



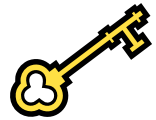
P&D CONSULTING

Presents

Managing Internationalization process  
and win in the global market.  
Human Capital and SME Internationalization.

by Francesco D'Aprile 

# SMEs Business Model



SMEs: The **entrepreneur** is the key variable in SMEs' success as the decision-maker of the firm

Entrepreneurs have individual assets that help them recognize new opportunities and assemble resources for new ventures



- a. setting objectives,
- b. gathering **foreign** market information,
- c. collecting and organizing resources,
- d. and implementing **internationalization** strategies



# SMEs Business Model



In an SME,  
the personal resources of an **entrepreneur**  
become crucial since the internationalization process  
often centers around one such **key person**

and his knowledge, experience, and network of relationships

The degree of export aggressiveness can be attributed  
to certain entrepreneurial characteristics and dimensions  
that can be engaged in the concept of:

## Human capital

- knowledge → Tacit → Knowledge of a foreign market
- skills → Explicit → Ability to do business in that mkt
- values



# New study

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## ***Human capital and SME internationalization: a structural equation modeling study***

By:

Mitja Ruzzier<sup>1</sup>, Bostjan Antoncic<sup>1\*</sup>, Robert D. Hisrich<sup>2</sup>, Maja Konecnik<sup>3</sup>

<sup>1</sup>University of Primorska - Slovenia

<sup>2</sup>Thunderbird School of Global Management - Canada

<sup>3</sup>University of Ljubljana - Slovenia



# New study



## Survey:

Postal Survey sent to Directors of 1006 **Slovenian SMEs** with international sales

- with 10 to 250 employees;
- annual turnover > 13 Million Euro

Data: from **161** usable responses

## Average firm profile:

- with 20 to 49 employees;
- 330,000 Euro < annual turnover < 1,650,000 Euro
- 17,5 years hold
- operated in manufacturing industry



# New study



## Topics:

1) They expect the four following dimensions of human capital of an SME's entrepreneur(s) to **relate positively** to its internationalization:

- international business skills,
- international orientation,
- perception of environmental risk,
- management know-how

2) Dimensions of human capital **in predicting** SME internationalization

....but:



# New study – Background Hypothesis



## International Business Skills:

Difficult to imitate !!

Tacit knowledge of geographically dispersed market,  
acquired through personal experience  
of specific international market

- International experience,
- International schooling,
- International personal networks and relationships

Hypothesis 1a: The international business skills of an SME's chief entrepreneur are related positively with the SME's internationalization



# New study – Background Hypothesis



## International Orientation:

**Difficult to imitate !!**

A potentially important factor that could differentiate firms in relation to their export propensity, aggressiveness, development, and performance is **the amount of time the entrepreneur has spent abroad**. The entrepreneur's exposure to foreign cultures through living, working, or traveling abroad should increase their international orientation to foreign cultures and countries. Being abroad change perceived ambiguity and complexity of these markets!

**Hypothesis 1b: The time spent abroad by an SME's chief entrepreneur is related positively to that SME's degree of internationalization**





# New study – Background Hypothesis

## Perceptions of the Environment (Risk Perception)

A firm's propensity to internationalize is positively related to **its entrepreneur's level of risk tolerance**

When entrepreneurs are willing to assume risk the degree of risk that they attach to export situations is reduced.

**Hypothesis 1c: An SME's chief entrepreneur's perception of the risk of operating in international markets is negatively related to SME Internationalization**



# New study – Background Hypothesis

## Management know how

Skills and expertise developed over time by managing the enterprise (the ability to identify appropriate partners, ...)

