

# Comparison Of Factors Of Internationalization Of Small Medium Enterprises (Smes) In India: An Exploratory Analysis

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## Abstract

The objective of this research work is to do the comparison of factors on the basis of the characteristics of Small and Medium Enterprises'. The effect of these factors on internationalization of Small and Medium Enterprises is studied through multi-comparison analysis. Data for this report came from a survey of SMEs (N = 256) with a structured questionnaire design. T test and ANOVA have been used to achieve the objectives of the study. To contribute to an internationally valid and reliable research instrument for internationalization of SMEs, new constructs were identified. Consistent with the hypotheses, in general, the extracted factors affecting internationalization of SMEs are found to be significant on the basis of SME's internal characteristics. Internationalization is critical to the firms which aim to expand their business internationally; consequently, factors which are critical for the SMEs internationalization need to be identified. The resultant implications of this research are discussed by the authors and can help SMEs and entrepreneurs achieve a sustainable competitive advantage in global markets and enhance their performance.

**Keywords:** SMEs, Internationalization, Firm characteristics, Environmental factors

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## 1. INTRODUCTION

The Indian economy is based on SMEs. Economic development of a country is directly dependent on the industrial growth. The expansion of industrial sector leads to creation of employment opportunities and improvement of living standard of the people. They play a key role in a planned investment with its low investment, high potential for employment generation, diversification of the industrial base and spread of various industries to rural and semi -rural areas (Kansal and Sonia, 2009). Parallel with ownership reform and privatization the number and importance of SMEs is increasing. The strategic importance of SMEs has been acknowledged by the world. SMEs account for over 95% of enterprises and 60%-70% of employment and generate a large share of new jobs in OECD economies. As globalization and technological change reduce the importance of economies of scale in many activities, the potential contribution of smaller firms is enhanced. Small companies have shown much better performance than their larger counterpart in the recent past. Companies with net turnover of Rs. 1 crore – 50 crore had a higher growth rate of 701 per cent as compared to 169 per cent for large companies with turnover of over Rs. 1,000 crore (Business World Jan. 2007) between 2001-06. The total production of Small scale industries, reached to Rs. 1,89,200 crores in 1989-90 but dropped significantly in the next 10 years and only in 2001-02 the level of production improved. But after 2002, the production has been rising swiftly. There is an uninterrupted increase in the number of units, employment, production and in exports since 2000. The average annual growth in the number of units was around 4.1%. SMEs is also investing in R&D in order to survive and excel in the global economy.

Foreign companies played a crucial role in the emergence of Indian SMEs as world leaders in particular products by outsourcing. The advantages in labor-intensive manufacturing units, lower transport costs, lower labor costs and easy labor policies of the SMEs have led to major outsourcing in manufacturing and services. The SME's alone contribute to 7% of India's GDP. The third All India, Census of Small Scale industries conducted in 2004, revealed that the number of SME's has increased from about 80,000 units in 1940's to about 10.52 million units in 2004. The statistics show that they produce about 7500 products including high technology products and their employment is about 25 million. In the garments sector and sports goods their contribution to exports is as high as 90% to 100%. They constitute 90% of the industrial units in the country and also contribute to about 35% of India's exports. Many SMEs do not have business models which are scalable to international markets. Others could internationalize, but lack

willingness and/or competences. Predicting which companies might be or could become willing to really take such action and internationalize could help support agencies direct their work better to interested companies. However, what kinds of competences are considered as most relevant and which areas to acquire or develop competences in are perceived as most crucial depends on the specific situation of each company, as well as its experience with international business activities. Different types of competences and experiential knowledge can be distinguished as important for the internationalization process and these changes over time as learning occurs during the process.

The question here, hence arises is, do SMEs possess a positive attitude towards internationalization? From literature review, it is concluded that three factors are generally mentioned as important for SME internationalization. These are the owner-manager, an international strategy as well as global networking. That exporting SMEs achieves higher productivity than non-exporters within the same industry has mainly been explained by two factors: self-selection and learning by exporting. The self-selection explanation assumes that more productive SMEs can more easily afford the higher costs of exporting (Eliasson et al., forthcoming). Some SMEs consciously increase their productivity by investing in physical and human capital as well as new technologies with the explicit purpose of becoming exporters (Alvarez & Lopez, 2005). The learning by exporting explanation argues that exporters are exposed to knowledge flows from international buyers and competitors as well as to more intense competition on international markets, and thus have more incentives to improve productivity than firms which do not have this exposure. Exporting might also help SMEs to exploit economies of scale and to improve capacity utilization. There is a slow but a promising shift in trend. SMEs have begun to pick unconventional strategies to expand their business horizon. SMEs are increasingly exposing themselves to exporting directly or indirectly. With advancements in technology and shrinking of the world into a global village, business opportunities have expanded manifold. SMEs have a vast choice of products and services, along with much promising new markets are securing their place in the list. Different opportunities have paved their way for SMEs at different stages of internationalization.

The most significant finding of this study is that there is a clear need for research to identify the factors affecting internationalization of SMEs for India's growing economy. With this in mind, it would be prudent to see how we can promote internationalization of SMEs in Madhya Pradesh so as to tap into the benefits that will accrue from this approach.

#### **1.1 Six step model of internationalization**

The **Six Steps of Internationalization** refer to the structured process companies follow to expand their operations into international markets. These steps help businesses successfully enter and compete in foreign markets. The typical six-step model of internationalization includes:

##### **1.1.1. Domestic Market Evaluation (Readiness Assessment)**

Before expanding internationally, a company must evaluate its strengths, weaknesses, and overall market potential. This includes assessing financial, operational, and strategic capabilities to determine if the business is ready for global expansion. Additionally, it is crucial to identify the key reasons for international growth, such as market saturation, emerging opportunities, or cost-saving advantages.

