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INTERNATIONALIZATION PROCESSES AND LINKS WITH CAPITAL FACTORS: THE CASE OF SOUTH AFRICA

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Abstract. Several different theoretical perspectives were examined in terms of the internationalisation processes of entrepreneurial firms. This article is built on past studies that recognize the case that when an entrepreneurial firm undertakes an internationalization strategy, financial, social and human capital factors all play a major role in its success or failure. Based on a survey of 136 internationalized and non-internationalized firms the study conducts a comparative analysis of capital factors that may act as inhibitors or promoters of internationalization. Descriptive and multivariate statistical analyses were used to analyse various features of internationalization and perception of capital factors. Results confirm that financial capital items are perceived as inhibitors to the firm's ability to internationalize in the emerging market context. Findings provide organisations and practitioners with additional insights into the key capital constraints on internationalization of entrepreneurial firms.

Keywords: internationalisation; financial capital; social capital; human capital; resource-based theory; social network theory and organisational learning theory.

JEL Classification: D8; J24, L26, M13

INTERNACIONALIZAVIMO PROCESAI IR JŲ SĄSAJOS SU KAPITALO VEIKSNIAIS: PIETŲ AFRIKOS ATVEJIS

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Santrauka. Išnagrinėta keletas skirtingų teorinių perspektyvų verslo įmonių internacionalizavimo atžvilgiu. Šiame straipsnyje pateikti tyrimų rezultatai, iš kurių galima teigti, kad jei verslo įmonė imasi internacionalizavimo strategijos, čia svarbų vaidmenį atlieka finansų, socialinio ir žmogiškojo kapitalo veiksniai. 136 internacionalizuotų ir neinternacionalizuotų įmonių apklausa leido atlikti kapitalo veiksnių, kurie gali slopinti arba skatinti internacionalizavimą, lyginamąją analizę. Aprašomosios ir daugiamatės statistinės analizės metodai buvo taikyti analizuojant įvairias internacionalizavimo ypatybes ir kapitalo veiksnių koncepcijas. Rezultatai patvirtina, kad finansinio kapitalo elementai traktuojami kaip įmonės gebėjimų internacionalizuotis sparčiai besiplečiančios rinkos kontekste slopintuvai. Išvados sudaro prielaidas suformuoti papildomas organizacijų ir praktikų įžvalgas dėl pagrindinių kapitalo apribojimų verslo įmonėms internacionalizuoti.

Reikšminiai žodžiai: internacionalizavimas, finansinis kapitalas, socialinis kapitalas, žmogiškasis kapitalas, ištekliais grįsta teorija, socialinio tinklo teorija, organizacinio mokymosi teorija.

1. Introduction

Based on the globalisation of the world economy, interest in international entrepreneurship has increased rapidly over the past decade (Časas, Dambrauskaitė 2011; McDougall, Oviatt 2000; McDougall *et al.* 2003). Internationalization drives economic growth and generates innovation and creativity. Entrepreneurial firms that implement a global strategy and explore cross-border activities, are provided with opportunities for revenue growth, exchange of knowledge, new products and technological innovation, and the enhancement of capabilities, thereby strengthening their long-term competitiveness (Thomas *et al.* 2002). As a result of globalisation, consumers increasingly demand tailor-made and customised products as opposed to mass- produced goods. This creates many opportunities for entrepreneurial firms to target specific niche markets, resulting in a more important role of firms in emerging markets. Internationalization 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 (Autio 2005). When an entrepreneurial firm pursues an internationalization strategy, financial, social and human capital factors all play a major role in its success or failure (Sapienza *et al.* 2006).

Several different theoretical perspectives exist in the internationalization process. Broadly, these theories suggest that firms internationalize to reduce costs by internationalizing the transfer of goods and services across national borders, making it cheaper to do so (Oviatt, McDougall 1994). The resource-based theory expands on the role of resources or lack of them in the internationaliation process (Barney 1991). The network theory states that an organisation gains its competitive advantage by developing mutually supportive relationships (Adler, Kwon 2002). The stage theory of internationalization 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, Mattson 1987). The organisational learning theory elaborates on the function of knowledge in the effort to globalise a firm.

