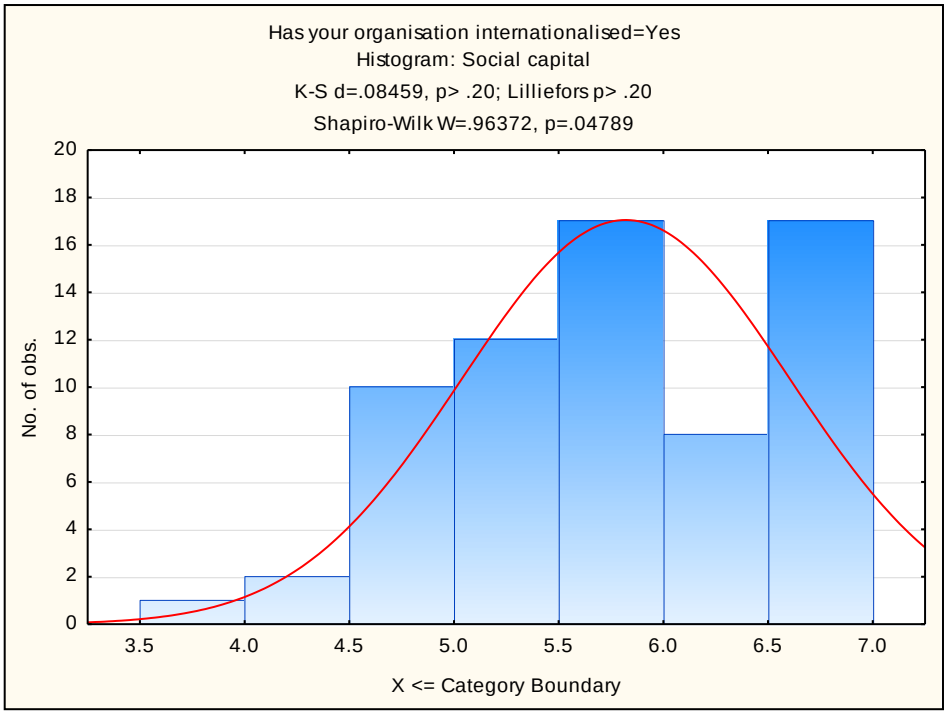


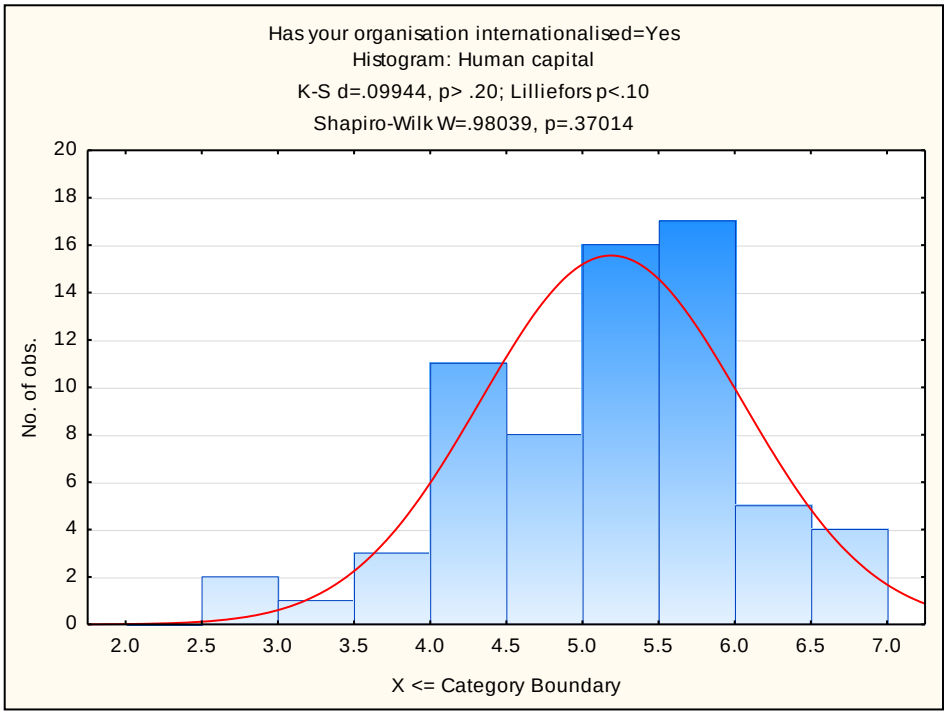
Distributions for internationalised SMMEs. The skewness was reduced.