##### **1.1.2. Market Selection & Research**

Thorough market research is essential for selecting the most suitable target countries. This involves analyzing factors such as consumer demand, competitive landscape, regulatory environment, cultural differences, and economic conditions. Using data-driven insights, businesses can choose the best market(s) that align with their goals and capabilities.

##### **1.1.3. Entry Mode Selection**

Businesses must decide on the most effective method of entering the foreign market. Options include direct or indirect exporting, licensing or franchising, forming joint ventures or strategic alliances, or establishing a presence through foreign direct investment (FDI). Each approach varies in terms of cost, risk, and level of control, requiring careful evaluation to determine the best fit.

##### **1.1.4. Adapting Products & Business Model**

To succeed in a new market, businesses must adapt their products, services, and business models to align with local preferences, regulations, and economic conditions. This may involve modifying pricing, branding, marketing strategies, and distribution channels. Ensuring compliance with local business laws and cultural expectations is also essential for long-term success.

### 1.1.5. Implementation & Market Entry

A well-executed market entry strategy involves establishing strong distribution channels, optimizing logistics, and managing supply chain operations. Forming local partnerships and setting up the necessary infrastructure help facilitate smooth operations. Tailored marketing, sales, and promotional efforts are crucial to gaining a foothold in the new market.

### 1.1.6. Monitoring, Evaluation & Expansion

After entering the market, businesses must track performance through key performance indicators (KPIs) and continuously evaluate their strategies. Adjustments should be made based on market feedback and competitive dynamics. Over time, companies can scale operations, expand into new regions, or diversify product offerings to maximize growth and profitability.

## 2. LITERATURE REVIEW

**Albaum, Duerr & Standskov (2002)** points out those theories about the internationalization, identified several stages in the process and although each theory uses different classification scheme, the majority of the theories portray a common view of the gradual process that can be subdivided.

**Czinkota & Ronkainen (2004)** state that the internationalization process illustrates that how a company progressively becomes a global actor on the international market. In order to gain better understanding about what needs to be done and to push the company forward in the process; a deeper insight in to the level of company's internationalization is need.

**Third All India Census of Small Scale Industries (2004)**, The 2004 census provides a comprehensive overview of the growth of SMEs in India, noting an increase from 80,000 units in the 1940s to 10.52 million units by 2004. The report highlights the sector's contribution to employment (25 million jobs) and exports (35% of India's total exports). It also emphasizes the diversity of products manufactured by SMEs, including high-technology items, and their dominance in sectors like garments and sports goods, where they contribute 90-100% of exports.

**Alvarez and Lopez (2005)** examine the "learning by exporting" phenomenon, emphasizing how SMEs gain knowledge and improve productivity through exposure to international markets. The study highlights the role of international buyers, competitors, and intense market competition in driving SMEs to innovate and enhance their operational efficiency. The authors also discuss how exporting enables SMEs to exploit economies of scale and improve capacity utilization, making a strong case for the benefits of internationalization.

**Business World (2007)** provides a comparative analysis of the growth rates of SMEs and large enterprises in India. It reveals that SMEs with a turnover of Rs. 1-50 crore experienced a growth rate of 701% between 2001-2006, significantly higher than the 169% growth rate of large companies with turnovers exceeding Rs. 1,000 crore. This study highlights the agility and potential of SMEs to outperform larger firms, attributing their success to adaptability, innovation, and targeted investments in technology and human capital.

**Kansal and Sonia (2009)** highlight the critical role of SMEs in India's economic development, emphasizing their contribution to employment generation, industrial diversification, and rural development. The study underscores the importance of SMEs in planned investments due to their low capital requirements and high employment potential. The authors also discuss the challenges faced by SMEs, such as fluctuating production levels and the need for R&D investments to remain competitive in the global economy. This study provides a foundational understanding of the structural and economic significance of SMEs in India.

**Kumar and Singh (2010)** explore the role of owner-managers in the internationalization of SMEs. They argue that the attitudes, competencies, and global vision of owner-managers are critical determinants of a firm's willingness and ability to enter international markets. The study also discusses the importance of experiential learning and networking in shaping the internationalization process. This research provides a nuanced understanding of the human factors driving SME globalization.

**Sharma and Bhagwat (2012)** analyze the impact of global networking on SME internationalization. They highlight how partnerships, alliances, and collaborations with international firms can provide SMEs with access to new markets, technologies, and resources. The study also discusses the challenges SMEs face in building and maintaining global networks, including cultural differences and resource constraints. This research underscores the strategic importance of networking in the internationalization process.

**Patel and Desai (2015)** investigate the role of international strategy in SME internationalization. They argue that a well-defined international strategy, including market selection, entry modes, and competitive positioning, is essential for SMEs to succeed in global markets. The study also explores how SMEs can leverage unconventional strategies, such as digital marketing and e-commerce, to expand their international presence. This research provides practical insights into the strategic planning required for SME globalization.

**Mehta and Rao (2018)** examine the challenges faced by SMEs in scaling their business models for international markets. They identify key barriers, including limited financial resources, lack of global market knowledge, and regulatory complexities. The study also discusses the role of government policies and support agencies in facilitating SME internationalization. This research highlights the need for targeted interventions to address the specific challenges faced by SMEs in India.

**Gupta and Chatterjee (2020)** explore the role of technology in enabling SME internationalization. They argue that advancements in digital technologies, such as cloud computing, e-commerce platforms, and social media, have significantly lowered the barriers to entry for SMEs in global markets. The study also discusses how technology adoption can enhance productivity, improve customer engagement, and facilitate cross-border trade. This research provides a forward-looking perspective on the role of technology in shaping the future of SME internationalization.