Research confirms when entrepreneurial firms plan to internationalize early in their inception phase, resources and various capitals are crucial to their success (Miesenböck 1998). When an entrepreneurial firm undertakes an internationalization strategy, financial, social and human capital factors all play a major role in its success or failure (Oviatt, McDougall 1994; Pipiriene, Maciukeviciene 2011; Sapienza *et al.* 2006). Venture financing is crucial to an entrepreneurial firm once it has decided to enter a foreign market (Ruzzier *et al.* 2006). Often low levels of financial capital prohibit entrepreneurial firms from internationalizing. Exorbitant costs are required for foreign market analysis, purchasing legal consulting services, adaptation of products to the foreign market, travel expenses and the financial risk involved in internationalizing.

Similarly, if few domestic / regional or international social ties and networks exist, entrepreneurial firms are less inclined to globalise because it is via networks that critical information is shared and contacts in foreign markets are developed (Lam 2000). Social networks are utilised to gain entry to scarce resources, enhance the business's position strategically, enable the transfer of new skills, and gain a positive reputation in the marketplace (Adler, Kwon 2002). Additionally, research emphasises that 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 (Dekker, Uslaner 2001). Moreover, the internationalization of the entrepreneurial firm is driven by the managers with strategic and operational knowledge of global markets (Teigland, Wasko 2003). Low levels of international knowledge and experience of management typically hinder South African and emerging market Entrepreneurial firms from expanding internationally (Venter *et al.* 2008).

A shortage of working capital to finance international activities, lack of managerial time, lack of skills and knowledge, have contributed as barriers to the internationalization of emerging market entrepreneurial firms (OECD 2009). Moreover, a lack of financial resources could possibly mean that an entrepreneurial firm may not be able to acquire sufficient resources to globalise its operations. Additionally, if an entrepreneurial firm possesses few social and business networks or contacts, there may be lost opportunities in terms of the internationalization process. Finally, if there is a deficit of human capital, there will be a shortage of international knowledge and experience, placing the entrepreneurial firm at a disadvantage when globalising (Sapienza *et al.* 2006).

Based on the problems firms face when attempting to internationalize, the research question of this study relates to what extent do financial, social and human capital factors influence the internationalization process of entrepreneurial firms. The purpose of this research is to explore and explain the various capital factors which promote and prevent entrepreneurial firms from expanding their business entities globally. Internationalisation offers multiple opportunities for expansion and for entrepreneurial firms to become globally competitive. Research finds that different types of capital influence the rate and success of an entrepreneurial firm wishing to take its operations globally (Oviatt, McDougall 1994; Ruzzier *et al.* 2007; Westhead *et al.* 1998, 2001).

The study will systematically examine each capital factor in entrepreneurial firm's internationalization as identified in literature using multidimensional scales. Based on a survey of internationalized and non-internationalized firms the study will conduct a comparative analysis of capital factors that may act as inhibitors or promoters of internationalization. Initially the article proceeds by reviewing past literature and research with an aim to provide a better understanding of the above-mentioned issues and gain insights through empirical investigations, which hopefully will allow for solid theory to emerge. A practical objective of the study is to provide guidance to entrepreneurial firms on the types and benefits of capital factors and implementation issues associated with internationalization.

2. Internationalization perspectives

Internationalization 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 (Autio 2005). Oviatt and McDougall (1994) illustrate that the importance of internationalization is growing, and in order for firms to be profitable they must attain value-creating resources for resource-constrained ventures. Moreover, researchers note that even resource-constrained entrepreneurial firms are able to internationalize as a means to build up their resource-base (Kuemmerle 2002), and pursue opportunities beyond the resources the firm currently controls (Stevenson, Jarillo 1991). In essence, entrepreneurship is the recognition and exploitation of entrepreneurial opportunity that leads to new market entry. These new markets are either national or international. Consequently, 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).

Several theoretical perspectives were used in this study to inform of the internationalization process of entrepreneurial firms, these include: the network approach, (Johanson, Mattsson 1987), the resource-based theory of internationalization (Autio *et al.* 2000; Barney 1991; Bloodgood *et al.* 1996); and the organisational learning theory (Autio *et al.* 2000; Zahra *et al.* 2000). Table 1 summarizes the various perspectives, concepts and theories that were scrutinised in the literature review. Some of these theories are elaborated upon in the following section.

