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INTERNATIONALIZATION AS A “WORK-AROUND” STRATEGY: HOW GOING ABROAD CAN HELP SMES OVERCOME LOCAL CONSTRAINTS

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The economic environment and associated constraints have significant and unequal effects on Small and medium enterprises (SMEs). Constraints have been used, among other growth factors, to understand why some SMEs fail to grow while others foster. However, beyond knowing the effects or constraints, it is important entrepreneurs know how they can avoid constraints. The study provides an important contribution by showing that South-African SMEs that face constraints because of competition, government rules and regulations, financing gaps and corruption, can navigate away from these constraints by going international. The evidence shows a positive moderating effect of internationalization on the relationship between local constraints and SME growth. However, the results also reveal that lack of government support is a significant constraint to growth when SMEs export internationally.

Keywords: SME growth, constraints, internationalization, moderating effect, South Africa.

1. Introduction

Small and medium enterprises (SMEs) have a significant role in the economy. Therefore, governments around the world concentrate on the development of the small business

sector to endorse economic growth (Olawale and Garwe, 2010). SMEs are a major contributor to the creation of job opportunities; they improve the economy and promote the effective use of regional resources leading to the engineering of economic development and growth (Audretsch, 2004). Therefore, SMEs are an important source of jobs, and their entrepreneurial spirit and innovation are vital to promote competitiveness (Temtime and Pansiri, 2004; Wong et al., 2005). According to a report published by the Organization for Economic Cooperation and Development (OECD), SMEs produce around 25 percent of OECD exports and about 35 percent of Asia's exports (Abor and Quartey, 2010). In developing countries, SMEs represent more than 90 percent of private business and contribute over 50 percent toward the GDP of African countries (Abor and Quartey, 2010). Focusing on SME development in both Ghana and South Africa, Abor and Quartey (2010) estimated that SMEs contribute around 57 percent of the GDP and about 61 percent of employment in South Africa.

However, despite these key roles of SMEs, in many countries they face serious constraints, often resulting in firm failure. This effect seems to be even stronger in developing countries. According to Brink and Michael (2003), the failure rate of SMEs in South Africa is estimated between 70 and 80 percent. As a result of resource constraints, many SMEs do not achieve their full potential and are unable to grow, causing a reduction in jobs and wealth for the area in which they are based. Sha (2006) noted that to understand the failure rate among SMEs it is essential to study the factors required for their survival.

Although it is a known fact that particular constraints and the economic environment have significant and unequal effects on organizations in different industries and in different locations (Olawale and Garwe, 2010), what remains unclear is how SMEs can overcome particular constraints. At least one strategy to overcome or avoid local constraints is to focus on internationalization of the firm. By selecting more favorable environments, entrepreneurs might navigate away from the constraints they are facing. Therefore, the primary aim of this study is to examine empirically the moderating effect of international trading on the challenge of overcoming the growth constraints of SMEs in South Africa.

2. Theory and Hypotheses

2.1. Constraints, innovation and growth

Constraints to growth have been examined by researchers in an effort to understand the growth of SMEs and to investigate which type of SMEs is most likely to grow (Doern, 2009). However, the effects of constraints are contradictory (Van Burg et al., 2012; Weiss et al., 2014). Constraints can sometimes be considered opportunities, promoting innovation and risk taking, but this depends on the type of constraints involved (Van Burg et al., 2012). The psychological literature in particular argues that people are more creative when faced with constraints (Goldenberg et al., 2001; Moreau and Dahl, 2005). Similarly, SMEs appear to function more creatively in respect of generating earnings from any emerging opportunity while having limited resources to employ (Van Burg et al., 2012; Baker and

Nelson, 2005). However, the existing literature on the relationship between constraints and innovation is mostly characterized by the reporting of mixed results, leaving questions as to which constraints are most likely to give rise to innovative and imaginative problem-solving (Cunha *et al.*, 2014; Dolmans *et al.*, 2013; Senyard *et al.*, 2014), Dolmans *et al.* (2013) argue that when faced with the constraint of having lack of resources, firms are often driven to focus on innovation as a means of survival.

However, despite some potential positive effects, constraints are broadly defined as those factors that limit the growth chances of a firm with a desire to grow (Storey, 1994), with researchers having found evidence of the negative effect of constraints on SME growth (Bartlett and Bukvič, 2001; Doern, 2009; McCormick *et al.*, 1997; McGee, 1989; Smallbone and Wyer, 2000; Storey, 1994). A lack of resources can affect the performance and growth of SMEs in terms of limiting their capacity to expand, to employ the latest technologies, and to search for new ideas (Berger and Udell, 2006; Daniels, 2004; Dobbs and Hamilton, 2007; Gimede, 2004; Mukama and Fish, 2005). For instance, SMEs facing financial constraints are unable to employ the necessary staff, which limits their innovative capability and viability (Chittithaworn *et al.*, 2011; Hyytinen and Toivanen, 2005). Thus, the overall expected effect of constraints on SME growth is negative, but the existing literature lacks insight into when and how constraints can be avoided or mitigated. Therefore, this study explores the internationalization strategy as a way to overcome local constraints.