Firms with diverse management know how may be able to introduce better human resources practices, undertake more promising competitive strategies, and identify more promising opportunities in foreign markets

Hypothesis 1d: The management know-how of the chief entrepreneur of an SME is positively related to SME internationalization



# New study – Background Hypothesis



**Table 1**

*Summary of Selected Categories and Components of the Entrepreneur's Human Capital and Their Influence on Internationalization*

HUMAN CAPITAL CATEGORY (Hypothesis)	AUTHOR COMPONENT	Simmonds, Smith (1968)	Simpson, Kujawa (1974)	Wiedersheim <i>et al.</i> (1978)	Gomez-Mejia (1988)	De Rocha, Christensen, & da Cunha (1990)	Dichtl <i>et al.</i> (1990)	Bloodgood <i>et al.</i> (1997)	Reuber, Fischer (1997)	Chetty (1999)	Athanasidou, Nigh (2000)	Clarke (2000)	Westhead <i>et al.</i> (2001)	Hennmann, Datta (2002)	Manolova <i>et al.</i> (2002)	Trevino, Groese (2002)
INT. BUSINESS SKILLS (H1a)	Int. work experience							+	+		+		+	+	+	+
	International schooling							x								
	Foreign languages						+		+			(o)			+	
INTERNATIONAL ORIENTATION (H1b)	Travel abroad	(+)	x		+	+				(+)	+				x	
	Time lived abroad						+	x		(+)					x	
ENVIRONMENTAL PERCEPTIONS (H1c)	Innovativeness	(+)					+	x								+
	Profit possibilities	(+)	+		+					(+)						
	Risk tolerance	(+)	+		+		+								+	
MANAGEMENT KNOW-HOW (H1d)	Management capabilities			+												
	Industry knowledge							+		(+)			+			

*Note:* + positive influence; x no significant influence; - negative influence, (+) positive influence in qualitative studies, (-) negative influence in qualitative studies, (o) mixed results.



# New study - Indicators



To measure SMEs internationalization

What

## SMEs activities:

- (a) importing;
- (b) direct exporting;
- (c) exporting through an intermediary;
- (d) solo venture direct investment;
- (e) joint-venture direct investment;
- (f) licensing of a product or service;
- (g) contracting;
- (h) franchising;
- (i) any other international activity



# New study - Indicators



To measure SMEs internationalization

★ Foreign markets:

Where

Five Regions:

Phisic  
Cultural  
Psychological  
closeness



- 1) Italy, Austria, Germany
- 2) former Yugoslav countries + Russia:  
Croatia, Bosnia and Herzegovina,  
Serbia, Macedonia, Montenegro
- 3) other EU and associate EU member Countries
- 4) USA and Canada,
- 5) all other Countries



# New study - Indicators

To measure SMEs internationalization

- ✦ The degree of standardization / customization : How  
with respect to:
  - (a) Product / services;
  - (b) Marketing / advertising;
  - (c) Branding;
  - (d) Employee training for different country markets.
- ✦ Percentage of foreign sales
- ✦ Amount of time employees dedicate to international operations
- ✦ Percentage of all products/services sold abroad



# New study - Indicators

To measure entrepreneur's human capital

## International business skills

- a. international work experience;
- b. personal networks and relationships abroad;
- c. international business education

## Environmental risk perception

the degree of risk they associated  
with various international operations



# New study - Indicators



To measure entrepreneur's human capital

## ✦ International orientation

- a. number of days spent on business trips outside Slovenia
- b. number of days on all trips out of Slovenia.

## ✦ Management Know How

- a. negotiation,
- b. oral presentation,
- c. team-building and management,
- d. motivating employees,
- e. developing personal business relationships