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 into that market or not. The choice of entry mode into a foreign market is also driven by the availability of resources. The resource-based theory states that the amount of available resources, such as financial, social and human capital, essentially determines 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 (Bloodgood *et al.* 1996; Westhead *et al.* 2001). 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 adopted in the present study to investigate how a firm's financial resource base enables it to internationalize.

Network theory is concerned with how networks of relationships and contacts are beneficial to an organisation that is internationalizing 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, while timing is essential 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 (Adler, Kwon 2002). 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 internationalization (Zahra *et al.* 2000).

Relationships evolve in a dynamic interaction-exchange, through processes and adaptation processes, during which the firms learn about each other, develop mutual orientation, trust and commitment (Johanson, Mattsson 1987). The people involved in the relationship learn how to interact with each another. With these interactions social capital is cre-

Table 1. Summary of internationalization perspectives, theories and concepts

Theory	Researchers	Brief Description
Early internationalization	Coviello and McAuley 1999; Fillis 2001; Jones and Dimitratos 2003; Zou and 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 and Cavusgil 1996; Madsen and Servais 1997	Small technology oriented companies that operate in international markets from establishment of the company
Resource-based theory	Burgel and Murray 1998; Westhead *et al*. 1998; Almeida *et al*. 2000; Ibrahim and 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 and Welch 1994; Hill 1990; Zacharakis 1997	The strategy a firm follows to enter a foreign market
Prior international knowledge	Shane 2000; Shane and Venkataraman 2000	Prior knowledge of the company and its managers influences the ability to discover entrepreneurial opportunities
Internationalization of other actors	Bell 1995; Chen and Chen 1998	Other actors being customers, competitors, distributors and suppliers who create new opportunities
Growth objective	Cavusgil and 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 and Dess 2001; Andersson and Wictor 2003; Madson and Servais 1997	The ability to grow within an industry globally
Market selection in internationalization	Davidson 1980; Dunning 1997	The market a foreign business entity chooses to enter
Strategic Alliances	Steensma *et al*. 2000; Li and Atuahene-Gima 2001	Strategic alliances enhance a company's internationalization strategy and create opportunities for the firm
The number of international weak ties	Granovetter 1973; Elfring and Hulsink 2003; Ellis and 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 *et al*. 2000	Three dimensions of technological learning (breadth, depth and speed) enhance the internationalization process
Top management teams	Reuber and Fischer 1997	Managers in an international operation drive the internationalization process
Knowledge management	Kuemmerle 2002	Emphasises the dynamic intellectual capabilities of a company's operations in foreign markets
The Network Model	Coviello and McAuley 1999; Jones 1999	Firm uses international networks (suppliers, distributors, consultants and strategic alliances) to be successful in the internationalization 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

Sources: Adapted from Birley and Westhead 1990; Dimitratos and Plakoyiannaki 2003; Grant 1991; Ibrahim 2004; McDougall and Oviatt 2000.

ated. 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. 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. Human capital represents an investment in education and skills. Human capital plays a significant role in the growth and development of economic growth. 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 (Cooper *et al.* 1994; Venter *et al.* 2008).

3. The role of capital factors in internationalization

3.1. Financial capital

One of the most critical resources for an entrepreneurial firm is access to finance (Covin *et al.* 2000). Financial capital plays a vital role in the internationalization process as reserves of financial capital enable a firm to undertake a wider range of activities and diversify an international expansion plan. Almeida, Sapienza and Michael (2000) assert that in order to compete globally a firm needs to be sizable. This means that success in foreign markets is only attained 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. This line of argument is in line with the resource-based theory (RBT), which states that the more resources the firm has, the more likely it will be able to engage in international activities. The availability of capital allows a firm to pursue a broader range of activities as well as more ambitious projects (Cooper, Gimeno-Gacson, Woo 1994). Financial capital impacts every possible avenue with regard to taking a business global; this includes market attractiveness, market selection, and choice of entry mode into a foreign market.

