



THE ROLE OF HUMAN CAPITAL AND ORGANIZATIONAL LEARNING IN INTERNATIONALIZATION OF SMES

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Abstract. SMEs are widely recognized as the economic tissue, boosting competitiveness at national as well as at regional level. The internationalization of SMEs is supported by governmental policies in the EU, aiming to encourage firms to trade internationally and thus, contribute to revenue generation and employment. The entrepreneurs and entrepreneurial teams play significant role in internationalization process. The paper aims to reveal relationships among human capital, social capital, explorative and exploitative learning and internationalization. The main factors of human and social capital have been investigated in line with internationalization of SMEs. The adopted approach let us elaborate an integrated model and develop propositions for future investigations.

Keywords: human capital, social capital, explorative learning, exploitative learning, internationalization, SMEs.

JEL classification: M10, M12, M13, M19.

1. Introduction

Globalisation of economy and intense competition stimulate companies to seek ways of internationalization and significantly contribute to the economic development of nations, industries and productivity (Korsakiene, Tvaronaviciene 2012). The internationalization as a phenomenon has been investigated by various scholars (Korsakiene, Barauskiene 2011; Korsakiene 2013). The scholars assume that internationalization of firms is seen as an important measure of competitive performance at national as well as at regional level (Sousa *et al.* 2008). Hence, economies of scale and scope, manufacturing efficiencies, access to foreign technological, marketing and management know-how gained due to internationalization significantly contribute to the performance of firms.

Small and medium size enterprises (SMEs) play an important role throughout all the European Union and contribute to economies by revenue generation and employment. Therefore, governments aim to encourage SMEs to trade internationally by developing policy measures. These measures are developed striving to encourage trading internationally from the outset and to increase international expansion of SMEs. Meanwhile, internationalization as a phenomenon has been recognized in scientific literature and investigated in the strategy, international

business and entrepreneurship fields. Not going deep in various discussions about internationalization concept, the authors of the paper assume that internationalization is the expansion of firm's operations to foreign markets and agrees with the notion that internationalization could result from punctual and independent actions.

The results of scientific investigations allow us suggest, that expansion of firms to international markets is restricted by different attitudinal, structural, operational and other constraints, limiting the ability to initiate, develop and sustain business abroad. On the other hand, liability of foreignness and newness appear to be the most important issues. For instance, smallness of SMEs is seen as disadvantage in internationalization process, as the firms often lack capital resources and capabilities that restrict possibility to capture business opportunities in foreign markets. Hence, entrepreneurs and entrepreneurial efforts have attracted a number of researchers and have been analysed from different points of view.

The main considerations of resource-based view emphasize unique, inimitable and specific to firm resources which contribute significantly to competitive advantage of firm. Hence, SMEs aiming to expand internationally have to rely on human resources, in particular on capabilities and skills of entrepreneurs and entrepreneurial teams. Notably,

entrepreneur and firm entrepreneurial behavior has been investigated as the basis of foreign market entry in international entrepreneurship literature. Meanwhile, the literature, focused on social capital, assumes that both internal and external social capital of entrepreneur contributes to the development of distinctive knowledge base and is seen as a source of competitive advantage. Organizational learning approach emphasizes the firm's ability to learn from both success and failure, which influences new patterns of behavior and long-lasting success. The attitude of firms toward combination of explorative and exploitative learning significantly impact long term performance of SMEs.

The paper aims to reveal relationships among human capital, social capital, explorative and exploitative learning and internationalization. The remainder of the paper is organized as follows. In section 2 the implications of human and social capital theories are analysed. In section 3 explorative and exploitative approaches are discussed. In section 4 the integrated approach toward human and social capital, organizational learning and internationalization is presented. The final part concludes. The research is based on analysis and synthesis of scientific literature.

2. Implications of human and social capital theories

The argument that internationalization of firms is impacted by human and social capital of entrepreneur is widely discussed in scientific literature. The discussions are triggered by limited resources of SMEs and the firms are seen as disadvantaged in expanding their activities into international markets. Hence, the scholars aim to explain what factors contribute to the growth of firms. Notably, different researchers investigated the relationships of entrepreneur's human capital and success of a firm (Bosma *et al.* 2004; Van der Sluis *et al.* 2005; Rauch, Rijdsdijk 2013).

Human capital theory was developed with the aim "to estimate employees' income distribution from their investments in human capital" (Unger *et al.* 2011). Later on the theory was adopted by scholars, working in the field of entrepreneurship and aiming to explain success of new ventures.