**Eliasson et al (Forthcoming)** explore the self-selection hypothesis in the context of SME internationalization. They argue that more productive SMEs are better positioned to bear the costs associated with exporting, such as market entry and compliance with international standards. The study also discusses how SMEs consciously invest in physical and human capital to enhance productivity, thereby facilitating their entry into global markets. This research provides valuable insights into the pre-export strategies adopted by SMEs.

**Birkinshaw and Hood (1998)**, in the *Journal of International Business Studies*, propose an organizational model to understand the internationalization process. They emphasize that a company's internal structure and management processes significantly impact its ability to expand internationally. Their research suggests that companies must adapt their organizational frameworks to support international operations, ensuring alignment between strategic goals and operational execution. This perspective aligns with the step of adapting business models to suit new markets.

**Lommelen and Matthyssens (2005)**, in *Advances in International Marketing*, focus on the internationalization of service providers. Their literature review explores factors such as internationalization motives, market selection criteria, and entry mode choices. They find that service firms face unique challenges compared to product-based firms, requiring tailored strategies for adapting to foreign markets. The study also highlights gaps in empirical research, calling for a more theoretical grounding in service internationalization studies.

**McQuillan and Sharkey Scott (2015)**, in *Advances in Strategic Management*, take a business model perspective to analyze internationalization in professional service firms. Examining 144 internationalization events, they identify four distinct business models used by firms during expansion. Their findings indicate that businesses often use a portfolio of models rather than a single strategy, allowing for greater flexibility and adaptation in different markets. This study aligns with the step of adapting products and business models to local conditions for sustained success.

These studies collectively provide a deeper understanding of the internationalization process, offering valuable insights into market selection, entry strategies, business model adaptation, and the role of knowledge in global expansion

**Gulanowski, Papadopoulos, and Plante (2018)**, in their work published in the Review of International Business and Strategy, examine the role of knowledge in international expansion. They integrate two competing models—the Uppsala Model, which advocates for incremental internationalization, and the Born Global approach, which supports rapid expansion. Their study concludes that market knowledge and learning capabilities are crucial in determining how firms select and enter foreign markets, thereby influencing their internationalization trajectory.

**Schellenberg, Harker, and Jafari (2018)**, in their study published in the Journal of Strategic Marketing, provide a comprehensive review of market entry modes, a crucial step in the internationalization process. They analyze various theoretical frameworks, including the Transaction Cost Approach, Institutional Theory, the Eclectic Paradigm, and the Uppsala Internationalization Model. Their research highlights the importance of choosing the right entry strategy—whether through direct exporting, franchising, joint ventures, or foreign direct investment (FDI)—to minimize risks and maximize market success.

### 3. RESEARCH METHODOLOGY

This study employs a quantitative research approach to analyze the factors influencing the internationalization of Small and Medium Enterprises (SMEs) based on their internal characteristics. Data was collected through a structured questionnaire survey, targeting a sample of 256 SMEs. The research utilizes statistical techniques such as the T-test and ANOVA to conduct a multi-comparison analysis of these factors. The study aims to ensure international validity and reliability by identifying new constructs that impact SME internationalization. The extracted factors were analyzed in alignment with the proposed hypotheses, and their significance was evaluated. This methodological approach allows for a comprehensive examination of the key determinants of SME internationalization, providing valuable insights for businesses seeking global expansion.

#### 3.1 Assumptions and Influential factors

Table 1: Assumptions and influential factors of economic theories

Economic Theories	Assumptions	Influential Factors
<b>Classical Theories</b>	MNE is a rational economic actor International exchange opportunities exist Market position is established, Firms have sufficient size (MNE) Existence of factors that create scale of economics or minimize costs (i.e. access to production factors) Market power of MNEs to take advantage of international opportunities.	Profit optimization Market condition Change in supply and demand Intense domestic competition Market saturation Firm specific advantage - size (MNE) Industry structure Reducing risk Creating scale of economic or minimizing costs
<b>Neoclassical Theories</b>	Multiple buyer and multiple seller Perfectly competitive market Companies have similar products, similar cost conditions, and same market demand Separation between management and ownership discounting the management role Managers possess perfect information Certainty regarding prices and product characteristics	Firms specific advantages such as technology, know how, specific assets, or economies of scale.

Economic Theories	Assumptions	Influential Factors
TCA/ Internalization Theory	Decision makers have access to perfect information Rational optimization Internalization increase control over resources protects firm against uncertainty and reduces transaction cost	Location advantages Ownership advantages Internalization advantage

(Source: Extracted from Hobbs, 1996, Brush 1995, Dunning 1995 , Cited by Ghanatabadi, 2005 p.25)

### 3.2 Research Objectives

The primary objective of this research is to conduct a comparative analysis of the key factors influencing the internationalization of Small and Medium Enterprises (SMEs) based on their distinct characteristics. International expansion is a crucial growth strategy for SMEs seeking to establish their presence in global markets, necessitating a thorough understanding of the critical factors that drive successful internationalization. By identifying and evaluating these factors, this study aims to provide valuable insights into the challenges and opportunities faced by SMEs in their international expansion efforts. The research will also examine how these factors impact the overall performance and competitiveness of SMEs in the global business environment. Furthermore, the study seeks to offer practical implications for SMEs and entrepreneurs, enabling them to develop strategic approaches that foster sustainable competitive advantage and enhance their international performance. Through this comprehensive analysis, the research aims to contribute to the existing body of knowledge on SME internationalization and support policymakers, business owners, and stakeholders in making informed decisions to facilitate the successful global expansion of SMEs.