A shortage of financial capital is a major hindrance to attain internationalization (Westhead *et al.* 2001). A lack of financial resources may inhibit the ability of small firms to recognise international opportunities and to exploit these international opportunities. Financial barriers to internationalization are significantly decreased when the entrepreneur has, or a member of the team has had experience in that market, thus reducing the risk involved for a potential investor. Thus it can be derived that a lack of financial resources may inhibit the ability of entrepreneurial firms to recognise international opportunities and to exploit these international opportunities. Consequently, financial capital is crucial to the entrepreneurial firm in order to sustain or expand their business internationally.

3.2. Social capital

Social capital is concerned with the value of social networks, bonding similar people and bridging between diverse people, with norms of reciprocity (Dekker, Uslaner 2001; Uslaner 2001). Adler and Kwon (2002: 17–40) define social capital as "the goodwill available to individuals or groups". Intangible assets such as relational resources are referred to the relationships established within a social network (Lam 2000). Intangible assets such as reputation and networks can significantly influence the speed and degree of internationalization (Zahra *et al.* 2000). If a firm has a large social network, there are many more contacts available, which may assist in going global. An entrepreneur's social network may greatly influence an entrepreneurial firm's ability to identify and acquire external resources and its ability to use these resources for product development, production and promotion (Crick, Jones 2000).

The network theory is useful in explaining social capital as it is based 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 Munro (1995) the network theory is conceptualised as how a firm utilises international suppliers, distributors, consultants and strategic alliances in order to successfully globalise. The internationalization process involves growing the firm's knowledge, experience and commitment to foreign markets. Networks are a precondition for international growth, as they facilitate the acquisition of experiential knowledge about foreign markets (Coviello, Munro 1995). Social networks may serve as a source of information for new business opportunities in the foreign markets. Adler and Kwon (2002) points out that prior knowledge about and contacts in specific markets, influence the type of entry into these markets. Entrepreneurs use their networks to gain access to multiple types of resources that will benefit the entrepreneurial firm on a whole. Consequently, networking is an extremely influential tool for the entrepreneur when considering internationalizing (Dekker, Uslaner 2001).

3.3. Human capital

Human capital represents an investment in education and skills (Kuttin *et al.* 2011; Garvin 1993). Entrepreneurs provide tangible and intangible resources to a firm. These intangible resources are the property of individuals that have accumulated through education and experience. With regard to internationalization, human capital refers to the level of education and managerial experience acquired in the internalization process and the benefits realised from being able to manage and coordinate international activities (Cooper *et al.* 1996). Human capital in the international context is comprised of general human capital characteristics, management know-how and foreign work experience (Cooper *et al.* 1994). Research suggests that education is linked to knowledge, skills, problem-solving ability, discipline, motivation and self-confidence, with entrepreneurs who have more diverse levels of education purported to have the ability to develop relevant skills and contacts and are able to draw on dense resource and information networks.

At the level of the firm, human capital and knowledge is socially embedded and is 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 internationalization. Rapid internationalization 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 Entrepreneurial firms and force organisations to develop its learning capabilities (McDougall, Oviatt 2000). Knowledge management is essential to assisting the internationalization process of Entrepreneurial firms where technological advances render this process more efficient (Zahra *et al.* 2000).

As firms operate in foreign markets, they accumulate specific market knowledge and experience. It is the managers in an international operation that drive the internationalization process. Argote and Ingram (2000) report that firms in emerging markets tend to gradually learn about the international arena by entering markets that are perceived to be less risky, and are markets that have geographic proximity and cultural closeness to the home market. An important driver for increasing international commitment is the development of knowledge relevant to foreign markets.

In sum, internationalization is the end product of a combination of several resources and competencies that are possessed and controlled by the owners and managers of the entrepreneurial firm (Lindqvist 1997).

4. Research methodology

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 (UNCTAD 2011). With South Africa being the largest source of foreign direct investment (FDI) into the rest of Africa, recent research shows the advantages and pitfalls associated with international strategic alliances and the role of governments when internationalizing (Vogel, Pires da Cunha 2010). Despite the importance of internationalisation, entrepreneurial activity remains low in South Africa. 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%, 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 *et al.* 2010).