Notably, human capital is distinguished into general and specific human capital (Colombo, Grilli 2005). For instance general human capital is defined as education of entrepreneur, while specific human capital is linked to entrepreneur's business experience in the same industry, prior self-employment and management experience.

Rauch and Rijdsdijk (2013) confirm that general human capital can be applied in different contexts and increases the opportunity costs. These assumptions have led to the conclusion that human capital should be positively related to the success of firm. The scholars conclude that higher level of education is likely to increase the belief that entrepreneurial efforts will generate desired outcome (Manolova *et al.* 2007). Hence, formal education contributes significantly to increase of productivity and accumulation of knowledge and skills. Meanwhile, Colombo and Grilli (2005) state that scientific results, concerning relationships between education of entrepreneurs and growth of firms, are less robust. Grounded on previous studies, the scholars state that "the nature of education received by founders has almost been neglected in empirical literature" (Colombo, Grilli 2005).

Specific human capital cannot be transferred to other contexts and do not contribute to the opportunity costs. Colombo and Grilli (2005) conclude that scientific findings regarding entrepreneurs' industry-specific human capital are more robust. Hence, industry-specific knowledge and skills increase productivity and contribute to both survival and growth of firms (Colombo, Grilli 2005; Rauch, Rijdsdijk 2013). On the other hand, only a few studies investigated the effects of functional nature of the work experience of entrepreneurs on the firms' growth (Colombo, Grilli 2005). Notably, self-employment experience is seen as the factor impacting skills and knowledge required for survival and growth of new firm. However, scientific investigations have provided mixed results (Colombo, Grilli 2005). Additionally, prior management experience help to develop management skills. Scientific works emphasize importance of having self-employed parents and distinguish it as the factor contributing to the development of specific human capital.

Taking into consideration resource-based view, unique, inimitable and specific to firm resources contribute to competitive advantage of firm. Hence, human capital, as the specific resource of a firm is seen as factor impacting the growth of firm and as the potential to generate organizational rents (Greene *et al.* 2001). Notably the growth of firm provides a background for internationalization and the concepts of internationalization and growth are seen as interrelated (Buckley, Ghauri 1993). Hence, human resources appear to be the most important resources in internationalization of SMEs (Wright *et al.* 2007). Human capital has critical importance to the recognition and exploitation of both national and international business opportunities (Cerrato, Piva 2012). It is believed that resources, capabilities and knowledge acquired

by entrepreneur or entrepreneurial team leads to discovery and exploitation of opportunities. Notably, striving to exploit international opportunities, entrepreneurs are responsible for: setting objectives, collecting information about international markets, deployment of resources and implementation of strategies. Hence, entrepreneur has to accumulate specific dimensions of human capital, namely, international business skills, international orientation, perception of environmental risk, and management know-how (Ruzzier *et al.* 2007).

The focus of scientists on the aspects of human capital and internationalization of SMEs has resulted into a number of investigations. Manolova *et al.* (2002) examined the differences of internationalized and non-internationalized small firms and found that environmental perceptions and self-assessed

strengths in international business skills significantly distinguished between internationalized and non-internationalized firms. Ruzzier *et al.* (2007) investigated 161 Slovenian firms and found that human capital of entrepreneurs', namely, international orientation, management know-how, risk perception and international business skills were positively related with the degree of firms' internationalization. On the other hand, only international orientation and risk perception predicted internationalization of firms. Hitt *et al.* (2006) surveyed professional service firms and found that human capital had a positive effect on internationalization. Besides that, the scholars found that human capital positively moderated the relationship between internationalization and firm performance.

Table 1. The relationships between human capital theory and internationalization of SMEs (source: compiled by authors)

Human capital	The main factors	Relationship with internationalization of firm	The factors contributing to internationalization	Author
General human capital	Education	The education of entrepreneur in economic and managerial fields is positively related to internationalization	The years of undergraduate and graduate education in economic and managerial fields	Colombo, Grilli (2005)
	Work experience	The more internationally experienced entrepreneur (or a team), the earlier starts international expansion	International business skills	Reuber, Fischer (1997); Manolova <i>et al.</i> (2002); Ruzzier <i>et al.</i> (2007)
	International orientation	The international orientation of entrepreneur (or a team) is positively related to internationalization	Psychic distance to foreign markets, proficiency in foreign languages, travel abroad, risk tolerance	Manolova <i>et al.</i> (2002)
Specific human capital	Industry specific work experience	Prior industry specific work experience in same industry is positively related to internationalization; work experience in other industries do not contribute to internationalization	Industry specific knowledge	Westhead <i>et al.</i> (2001)
	Prior self-employment experience	Prior self-employment experience is positively related to identification and exploitation of business opportunities abroad	Managerial skills, enhanced reputation, better access to finance institutions and obtained networks	Wright <i>et al.</i> (2007)
	Prior managing experience	Prior managing experience may or may not have been associated with international success (if prior experience was obtained in large company)	Managerial skills	Wright <i>et al.</i> (2007)