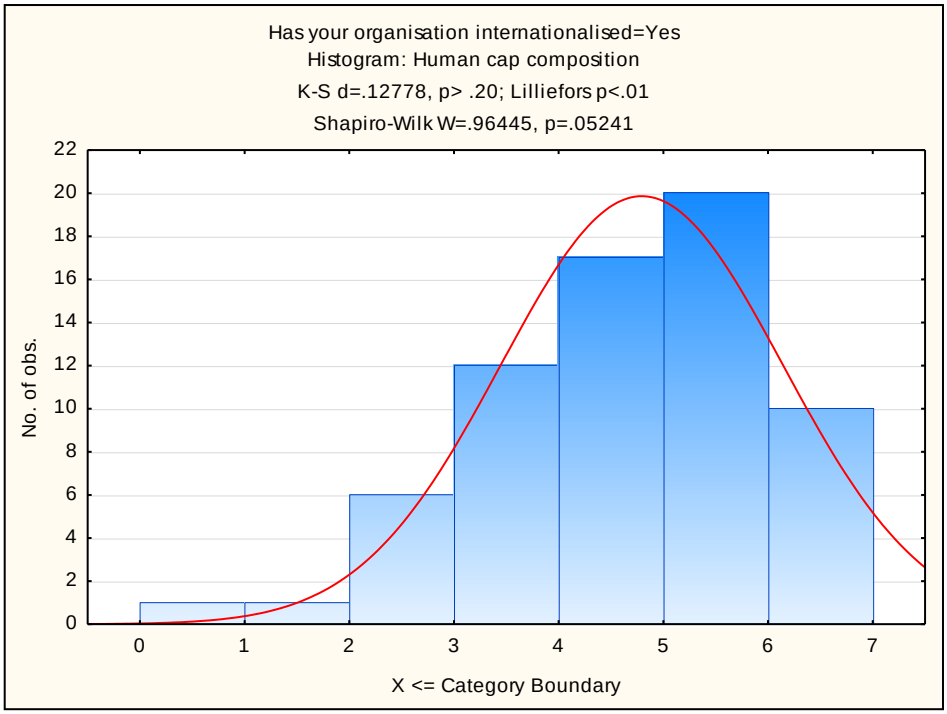


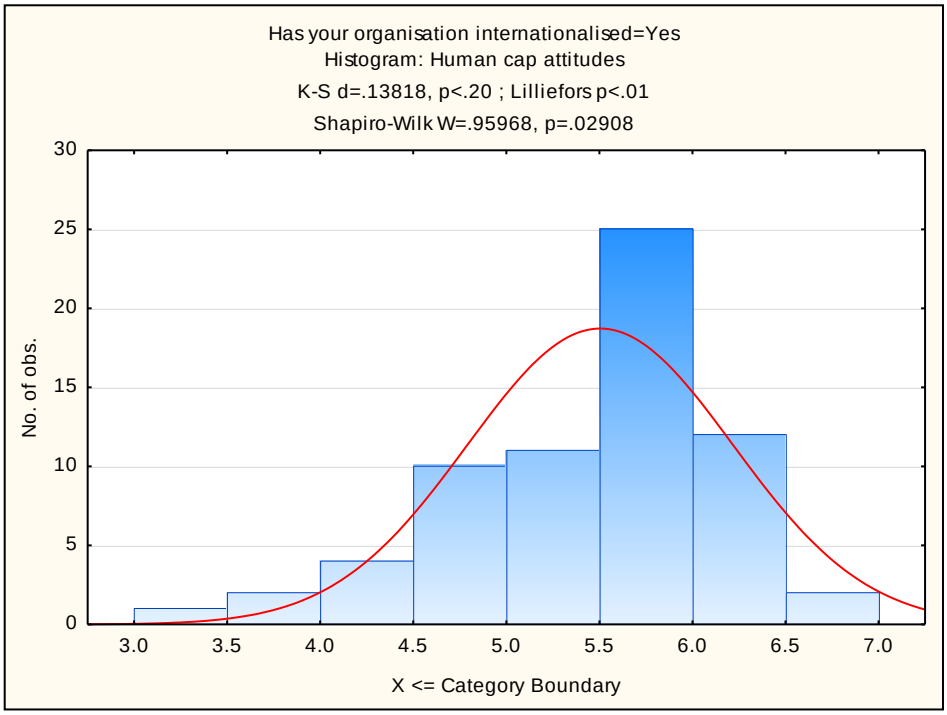

Has your organisation internationalised=Yes
Histogram: Financial capital 1&4
K-S d=.17465, p<.05 ; Lilliefors p<.01
Shapiro-Wilk W=.94317, p=.00415
No. of obs.
X <= Category Boundary


Has your organisation internationalised=Yes
Histogram: Financial capital 3&7
K-S d=.14831, p<.15 ; Lilliefors p<.01
Shapiro-Wilk W=.96198, p=.03859
No. of obs.
X <= Category Boundary


Has your organisation internationalised=Yes
Histogram: Social capital
K-S d=.08459, p> .20; Lilliefors p> .20
Shapiro-Wilk W=.96372, p=.04789
No. of obs.
X <= Category Boundary


Has your organisation internationalised=Yes
Histogram: Human capital
K-S d=.09944, p> .20; Lilliefors p<.10
Shapiro-Wilk W=.98039, p=.37014
No. of obs.
X <= Category Boundary


Has your organisation internationalised=Yes
Histogram: Human cap composition
K-S d=.12778, p> .20; Lilliefors p<.01
Shapiro-Wilk W=.96445, p=.05241
No. of obs.
X <= Category Boundary


Has your organisation internationalised=Yes
Histogram: Human cap attitudes
K-S d=.13818, p<.20 ; Lilliefors p<.01
Shapiro-Wilk W=.95968, p=.02908
No. of obs.
X <= Category Boundary

APPENDIX B: CONSISTENCY MATRIX

Factors that prohibit South African SMMEs from internationalising

Sub-problem	Literature Review	Hypotheses	Source of data	Type of data	Analysis
The first sub-problem is that low levels of financial capital prohibit South African SMMEs from internationalising	The entrepreneur's decision to go international has been due to the availability of resources (financial, physical, technological and human) or lack of them (Burgel & Murray, 1998; Westhead et al, 1998; Almedia et al, 2000; Ibrahim & McGuire, 2001).	**Hypothesis 1:** The larger the amount of financial capital available to the SMME, the higher the levels of internationalisation	Actual questionnaire questions that will provide statistical data.	Interval data	Correlation and regression analysis
The second sub-problem is that few domestic/regional or international social ties and networks prevent South African SMMEs from globalising.	It is believed that the process of network interaction creates social capital that represents one of the most critical resources of the entrepreneurial firms enhancing their abilities to go abroad and influencing the direction and organisation forms of this process (Arenius, 2002; Andersson & Wictor, 2003; Sharma & Blomstermo, 2003; Auto, 2005).	**Hypothesis 2:** There is a positive relationship between social networks and the level of internationalisation of the SMME	Actual questionnaire questions that will provide statistical data.	Interval data	Correlation and regression analysis

The third sub-problem is that low levels of international knowledge and experience of management prohibits South African SMMEs from expanding internationally.	The core principle of strategic management is an alignment between the organisation and its environment that maintains the competitiveness and the survival of the firm over the long run (Hambrick, 1983; Summers, 1980).	**Hypothesis 3:** There is a positive relationship between possession of International knowledge and experience with the SMME's ability to internationalise	Actual questionnaire questions that will provide statistical data.	Interval data	Correlation and regression analysis