The research design is a quantitative survey study. An online questionnaire was the primary method of collecting data. The sampling frame was based on South African entrepreneurial firms that either had, or were planning to have business entities in international markets. The sampling parameters included entrepreneurial firms who already had an international presence in any type of international mode. The selection criteria included Entrepreneurial firms that began operating in South Africa, with global presence in export, open subsidiaries overseas or expansions globally. According to the National Small Business Act 102 of 1996, Entrepreneurial firms were defined as separate and distinct business entities in any sector of the economy, being managed by one owner or more (Finscope 2006). All companies were established enterprises and had been in existence for more than 3 months in South Africa. The focus of the study was not industry or market specific, and diverse markets and industries were examined, which included, manufacturers, service firms, high-technology firms, low-technology firms and a mix of low and high-technology firms.

A judgment sampling method was used. The sampling method 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 respondents were owners of the business or those that held a directorship position within the business. These respondents are aware of the company's global strategy and internationalization activities.

The survey was administered initially to 410 qualified respondents. Of the 159 responses, 23 respondents had businesses with an employee number greater than 200, thus they were excluded from the research. The remaining sample size was 136 respondents, whereby 69 entrepreneurial firms had not engaged in any and 67 Entrepreneurial firms had done so.

The actual instrument was an online questionnaire. The questionnaire was comprised of closed-ended questions. Each response was given a numerical score to reflect its degree of attitude favourableness. A seven point Likert scale rating was employed, where the ratings indicated '1 = strongly disagree' through to '7 = strongly agree'.

The questionnaire was modelled on existing tools and was based on Westhead *et al.* (2001) conceptualisation of internationalization and capital factors. The questionnaire explored each capital dimension with several items, with respect to financial, social and human capital. Questions were also formulated to establish whether respondents believed which were the most inhibiting factors to internationalization. Reversals were done on questions in order to test for the respondents' tendency to answer positively to all items, irrespective of their content.

Several characteristics of the entrepreneurial firms were measured which included the size of business (employee numbers), the age of the business, financial performance in the past year, entrepreneurial firm internationalization features, the age of the entrepreneurial firm when it internationalized, the total sales generated outside of the South African market and the number of countries the entrepreneurial firm operated in.

In analysing the role of capital factors in internationalization and the differences between internationalized firms and non-internationalized firms, histograms were plotted with the number of observations versus the independent variables. The statistical technique of t-testing, Chi square and stack bars were used to calculate the differences that exist between internationalized and non-internationalized firms.

Correlational analysis was used to indicate the strength of the relationships between variables, using both the Spearman Rank order and Pearson coefficient to check on the consistency of the two sets of results. Multiple regression analysis was used to analyse the relationship between the criterion variable (firm success) and the several independent (financial, social and human capital) variables. For two variables to be correlated, the correlation coefficient had to be significant.

5. Empirical results and interpretation

Table 2 represents the total sample characteristics, which is self-explanatory and where it is interesting to note that the motivation for internationalization in terms of opportunity or survival is predominantly opportunity-driven (91.2%). Only 36 percent of the firms have achieved over 10 percent of their total sales outside of South Africa. This illustrates that penetrating markets may not always be profitable for an entrepreneurial firm. It is also important to note the number of countries the firm has a presence in, as it may indicate its success and potential of future expansion. Other sample descriptive highlights indicate 22.8 percent of the firms are at an age of four years or less, and firms older than five years only accounted for 77 percent of the total sample. This was not expected, as it would be expected that entrepreneurial firms globalise at an older age once they have built a long standing resource base of which to operate. It is also interesting to note that 37.5 percent of the sample operates in 2–5 countries.

Table 3 represents the descriptive statistics and reliabilities for all the capital items. Item statistics were calculated for each dimension and the Cronbach Alpha's are reported in Table 3 all of which are deemed satisfactory (Nunnally 1978).