Cerrato and Piva (2012) analyzed 1324 Italian manufacturing firms and found that management competencies and human resource skills had a significant impact on the internationalization of SMEs. However, while majority of researches investigated human capital of owners, Cerrato and Piva (2012) emphasized human capital of employees in SMEs. The conclusion we can draw is that both human capital of entrepreneur and employees positively contributes to internationalization of SMEs. Thus, human capital is seen as a key strategic resource and the source of SMEs internationalization. Table 1 summarizes the main findings which considered relationships between human capital theory and internationalization of SMEs.

Social capital theory emphasize the importance of social networks, developed through community-base and organizational relationships (Honig, Davidsson 2000). Despite the fact that different definitions in business management literature are presented, the authors of this paper adopt the view that social capital “is the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individual or social unit” (Chetty, Agndal 2007). The theory appears to be grounded on social network theory and has to be considered at both individual-level and firm-level. Furthermore, in the process of internationalization social capital is seen as a resource “residing in its relationships with the environment” (Arenius 2002). Besides that, social networks enable entrepreneurs to develop critical resources and capa-

bilities required for internationalization of SMEs. On the other hand, scholars distinguish different aspects of social capital. Hence, trust, trustworthiness and cognitive dimensions of social capital are emphasized (Johanson, Vahlne 2006). Notably, Johanson and Vahlne (2006) adopt the view that these assets of social capital cannot be exploited individually and are shared by the partners.

The aspects of social capital and internationalization of SMEs has been investigated in scientific literature (Jones, Coviello 2005; Arenius 2005, Oviatt, McDougall 2005).

Yli-Renko *et al.* (2002) drawing on social capital theory and the knowledge-based view of firms investigated 134 Finnish firms and found that social capital within the firms and in external relationships is significant for international growth. Furthermore, both internal and external social capital contributes to the development of distinctive knowledge base and is seen as a source of competitive advantage. Han (2006), taking into consideration aspects of social capital theory, has proposed conceptual model for analysis of SMEs internationalization. The author argues that SMEs have to develop and maintain the optimal ties, which are beneficial for internationalization.

Chetty and Agndal (2007) examined New Zealand and Swedish firms and identified 36 changes of internationalization modes. Relying on network theory, the scholars have proposed three categories of social capital.

Table 2. The relationships between social capital theory and internationalization of SMEs (source: compiled by authors)

Social capital	The main factors	Relationship with internationalization of firm	The factors contributing to internationalization	Author
Internal	Quality of relationships between individuals within a firm	Positively contributes to international growth	Strong vs. weak ties	Yli-Renko <i>et al.</i> (2002)
External	Management contacts	More strong management ties positively contributes to international growth	Number of strong vs. weak ties	Yli-Renko <i>et al.</i> (2002)
	Customer involvement	More strong customer ties positively contributes to international growth	Number of strong vs. weak ties	Yli-Renko <i>et al.</i> (2002)
	Supplier involvement	More strong supplier ties positively contributes to international growth	Number of strong vs. weak ties	Yli-Renko <i>et al.</i> (2002)
	Prior experience in forming social capital	Prior ties positively relates to international market knowledge accumulation	Number of strong vs. weak past ties	Chetty, Campbell-Hunt (2003), Han (2006)

Notably, these three categories of social capital, namely, efficacy, serendipity and liability are seen as influential in changing of internationalization modes.

The efficacy role is linked to the usefulness of firm's social capital and enables market entry or change of internationalization mode. Meanwhile, the serendipity role is emphasized when foreign market entry is impacted by a chance involving the third party. Kontinen and Ojala (2011) discuss that these unexpected opportunities might be triggered by a firm's weak ties.

Finally, the liability role is linked to problems impacted by social capital. Chetty and Agndal (2007) emphasized that liability role was the most influential factor for post-entry mode change. The explanation resides in the inactivity of business partners, high maintenance costs, failure with joint-venture partner and other (Kontinen, Ojala 2011).