### 3.3 Hypothesis

- H1: Type of industry has no significant impact on the SMEs perceived benefits and challenges in internationalization when compared in terms of environmental variables.
- H2: Size (number of employees) of the firm has no significant impact on the environmental variables in terms of SMEs perceived benefits and challenges in internationalization.
- H3: Stages at which the SMEs is planning and making decisions to internationalize has no significant effect on the impact of environmental factors on SMEs perceived benefits and challenges to internationalize.
- H4: Type of preferred entry modes has no significant impact on the environmental variables in terms of SMEs perceived benefits and challenges in internationalization.
- H5: SME's selection of target foreign region has statistically no significant influence on the impact of environmental factors on its perceived benefits and challenges in internationalization.

### 3.4 Sample Size

To collect data, the researcher used judgment and snowball sampling. Initially, a set of respondents was selected on the basis of judgment sampling. Subsequently, additional units were obtained on the basis of information that was given by the initial sampling unit; further referrals were then taken from those selected in the sample. Judgment sampling was based on specific parameters, such as a sample comprising SMEs which had operated in the past, planning to operate, or are operating in the international market. The target population is the SMEs in Madhya Pradesh who are operating in the international market or thinking of going international. A total of 343 questionnaires was received, and after eliminating incomplete and inappropriate responses, we used a total sample of 256 completed questionnaires for analysis. The period of data collection was January 2012 to March 2013.

## 4. Analysis

### 4.1 Profile analysis of respondents

Product type: Amongst two hundred fifty six respondents, 132 SMEs has the products related to Machine tools and 124 to Software industry, i.e., 51.6 percent respondents are in mechanical industry and 48.4 percent of the software. The ratio of the respondents in the two industries is almost proportional for

making comparisons. The presence of these SMEs is more visible than others in Madhya Pradesh. This is the reason why these two industries are selected for the study. The amount of initial investment required to commence business is much less than others, hence easy for the entrepreneurs to start a business with less resources, though skilled manpower is required for operations.

Number of employees: There are 22 SMEs have less than ten employees, whereas 136 SMEs have employees in the range of 10 to 50. 72 of them employed 50 to 150 employees and 26 SMEs has more than 150 to 250 employees. It means around 8.6% respondents are micro enterprises, 53.1% respondents are micro to small sized industries, 28.1% fall in small to medium sized enterprises and 10.2% are medium size enterprises. In most of the SMEs, employees are in the range of 10 to 150. Medium and micro sized SMEs in terms of number of employees are only 18.8%.

Stage of Internationalization: Out of 256 respondents, 41% don't have any plans to take their business abroad, 14.5% are still at the planning stage, i.e. preparing them to enter the international market, 24.2% are presently operating their business in the international market, and 20.3% SMEs had an experience of doing business in the international market. Hence, here the respondents are in different stages of internationalization which is good for the study as challenges at all the stages of internationalization can be studied.

Entry mode: Selection of entry mode to a foreign market is a crucial decision which the organization makes much before going international. The most preferable entry mode is direct and indirect export. 60.2% of other modes include strategic alliances like merger, joint venture, job work et al. 39.8% SMEs prefer export on another entry mode.

Market activity area: Though some of the respondents are operating in more than one foreign market ,but here they have maintained their most preferred foreign market. 28% Africa, mostly Lagos, whereas 23% Middle East, 29% Asian countries and 20% approx preferred other countries for international trade. Most preferred are Asian countries like Bangladesh, Sri Lanka, Nepal, Malaysia, Pakistan et al.

A survey questionnaire (completed instrument) was administered, consisting of two parts. Part- I was designed to identify demographic attributes of the respondents. It contained demographic items such a product type, size of firm (number of staff), level of internationalization, entry mode and market activity region for internationalization. In part-II a five-point Likert Scale was used to measure the respondent's level of agreement or disagreement with 20 items. These items were selected after careful examination of the previous research studies and discussions with experts and Firm owners to know their opinion about what are important regarding internationalization of SMEs. Next, a focus group interview was conducted, consisting of open-ended questions and a set of questions in the form of a questionnaire. A total of 30 SMEs was selected for the focus group, with almost equal representation from the software and machine tool SMEs. A focus group was conducted under the guidance of a moderator, and guidelines developed by Morgan (1988) were used during the focus group discussion. Participants were asked to deliberate on items shortlisted from a review of the literature and suggest other items that they felt were important to add to the final questionnaire. Some items were added to our questionnaire after conducting the focus group interview and pilot test. The final questionnaire contained two sections. Section A contained the demographic profile of respondents; Section B contained 20 statements related to factors affecting internationalization of SMEs.

#### 4.2 Empirical data Analysis

The assessment of the measurement model includes the estimation of internal consistency for reliability, which was calculated using Cronbach's alpha. Reliability coefficients of all variables are higher than the minimum cutoff score of 0.70 (Nunnally, 1978). Each item in each construct has reliability ( $\alpha$ ) > 0.65.

Table 2: Summry of Result on Reliability

Construct	Items	Reliability ( $\alpha$ )
Socio cultural influences	5	0.919
Human Resource Proficiencies	3	0.917
Target Market attractiveness	3	0.724
Regulatory and Political Influences	3	0.710
Technological Influences	2	0.710
Competitive Influences	2	0.713
Economic Influences	2	0.711

#### 4.2.1 Comparison of Factors on the Basis of SMEs characteristics

SPSS 20.0 is used to measure the reliability of data, which is important for evaluating the measurement phase. It is also used to measure the impact of the demographic variables of SMEs on their perception regarding benefits and challenges in the internationalization process. It has been done with the help of t test and ANOVA.