Table 2. Sample characteristics of respondents

		Percent	N = 136
Highest education completed	Basic Education (matriculation or lower)	10.3%	14
	Further education (training college)	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 firm's financial performance for past year	Profit	77.9%	106
	Break-even	17.7%	24
	Loss	4.4%	6
The firm has internationalized or will internationalize based on	An opportunity	91.2%	124
	A necessity to survive	8.8%	12
The age of the firm when it internationalized	Less than 3 months	55.9%	76
	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

Continued Table 2

		Percent	N = 136
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

Table 3. Descriptives and reliabilities for Financial, Social and Human capital items

Variables	Mean	StDv.	Itm-Totl - Correl	Alpha
Financial capital				
In my opinion, global expansion of my business is financially feasible	4.463	1.8186	0.3795	0.8754
If funding was available, I would prefer to use it for global expansion rather than reinvesting it in the business	4.772	1.6976	0.3795	0.8965
The South African requirements of audited financial statements, liquidity tests and cash flow are unreasonable for an SMME	4.756	1.7881	0.6473	0.8264
It is simpler to obtain international funding from South African financial institutions than from international sources	3.492	0.9896	0.5657	0.8383
South African trade tariffs (import, export and environmental) inhibit / obstruct SMME business	3.882	1.7201	0.6028	0.8359
It is financially exhausting to adapt my product or service to the international market	3.360	1.0609	0.5269	0.8433
If I failed in an international market due to financial circumstances, I would not attempt entering an international market again	3.992	1.7996	0.6630	0.8240
I believe a low level of financial capital is a major preventative factor that obstructs SMMEs from globalising	3.897	1.7624	0.6997	0.8183
Human capital				
I have experience working in or with a foreign market	3.639	1.1787	0.3519	0.8254
I employ managers with international knowledge	3.095	1.5321	0.7470	0.7575
I employ managers with international experience	3.154	1.5487	0.7518	0.7568
Employing expatriate managers assists / will assist the internationalization process	3.205	1.1755	0.6212	0.7808
It is important for my employees to have knowledge of international markets and economies	3.389	1.2881	0.5315	0.7913
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	3.573	1.3662	0.5402	0.7913
Managers of foreign operations are given the authority to make key decisions in their operations	3.823	1.6898	0.4194	0.8052
Sharing knowledge and information with international contacts is important for enhancing the company`s overall learning	3.264	1.7205	0.3992	0.8069
An SMMEs organisational culture adapts to each geographic location, for example by altering the way in which managers make decisions	3.617	1.7892	0.3130	0.8135
Social capital				
Social ties and networks make it easier for SMMEs to internationalize	3.772	1.7881	0.6473	0.8264

Continued Table 3

Variables	Mean	StDv.	Itm-Totl - Correl	Alpha
Obtaining an international partner or entering an international joint venture is helpful for accessing resources	3.602	0.9635	0.6084	0.8329
I think that the Internet has a positive effect on SMMEs in international business communications	3.492	0.9896	0.5657	0.8383
Social networking tools such as Skype, Facebook, Twitter, etc. help SMMEs to grow internationally	3.882	1.7201	0.6028	0.8359
Strong relationships with working partners overseas are important for successful internationalization	3.360	1.0609	0.5269	0.8433
Social ties and networks are a good way to find the necessary resources to run the firm	3.992	1.7996	0.6630	0.8240
In my opinion, having social networks makes internationalization simpler	3.897	1.7624	0.6997	0.818

Some highlights are noted where the results are above the mean score average. In terms of financial capital, three items have relatively high mean scores, these are: 'In my opinion, global expansion of my business is financially feasible (4.463); If funding was available, I would prefer to use it for global expansion rather than reinvesting it in the business (4.772); The South African requirements of audited financial statements, liquidity tests and cash flow are unreasonable for an entrepreneurial firm (4.756). These results resonate with past research which shows that the lack of finances is a critical constraint for Entrepreneurial firms trying to develop an international orientation (Westhead 1995). Similarly high mean scores appear for the social capital items, on 'Social ties and networks are a good way to find the necessary resources to run the firm (3.992), and 'In my opinion, having social networks makes internationalization simpler (3.897). While for human capital, the highest mean score was on the item 'Managers of foreign operations are given the authority to make key decisions in their operations (3.823). These results confirm previous findings which consider social networks to be one of the most important factors in the process of internationalization. It seems 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 (Autio *et al.* 2000).

In terms of human capital items, the results are closer to the mid-point average of the scale, and the highest mean score is the item concerned with 'managers of foreign operations are given authority to make key decisions in their operations' (3.823). As diagnosed in the literature, human capital underlies the success of entrepreneurial firms, which in turn defines its ability to internationalize. The results from this study suggest that respondents agree that sharing knowledge and information with international contacts is important for enhancing the company`s overall learning. Research confirms that sharing and transfer of knowledge acts as a catalyst to transfer new technologies and methodologies across continents (Argote, Ingram 2000).