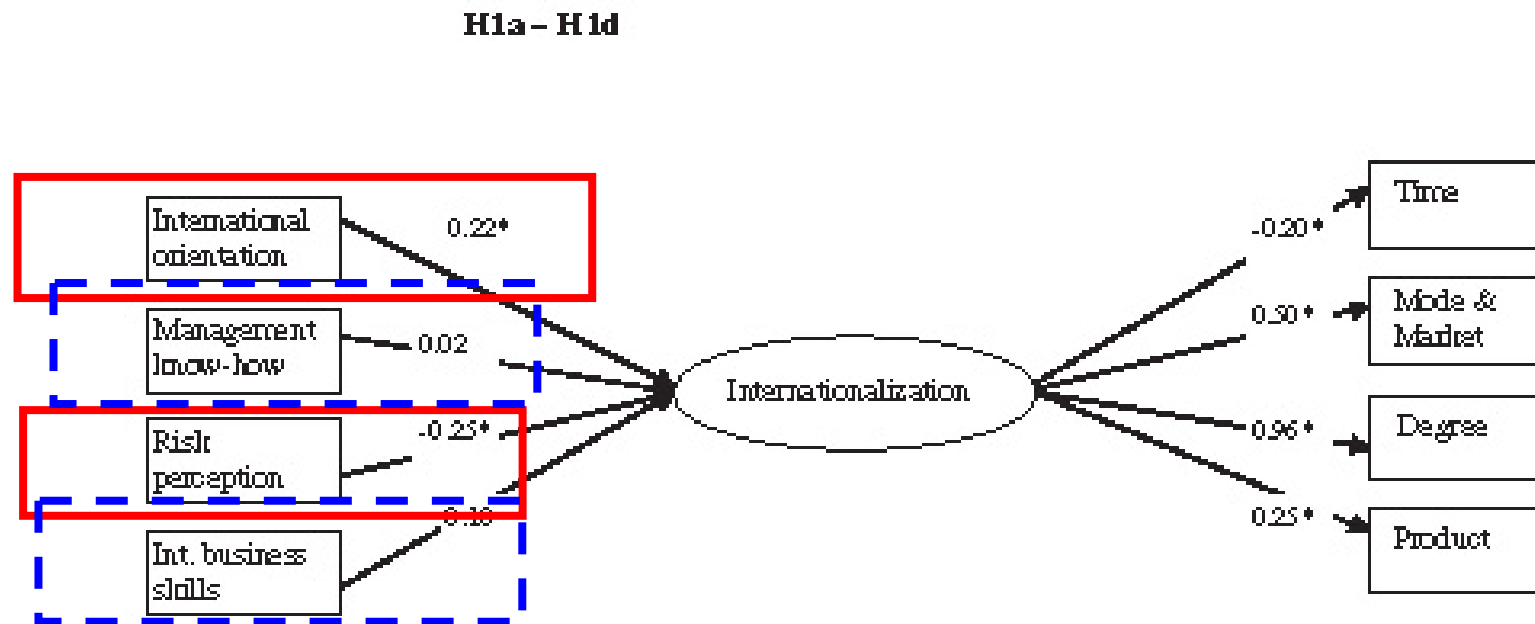




# New study - Conclusions



Figure 2.  
Determinant-dimensional model



\* Coefficients significant at 0.05.



# New study - Conclusions

## Human Capital Related and predictive Indicators for SMEs Internationalization

### International orientation



- a. number of days spent on business trips outside Slovenia
- b. number of days on all trips out of Slovenia.

### Environmental risk perception

the degree of risk they associated with various international operations



# New study - Conclusions

## Human Capital Related and predictive Indicators for SMEs Internationalization

### ★ International business skills



- a. international work experience;
- b. personal networks and relationships abroad;
- c. international business education

### ★ Management Know How



- a. negotiation,
- b. oral presentation,
- c. team-building and management,
- d. motivating employees,
- e. developing personal business relationships



# New study - Conclusions



Entrepreneurs most exposed to foreign cultures  
through travel or residence  
likely accumulate  
experiential knowledge of international market characteristics  
which benefits them when internationalizing  
their firms.

Entrepreneurs who see less risk  
when competing in international markets  
appear more likely to respond  
to export opportunities and to internationalize.



# New study - Then

- We suggest to develop best practices and, at beginning, supporting SMEs more international oriented
  - Using EU Funds and developing project to support SMEs entrepreneur's human capital dimensions development, especially focusing on:
    - ✦ International orientation
    - ✦ Environmental risk perception
- } Tacit dimension



# Contacts:

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Francesco D'Aprile

Partner



Tel.: +39 080 5648544

Mobile: +39 347 4080398

Mail: [fdaprile@pedconsulting.it](mailto:fdaprile@pedconsulting.it)

Web: <http://www.pedconsulting.it>