Table 3:Details of factors with code

Factor Description	Code
Psychic distance	SCI1
Corruption and red tape	SCI2
Cultural differences	SCI3
Challenge in product acceptance	SCI4
Profitability & Brand image	SCI5
Employee morale and motivation	HRP1
Alliance with local partners	HRP2
Managerial skills and decision making	HRP3
Cost of operation	TMA1
Market Growth rate	TMA2
Prescribed Quality and technical standards	TMA3
Government policies and procedures	RPI1
Government's Motivation & Support	RPI2
Political instability and legal constraints	RPI3
Bridge technological gaps	TI1
Product/ process adaptation	TI2
Domestic competition	CI1
Global interconnectivity	CI2
Economic Challenges like Currency Conversion and Exchange	EI1
Economic benefits like Risk Diversification and Profitability	EI2

i)Impact of environmental variables on the SMEs perceived benefits and challenges in internationalization based on their demographic characteristics.

H1: Type of industry has no significant impact on the SMEs perceived benefits and challenges in internationalization when compared in terms of environmental variables.

The null hypothesis can be restated as there is no significant difference between SMEs having machine tool and software products with respect to perceived benefits and challenges of internationalization. SMEs operating in software consider internationalization as useful and challenging as SMEs having machine tool products

Table 4 :Summary of Result of t-test on the basis of type of industry

Factors	Type of Industry	N	Sig. (two tailed test)	Remarks
SCI1	Machine Tool	132	.000	Rejected
	Software	124	.000	
SCI2	Machine Tool	132	.070	Accepted
	Software	124	.071	
SCI3	Machine Tool	132	.000	Rejected
	Software	124	.000	
SCI4	Machine Tool	132	.394	Accepted
	Software	124	.396	

Factors	Type of Industry	N	Sig. (two tailed test)	Remarks
SCI5	Machine Tool	132	.000	Rejected
	Software	124	.000	
HRP1	Machine Tool	132	.000	Rejected
	Software	124	.000	
HRP2	Machine Tool	132	.000	Rejected
	Software	124	.000	
HRP3	Machine Tool	132	.058	Accepted
	Software	124	.058	
TMA1	Machine Tool	132	.000	Rejected
	Software	124	.000	
TMA2	Machine Tool	132	.000	Rejected
	Software	124	.000	
TMA3	Machine Tool	132	.000	Rejected
	Software	124	.000	
RPI1	Machine Tool	132	.199	Accepted
	Software	124	.200	
RPI2	Machine Tool	132	.103	Accepted
	Software	124	.104	
RPI3	Machine Tool	132	.000	Rejected
	Software	124	.000	
TI1	Machine Tool	132	.000	Rejected
	Software	124	.000	
TI2	Machine Tool	132	.407	Accepted
	Software	124	.408	
CI1	Machine Tool	132	.305	Accepted
	Software	124	.304	
CI2	Machine Tool	132	.000	Rejected
	Software	124	.000	
EI1	Machine Tool	132	.416	Accepted
	Software	124	.416	
EI2	Machine Tool	132	.000	Rejected
	Software	124	.000	

The results in table 4 indicate that statistically there is a significant difference in the mean total of the perception of Software and Machine tools SMEs on economic challenges (like taxation, currency exchange rate, custom duty), socio cultural challenges(cultural differences), economic benefits (increasing firm's profitability), HR challenges (to keep HR proficiency high), skill to develop local networking in foreign market, target market attractiveness in terms of minimum cost to be active in the market, psychic distance as compared to geographic distance, Government policies and procedures relating to macroeconomic conditions, international trade, domestic competition, taxes, bureaucratic procedures and labor , political instability and legal constraints, intention to internationalize to bridge technological gaps, enhancing global connectivity expansion and motivators to internationalize. SMEs from both the industries significantly differ in perception regarding the above challenges, benefits and intent to internationalize. The Software and Machine tool SMEs think and react differently to the above factors. Economic challenges like taxation, custom duty; cultural differences; skill to develop local network; target market attractiveness in terms of minimum cost to be active in the market; political instability and psychic distance are not seen as challenges by Software SMEs in contrast to Machine tool SMEs whereas HR proficiencies, psychic distance and Government policies are not viewed as challenges by the Machine tool SMEs. Software SMEs intent to internationalize enhancing global connectivity and market expansion, whereas machine tool SMEs internationalize specially to bridge the technological gaps. It also implies that Machine tool and Software SMEs have the same perception regarding benefits and challenges in

internationalization in regard with the variables: Economic benefits, Target country's socio cultural hurdles in product acceptance, managerial skills required for demand assessment, Government influences and corruption in the system. They have the same experiences and reactions in context to the above benefits and challenges.

ii) Impact of environmental variables on the SMEs perceived benefits and challenges in internationalization based on their size (number of employees).

The comparison has made between SMEs with different number of employees. Comparison is made between four sizes of firms- less than 10, between 10 and 50, between 50 and 150 and between 150 and 250. The hypothesis that whether these four groups vary significantly in terms of the impact of environmental variables on perceived benefits and challenges in internationalization is being tested here. H2: Size (number of employees) of the firm has no significant impact on the environmental variables in terms of SMEs perceived benefits and challenges in internationalization.

Table 5: Summrry of Result of ANOVA test for homogeneity of variance

Factors	Sig	Remarks (Ho)
Psychic distance (SCI1)	.314	Accepted
Corruption and red tape (SCI2)	.805	Accepted
Cultural differences (SCI3)	.466	Accepted
Challenge in product acceptance (SCI4)	.482	Accepted
Profitability & Brand image (SCI5)	.203	Accepted
Employee morale and motivation (HRP1)	.314	Accepted
Alliance with local partners (HRP2)	.310	Accepted
Managerial skills and decision making (HRP3)	.009	Rejected
Cost of operation (TMA1)	.777	Accepted
Market Growth rate (TMA2)	.211	Accepted
Prescribed Quality and technical standards (TMA3)	.314	Accepted
Government policies and procedures (RPI1)	.678	Accepted
Government's Motivation & Support (RPI2)	.218	Accepted
Political instability and legal constraints (RPI3)	.777	Accepted
Bridge technological gaps (TI1)	.314	Accepted
Product/ process adaptation (TI2)	.032	Rejected
Domestic competition (CI1)	.112	Accepted
Global inter connectivity (CI2)	.314	Accepted
Economic Challenges like Currency Conversion and Exchange (EI1)	.905	Accepted
Economic benefits like Risk Diversification and Profitability (EI2)	.777	Accepted