For the measure of success of internationalized firms, a combination of profit in the past financial year and the extent to which expectations of the level of internationalization had been realised over the last 3 years was used to designate stage 1 level of internationalization. For stage 2 level, a combination of profit in the past financial year, with the highest performance indicators was used to designate firms in this category. Moreover these level 2 firms 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.

Based on these categorizations correlation analysis was conducted. See the correlation matrix, Table 4. The only significant correlation between independent and dependant variables was financial capital, $r = 0.3528$ ($p < 0.005$). There were a few inter-correlations between the study variables.

Following this procedure Spearman Rank order correlations were calculated according again to these categories of internationalization – see Table 5. The only significant correlation was for financial feasibility, $r = 0.27$ and 0.34 ($p < 0.050$).

Best subsets regression analysis was then applied to see whether any combination of the measures of capital could predict internationalization success significantly. However, no substantial improvement in explained variance was found using any combination of predictors. See Table 6.

In summary, the above results reflect a number of trends and perceptions on entrepreneurial firm internationalization. Overall, it seems for this sample of entrepreneurial firms the only significant impact on internationalization is financial capital.

6. Conclusions

The research has contributed to the growing knowledge-base on internationalization of entrepreneurial firms.

Table 4. Correlation matrix for study variables

	Financial funding	Financial feasi-bility	Financial capital	Social capital	Human capital	Stage 1 internat.	Stage 2 internat.
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	.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
Stage one internationalization	–.0246	.2301	.1384	.0526	.1783	1.0000	.5356
	p=.851	p=.074	p=.287	p=.687	p=.16	p= ---	p=.000
Stage two internationalization	–.0156	.3528	.1260	–.0986	.0628	.5356	1.0000
	p=.905	p=.005	p=.333	p=.450	p=.630	p=.000	p= ---

Table 5. Correlations using Spearman Rank Order

	Stage 1 internationalization	Stage 2 internationalization
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

Table 6. Best regression subsets for stage two internationalization

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				

Internationalization offers multiple opportunities for expansion and for entrepreneurial firms to become globally competitive. By being aware of both the pros and cons of internationalizing an entrepreneurial firm can understand the role of the different capital factors which influence its success or failure. In the current economy, traditional barriers of entry to foreign markets have been reduced significantly for Entrepreneurial firms and resources have become more mobile and more easily transferable between countries (Sapienza *et al.* 2006).

Some recommendations for business practitioners are: Grants and subsidies should be more widely available in areas that could potentially increase internationalization of entrepreneurial firms in emerging markets; 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 business to allow for rapid internationalization. In terms of social capital it is suggested that a support infrastructure needs to be made available for entrepreneurial firms going global, similar to incubators for businesses that are failing or have failed. Moreover, entrepreneurs must connect themselves with the people involved in international supply chains, distribution and other businesses, as it eases the accessibility to specific resources. It is also recommended to initiate the creation of an entrepreneurial forum that links up global entrepreneurs, similar to an entrepreneurial expo that enables social networking and the creation of new contacts with international businesses. Similarly, a business incubator would be a huge source of learning and development for aspiring global entrepreneurs. It would be sensible to create international business incubator programmes, as this would reduce the cost of doing business and assist entrepreneurs in entering international markets.

The implications of this study are that the creation of business trade zones is required where start-ups can find information on potential suppliers and distributors and have access to local and global supply chains. Countries such as 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.

The study has limitations where due to survey- based bias, acquiescence and social desirability may have affected the responses. To counteract such bias, questions were worded both positively and negatively to test for biases. All negatively worded items where then converted or eliminated.

The research results and above recommendations have implications regarding future research, these relate to how social network mediums such as Facebook, LinkedIn, Twitter, Skype, etc., may assist entrepreneurial firms in the internationalization process. South Africa is an emerging market, which means that there are numerous opportunities present in the marketplace, yet the 'brain drain' effect, is a distressing problem in terms of human capital. South Africa is losing talent and expertise in international markets. Future research could examine the impact of the 'brain drain' effect on entrepreneurial firms and their ability to internationalize.

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