Table 2 summarizes the main findings which considered relationships between social capital theory and internationalization of SMEs

On the other hand, scientific investigations distinguish that social capital depreciates under certain circumstances and appreciates under other. Hence, social capital has to be seen as being dynamic. Prashantham and Dhanaraj (2010) conclude that the growth of social capital is important but inevitable. The authors emphasize that the benefits of initial ties might be time-bound and initial social capital might be insufficient to explain the international growth of new ventures over time. Additionally, social capital has to be continuously augmented taking into consideration uncertainty of international markets. Similarly Macpherson and Holt (2007) state, that social capital is limited "by prior experience and an often restricting preference for informal and social contacts". Hence, scholars propose that networks have to be expanded beyond local and social context.

Taking into consideration discussions prevailing in scientific literature we can draw the conclusion that social capital is seen as the important source for internationalization of SMEs. On the other, hand the dynamic nature of social capital do not allow to explain the long-term international success of SMEs and appears insufficient resource. The explanation resides in the nature of internationalization, which is seen as the process and not a one-off activity.

3. Explorative and exploitative learning approach

Organizational learning has attracted considerable attention of various scholars since 1990s (Argote 2013). Notably, the scientific literature emphasizes

performance—oriented focus of organizational learning. Hence, the firm's ability to learn from both success and failure influences new patterns of behavior and long-lasting success (Wang 2008). On the other hand, March (2006) emphasizes that "exploitation without exploration leads to stagnation" and result in the failure of the firms. Meanwhile, exploration without exploitation leads to a number of experiments and result in the failure to develop appropriate competencies. The scholar assumes that both explorative and exploitative learning (March 1991) are essential for firms, aiming to build good relationships with customers, but compete for scarce resources of the firm.

Gupta *et al.* (2006) point out that the knowledge structures required for exploration are different than those required for exploitation. Notably, exploration refers to risk taking, experimentation, flexibility, discovery of new opportunities and innovations. Meanwhile, exploitation comprises production, efficiency, selection, implementation and execution. Exploitation requires refinement and extension of existing competencies, while exploration requires developing new competencies. On the other hand, the scholars suggest that exploration and exploitation are interrelated processes (Holmqvist 2004). Hence, the scientific discussions imply that personal knowledge, skills and systems for knowledge sharing are essential factors for effective organizational learning.

The scholars point out that there is a lack of scientific investigations explaining organizational learning and strategic renewal of small firms (Jones, Macpherson 2006). Cegarra-Navarro *et al.* (2011) assert that SMEs should achieve the balance between exploration and exploitation. Hence, the need to unlearn old knowledge and relearn updated knowledge is seen as the main prerequisite for firms' survival and prosperity. Cegarra-Navarro *et al.* (2011) investigated 229 SMEs operating in Spanish metal industry and found that unlearning context mediates the effect of exploration and exploitation of knowledge on organizational performance.

Rothaermel and Deeds (2004) assumed that new technology ventures use exploration and exploitation alliances for the purpose to develop new innovations. Building on the previous studies, scholars support the view that start-ups face resource constrains and seek alliances with established firms. Hence, internal resources are substituted for external alliances and a product development path starts with exploration alliance and ends up with exploitation alliance. Rothaermel and Deeds (2004) investigated 325 biotechnology firms and found that new ventures that use exploration-exploitation strategy in their product devel-

opment have more products in development and in the market. On the other hand, the authors indicated that the movement away from alliances as the venture growths implies that the smaller firms may be exposed to the risk.

Li *et al* (2012) refer to organizational learning as a “gear box” that can influence managerial ties on opportunity capture. According to Zahra (2005), international new ventures benefit differently from their learning. Notably, learning of SMEs contributes significantly to the development and evolution of capabilities. Relying on previous studies, the scholar refers to “the learning advantage of the newness” and stress ability of SMEs to overcome their established competitors.

Adapting the view of March (1991) we assume that exploration of international markets requires constant search for new opportunities that extend existing competencies of firms. On the other hand, exploitation of international markets is based on capitalization of developed competencies of firms. Prange and Verdier (2011) state that internationalization of firms requires different dynamic capabilities to seize and exploit opportunities abroad. Bruneel (2009) has proposed that learning from others may substitute for experiential learning and facilitate internationalization of SMEs. The interaction with established partners is seen as beneficial process for SMEs. First, partners help to detect new opportunities in foreign markets and adapt to different environmental conditions.

Hence, SMEs are able to gain knowledge about foreign customers, suppliers and investors. Notably, networking activities are perceived as the bridge between partnering firms (Tiwana 2008). Second, development of new capabilities appears to be grounded in organizational complementarity, developed through common routines and operating systems with partners. The investigation of technology based new ventures allowed to confirm that the low level of firms’ experiential learning was substituted by knowledge and skills acquired from the partners (Bruneel *et al.* 2010). Put another way, firms experience, accumulated in international markets impact the shift from exploratory learning to exploiting obtained knowledge. Notably, the significance of exploration decreases, while relative significance of exploitation increases (Bruneel 2009).