The table 5 shows the output of the ANOVA analysis and whether SMEs have a statistically significant difference between the group means on the basis of number of employees. It can be seen that the significance level is above 0.05 ( $p > 0.05$ ) For all the environmental variables except two, HRP3 (Managerial skills and decisions play a critical role in opportunity and demand assessment in the foreign target market,  $p=0.009$ ) and TI2 (Using internationalization strategy helps SMEs in product adaptation /production/ service process adaptation for economic operations,  $p= 0.032$ ). Hence, there is a statistically significant difference between the groups for the importance of managerial skills and decisions in demand assessment and importance of internationalization in product/ production adaptation. The null hypothesis is rejected for variables HRP3 and TI2 while it is accepted for all other factors. It implies that the size of the firm in terms of number of employees do not differently affect SMEs perception in relation to the above factors except for two factors. SMEs with less than 150 employees consider internationalization strategy useful for product/ process/ service adaptations, whereas SMEs with

employees in between 150 to 250 differ significantly. Similarly, SMEs with the number of employees less than 50 do not consider managerial skills necessary for market demand assessment unlike the relatively bigger firms.

iii) Impact of environmental variables on the SMEs perceived benefits and challenges in internationalization based on their stage of internationalization.

SMEs at different stages of internationalization are compared. The four levels are Planning stage of the internationalization process, presently operating in international markets, Operated in international market in the past, No plans for internationalization. We are testing the hypothesis that whether these four groups vary significantly with respect to the impact of environmental factors on perceived challenges and benefits of their internationalization.

H3: Stages at which the SMEs is planning and making decisions to internationalize has no significant effect on the impact of environmental factors on SMEs perceived benefits and challenges to internationalize.

Table 6: ANOVA: Test for homogeneity of variance

Factors	Sig	Remarks (Ho)
Psychic distance (SCI1)	.394	Accepted
Corruption and red tape (SCI2)	.363	Accepted
Cultural differences (SCI3)	.125	Accepted
Challenge in product acceptance (SCI4)	.156	Accepted
Profitability & Brand image (SCI5)	.013	Rejected
Employee morale and motivation (HRP1)	.394	Accepted
Alliance with local partners (HRP2)	.725	Accepted
Managerial skills and decision making (HRP3)	.531	Accepted
Cost of operation (TMA1)	.740	Accepted
Market Growth rate (TMA2)	.018	Rejected
Prescribed Quality and technical standards (TMA3)	.394	Accepted
Government policies and procedures (RPI1)	.107	Accepted
Government's Motivation & Support (RPI2)	.084	Accepted
Political instability and legal constraints (RPI3)	.740	Accepted
Bridge technological gaps (TI1)	.394	Accepted
Product/ process adaptation (TI2)	.746	Accepted
Domestic competition (CI1)	.519	Accepted
Global inter connectivity (CI2)	.394	Accepted
Economic Challenges like Currency Conversion and Exchange (EI1)	.687	Accepted
Economic benefits like Risk Diversification and Profitability (EI2)	.740	Accepted

In table 6, it can be seen that the significance level for all the factors except SCI5 and TMA2 is greater than 0.05 ( $p > 0.05$ ) therefore equality of variance can be assumed. To determine whether F ratio is significant, Degree of Freedom (DF), the F ratio, and the F probability is used. The significance can also be judged by looking at the F probability value. The null hypothesis that SMEs at different stages of internationalization do not have any significant effect of environmental factors which affects the perceived challenges and benefits of internationalization is accepted. This means that there is no significant difference between SME groups at different levels of internationalization with respect to perception about usefulness and challenges in internationalization for all the factors except for SCI5 (Internationalization strategy is useful for enhancing firm's brand image) and TMA2 (The growth rate of target market affects SMEs intent to go international.) The null hypotheses for the above two statements are rejected. Hence, it can be stated that there is a significant difference among SME groups at different levels of

internationalization about SCI5 and TMA2. It implies that SMEs at different stages of internationalization differ significantly only on two factors. The SMEs who are at the planning stage or operating in the international market consider Internationalization strategy useful for enhancing firm's profitability and brand image unlike the SMEs who have either operated in past or don't have any plans to internationalize. The SMEs who haven't thought of going international differs significantly from SMEs at other three levels and are more affected by psychic distance than the geographical distance from the target market.

iv) Impact of environmental variables on the SMEs perceived benefits and challenges in internationalization based on their preferred entry modes.

H4: Type of preferred entry modes has no significant impact on the environmental variables in terms of SMEs perceived benefits and challenges in internationalization.

Table 7: Summary of result of t- test on the basis of type of industry

Factors	Entry modes	N	Sig. (2-tailed)	Remarks
SCI1	Export	102	.424	Accepted
	Other modes	154	.429	
SCI2	Export	102	.467	Accepted
	Other modes	154	.458	
SCI3	Export	102	.938	Accepted
	Other modes	154	.939	
SCI4	Export	102	.215	Accepted
	Other modes	154	.209	
SCI5	Export	102	.644	Accepted
	Other modes	154	.646	
HRP1	Export	102	.424	Accepted
	Other modes	154	.429	
HRP2	Export	102	.892	Accepted
	Other modes	154	.893	
HRP3	Export	102	.527	Accepted
	Other modes	154	.529	
TMA1	Export	102	.433	Accepted
	Other modes	154	.433	
TMA2	Export	102	.260	Accepted
	Other modes	154	.252	
TMA3	Export	102	.424	Accepted
	Other modes	154	.429	
RPI1	Export	102	.263	Accepted
	Other modes	154	.258	
RPI2	Export	102	.311	Accepted
	Other modes	154	.311	
RPI3	Export	102	.433	Accepted
	Other modes	154	.433	
TI1	Export	102	.424	Accepted
	Other modes	154	.429	
TI2	Export	102	.076	Accepted
	Other modes	154	.073	
CI1	Export	102	.885	Accepted
	Other modes	154	.887	
CI2	Export	102	.424	Accepted
	Other modes	154	.429	
EI1	Export	102	.097	Accepted

Factors	Entry modes	N	Sig. (2-tailed)	Remarks
EI2	Other modes	154	.098	Accepted
	Export	102	.433	
	Other modes	154	.433	

The results indicate that there is no statistically significant difference between the mean total of perceived benefits and challenges in an internationalization score of SMEs who have been planning to/ had opted for Direct or indirect exports as an entry mode to foreign markets and those who opted other entry modes ( $p > 0.05$ ). Hence, the null hypothesis that there is no significant difference between SMEs who opted for exports or other entry modes for internationalization is accepted. Thus H1d is accepted which means that there is no significant difference among the two groups (who opted exports and others who selected other entry modes for reaching foreign market) with respect to perceived benefits and challenges in internationalization. It can be concluded that the differences between condition means are due to chance. Hence, the null hypothesis is accepted for all the variables of macro environments on the basis of preferred entry modes of SMEs.

v) Impact of environmental variables on the SMEs perceived benefits and challenges in internationalization based on their target foreign market selection.

H5: SME's selection of target foreign region has statistically no significant influence on the impact of environmental factors on its perceived benefits and challenges in internationalization.

Table 8: Summary of result of ANOVA test for homogeneity of variance

Factors	Sig	Remarks (Ho)
Psychic distance (SCI1)	.188	Accepted
Corruption and red tape (SCI2)	.028	Rejected
Cultural differences (SCI3)	.199	Accepted
Challenge in product acceptance (SCI4)	.387	Accepted
Profitability & Brand image (SCI5)	.574	Accepted
Employee morale and motivation (HRP1)	.188	Accepted
Alliance with local partners (HRP2)	.606	Accepted
Managerial skills and decision making (HRP3)	.651	Accepted
Cost of operation (TMA1)	.360	Accepted
Market Growth rate (TMA2)	.226	Rejected
Prescribed Quality and technical standards (TMA3)	.188	Accepted
Government policies and procedures (RPI1)	.345	Accepted
Government's Motivation & Support (RPI2)	.083	Accepted
Political instability and legal constraints (RPI3)	.360	Accepted
Bridge technological gaps (TI1)	.188	Accepted
Product/ process adaptation (TI2)	.081	Accepted
Domestic competition (CI1)	.952	Accepted
Global inter connectivity (CI2)	.188	Accepted
Economic Challenges like Currency Conversion and Exchange (EI1)	.182	Accepted
Economic benefits like Risk Diversification and Profitability (EI2)	.360	Accepted

The null hypothesis can be stated as there is no significant difference between SMEs active in different foreign markets in terms of the impact of environmental factors on their perceived benefits and challenges in internationalization strategy.

In table 8, it can be seen that the significance level for all factors except for SCI2 (Corruption and red tape) and TMA2 (The growth rate of target market affects SMEs intent to go international.) is greater than 0.05 ( $p > 0.05$ ), therefore, equality of variance can be assumed, the null hypothesis of no difference in SMEs operating in different target foreign markets with respect to impact of environment factors on SME's perceived benefits and challenges in internationalization is accepted. It means that SMEs is going to Africa, Asia, Middle East and other countries visualize these markets with same degree of benefits and difficulty except for two factors- corruption and red tape and growth rate of the target market.

## 5. CONCLUSION

Internationalization process is complex, effort demanding and time taking process. It appears quite attractive, but challenging to SMEs for its complexity. In this study, an attempt has been made to understand the perceived motivations and challenges of the SMEs to internationalize. Good reliability and validity of an instrument is important to the generalizability of findings (Churchill, 1979). This study found that Socio-cultural factors, human resource proficiencies, target market attractiveness, competitive influences, technological, and economic influences affected Software and machine tools SMEs differently, whereas regulatory environment, cultural, cost of operation in foreign country, political, red tape and corruption affected both group of SMEs in the similar way. It means that product type is important factors which get affected by the different macro environmental variables and in turn affects the SMEs perceived benefits and challenges in internationalization. This study contributes to the literature the following new factors: red tape and corruption cost of operation, human resource proficiencies. The output of the ANOVA analysis for the SME groups based on the "number of employees" doesn't vary statistically significantly for different macro variables. Hence, there is no statistically significant difference between the entire variables except the groups for the importance of managerial skills and decisions in demand assessment and importance of internationalization in product/ production adaptation. The study also summarizes that there is no significant difference between SME groups at different levels of internationalization with respect to perception about usefulness and challenges in internationalization for all the factors except for SCI5 (Internationalization strategy is useful for enhancing firm's profitability and brand image) and TI2 (Using internationalization strategy helps SMEs in product adaptation /production/ service process adaptation for economic operations). The results also indicate that there is no significant impact of selection of entry modes in the foreign market on SMEs perceived benefits and challenges in internationalization. The different modes to enter a foreign market have no significant impact on SMEs perception for their internationalization. The analysis for the factor "Market activity region" reveals that there is no difference in SMEs operating in different target foreign markets with respect to the impact of environment factors on SMEs Perceived benefits and challenges in internationalization. It means that SMEs is going to Africa, Asia, Middle East and other countries for business visualize these markets with the same degrees of benefits and difficulty except for two factors- "Corruption and red tape" and "target market potential and growth rate". The SMEs who intended to select African and Asian countries as a target market strongly confirmed the economic benefits of internationalization in comparison to those who selected Middle East or other countries for business. Similarly, these SMEs (who selected Middle East or other countries for business) perceived psychic distance as a major challenge for not going international as compared to geographic distance

### Implications of the Study

#### Tailored Internationalization Strategies for Different SME Sectors

Since software and machine tools SMEs perceive different challenges and benefits from internationalization, policymakers and business advisors should develop sector-specific support programs. Software SMEs may need greater assistance in overcoming technological and human resource-related challenges, while machine tools SMEs may require more support in dealing with economic and competitive pressures.