4. The integrated approach toward human and social capital, organizational learning and internationalization

The above discussion has led to the conclusion that at the heart of internationalization is entrepreneur or entrepreneurial team. Hence, human and social capital accumulated by entrepreneur or entrepreneurial team significantly impact internationalization.

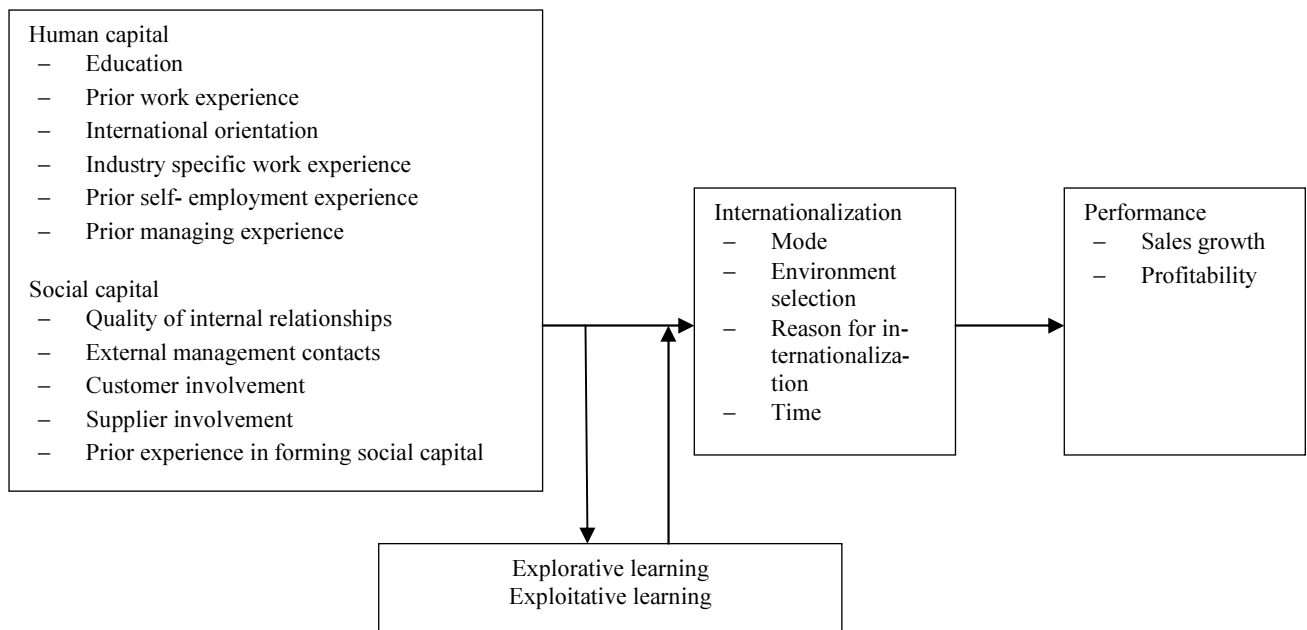


Fig. 1. An integrated model (source: developed by authors)

Taking into consideration international entrepreneurship conceptual model, developed by Ruzzier *et al.* (2006), the new model has been proposed (Fig. 1). The model allows us to set a framework for analysis of human and social capital, explorative and exploitative learning, internationalization and firm's performance. The developed propositions are as follows. First, human and social capital accumulated by SMEs is positively related to internationalization. Second, the attitude toward combination of explorative and exploitative approach mediates decisions to internationalize, namely mode of entry in foreign markets, environmental selection, reason for internationalization and time. Notably, networks and relationships help firms to overcome resource restrictions and facilitate internationalization at the earliest stage of process. Third, internationalization of SMEs is positively related to performance of firms, namely sales growth and profitability.

5. Conclusions

SMEs are widely recognized as the economic tissue, boosting competitiveness at national as well as at regional level. The governmental policies throughout Europe are aiming to encourage firms to trade internationally and thus, contribute to revenue generation and employment. Hence, internationalization of SMEs has become one of significant areas in scientific literature.

This research contributes to the theory by proposing research model, aiming to combine human capital, social capital, organizational learning and internationalization. The model helps us to develop propositions for future investigations. The limitations of presented research are related with limited number of investigated approaches and static view toward internationalization process. Hence, future investigations have to focus on different stages of internationalization.

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