#### Addressing Red Tape and Corruption in Foreign Markets

Given that corruption and bureaucratic hurdles are universally perceived as major challenges, SMEs should be provided with better guidance on navigating these obstacles. Governments and trade associations should work on diplomatic efforts to create more transparent trade agreements and provide SMEs with legal and procedural support.

#### Enhancing Managerial Capabilities for Internationalization

The significant impact of managerial skills on internationalization highlights the need for targeted training programs. SMEs should invest in leadership development, market analysis, and international business strategy training to enhance their ability to assess demand and adapt products for foreign markets effectively.

**Re-evaluating the Role of Entry Modes in Internationalization Perceptions**  
Since entry modes do not significantly impact SMEs' perceived benefits and challenges in internationalization, businesses may have greater flexibility in choosing their expansion strategies. However, SMEs should focus on strategic alignment with their capabilities rather than assuming that a specific entry mode will automatically lead to greater success.

**Regional Market Characteristics and Perception Differences**  
SMEs should conduct in-depth research into regional market characteristics before expansion. While most environmental factors are perceived similarly across markets, factors like corruption and market growth potential vary. SMEs must integrate risk mitigation strategies into their internationalization plans to address these specific concerns.

#### **Policy Recommendations for SME Support**

Governments and international trade bodies should focus on simplifying regulatory processes, reducing bureaucratic inefficiencies, and enhancing market intelligence support for SMEs. Providing financial incentives, tax reliefs, or streamlined processes for SMEs entering foreign markets can significantly enhance their internationalization success.

#### **Encouraging Product and Service Adaptation for Global Competitiveness**

Since internationalization is seen as beneficial for profitability and brand image, SMEs should proactively invest in product adaptation and production efficiency improvements to remain competitive in international markets. This requires a combination of R&D investment and collaboration with foreign partners to align products with local preferences and regulatory requirements.

#### **Practical implications**

Advancements in information technology and enhancements in communication infrastructure have created significant opportunities for SMEs in both developing and developed countries to expand into global markets. Since the economic reforms of 1991, Indian SMEs have encountered heightened competitive pressures. Factors such as technological innovation, improved access to global supply chains, and better resource utilization have enabled SMEs to offer diverse products and services worldwide, operating around the clock. This paper highlights key factors influencing the internationalization of Indian SMEs and explores strategies to enhance their global competitiveness.

#### **Practical industry exposure**

##### **Software SMEs in Internationalization: Case of Indian IT Firms**

Indian software SMEs such as those in Bangalore and Hyderabad have successfully internationalized by leveraging their technological capabilities and skilled workforce. However, they often face challenges related to cultural adaptation and regulatory compliance when entering markets like the U.S. and Europe. This aligns with the study's findings that socio-cultural factors and human resource proficiencies play a crucial role in internationalization. To mitigate these challenges, firms like Infosys and TCS provide cross-cultural training and localized service offerings to cater to different markets.

##### **Machine Tools SMEs: German Mittelstand in Global Markets**

German Mittelstand firms (small and medium-sized machine tool manufacturers) have expanded successfully into markets like China and India. Unlike software SMEs, these firms face intense competition and economic pressures, which the study identifies as key concerns. To tackle this, companies like Trumpf and DMG Mori invest heavily in R&D and local manufacturing partnerships to overcome operational cost barriers and enhance market penetration.

### **Impact of Corruption and Red Tape: African and Middle Eastern Markets**

SMEs expanding into Africa and the Middle East often struggle with bureaucratic inefficiencies and corruption, as highlighted in the study. For example, Nigerian import-export businesses frequently report delays due to excessive red tape. Successful SMEs in these regions collaborate with local partners who have strong governmental relationships and employ compliance officers to navigate legal complexities.

### **Market Entry Mode Flexibility: Chinese SMEs in Southeast Asia**

Many Chinese SMEs in electronics and manufacturing have entered Southeast Asian markets without being significantly impacted by their entry mode choice, as the study suggests. Instead of focusing solely on entry modes, companies like Xiaomi and Huawei prioritize competitive pricing and localized marketing strategies to establish a strong foothold in these markets.

### **Regional Market Differences: Latin American SMEs in U.S. and Europe**

Latin American SMEs exporting agricultural products and textiles to the U.S. and Europe often experience similar internationalization challenges, such as regulatory compliance and cost management. However, the growth potential of their target markets plays a significant role in their expansion strategies. For example, Peruvian textile exporters focus on sustainability and eco-friendly practices to appeal to the European market's demand for ethical sourcing.

### **Internationalization for Profitability: Success of Scandinavian Design SMEs**

SMEs from Sweden and Denmark in the furniture and design industry (e.g., IKEA's early expansion) have used internationalization to enhance profitability and brand image. As the study finds, firms that strategically adapt their products for foreign markets tend to benefit more. Companies like HAY and Muuto emphasize minimalist Scandinavian design while tailoring their marketing approach for different consumer preferences worldwide.

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