2.2. Internationalization as a strategy to overcome constraints

Entrepreneurs are not determined by the constraints they face because there are certain actions they can take to avoid or move away from such constraints (VanBurg *et al.*, 2012). One important strategy in enabling a firm to grow and avoid local constraints, is geographical expansion (Barringer and Greening, 1998). By exploring new markets, SMEs are able to reach more customers and focus on markets subject to fewer constraints. The geographic expansion strategy also allows SMEs to pursue new opportunities to leverage essential competences across a broader range of markets (Zahra *et al.*, 2000). However, the implementation of any such expansion strategy is linked to numerous challenges such as newness and liability of foreignness, in addition to the other common challenges associated with SME growth in general (Hymer, 1976). These challenges support the idea that exporting is an essential act of entrepreneurship because it is an approach taken in search of opportunities for growth and the exploration of new markets (Lumpkin and Dess, 1996; Zahra *et al.*, 1999). As such, firms that opt to pursue such a strategy may do so intentionally in an effort to avoid local constraints to growth.

The rapidly growing interest in the internationalization of SMEs has led researchers to focus on various aspects of SME export activities (Dichtl *et al.*, 1984; Shoham, 1998). Other scholars have expanded investigation beyond exporting to take into account more broadly the processes of internationalization (Coviello and McAuley, 1999). In general, studies have found that higher levels of international trading lead to higher growth rates; however, most of these results are based on empirical studies of large, highly internationalized firms

(Kim et al., 1993; McDougall and Oviatt, 1996; Tallman and Li, 1996). The effect of internationalization on SMEs has thus far been explored to a lesser extent.

Exporting has been identified as the first step in entering a new international market, serving as a platform strategy for any future international expansion. This strategy is applicable to SMEs in light of the local constraints faced in their sector and country (Dalli, 1995; Zahra et al., 1997). This strategy allows SMEs to access foreign markets and utilize opportunities to gain valuable international experience. Hashi and Krasniqi (2011) found that SMEs that engage in internationalization activities achieved higher growth rates. This leads to the following hypothesis.

Hypothesis 1: Internationalization is positively associated with SME growth. When SMEs export internationally, they achieve higher growth rates

2.3. Overcoming local constraints to SME growth

The study investigates how internationalization of the firm is considered a work-around strategy for the effects of five different types of constraints on SME growth in South Africa, namely strong competition, lack of government support, government regulations, the financing gap and corruption.

2.3.1. Competition

Soto-Acosta et al. (2013) define competition as the market environment within which business is conducted. There are different types of competition, as introduced by Ibidunni and Ogundele (2013). First, pure competition exists where every firm in the market industry sells comparable products. Second, monopolistic competition exists where several firms sell substitutable products. Third, oligopoly exists when a few firms control the bulk of the market. Fourth, pure monopoly exists where a single firm controls the selling of the main product in the market. Finally, multi-market competition exists where a number of firms compete against one another in different markets. Fair competition is a major part of any economic development, and the implementation of fair competition in developing countries would be to the benefit of SMEs in those countries (Ibidunni and Ogundele, 2013). Moreover, to survive and achieve growth, SMEs need to understand the dynamics of competition within their particular industry and subsequently find ways to develop and improve the skills and competencies that would ensure them a competitive advantage. When engaging in competition, firms seek a competitive advantage that will benefit the success and growth of the business (Poblete and Leon, 2010).

Competition drives firms to adopt good business strategies and employ new technologies to survive (Soto-Acosta et al., 2013). However, strong or unfair competition is negatively related to business growth in that it prevents expansion of businesses that are not privileged, because of the high costs of operation and expansion for these businesses (Krasniqi, 2007). Ibidunni and Ogundele (2013) found that competition exists in every industry and it can affect business in terms of reducing turnover and profits. Furthermore, they found that the majority of SMEs less than two years in operation fail to survive

because of their inability to stand up to their competition. A high level of competition reduces the opportunity for growth of new SMEs. In such a context of high or unfair competition, an SME can avoid these competitive pressures partially by selecting a market in which competition is lower or more fair. Moreover, an additional benefit of internationalization could be that exploring new markets enables SMEs to learn from foreign competitors and as such, they might also learn to deal with local constraints (Barringer and Greening, 1998; Zahra *et al.*, 2000). This leads to the following hypothesis:

Hypothesis 2: Internationalization is a moderator of the relationship between competition and SME growth. The negative effect of competition is reduced when SMEs export internationally.

2.3.2. Government support

Governments around the world have established agencies and institutions to support and assist SMEs (Naicker, 2006). With the overall objective being to create an enabling environment for SMEs development (Mahembe *et al.*, 2011). The establishment of a good relationship between government agencies and SMEs is one of the first steps in developing an environment within which SMEs are able to discover new opportunities and grow (Studer *et al.*, 2006). A stable, enabling environment and a supportive government are important factors in SME growth, and the absence thereof can constitute a major constraint (Madrid-guijarro *et al.*, 2009).

Some scholars also argue that underdeveloped, undeveloped and failed SMEs may be the result of a lack of government support (Madrid-Guijarro *et al.*, 2009; Mutula and Brakel, 2006; Okpara, 2011; Peters and Naicker, 2013; Studer *et al.*, 2006). Firms that lack appropriate government support and supportive regulations are constrained in their growth. Yet, here again, firms can opt for better environments; they can go abroad and select countries that actually have more supportive regulations. On a large scale, such behavior is visible in entrepreneurs opting for flourishing entrepreneurial zones like Silicon Valley. Also on a much smaller scale, this could be beneficial for firms. Barringer and Greening (1998) argue that internationalization is an important strategy in assisting a firm to avoid local constraints and grow. The effect of internationalization on avoiding lack of government support can be hypothesized as follows:

Hypothesis 3: Internationalization is a moderator of the relationship between the lack of government support and SME growth. The negative effect of the lack of government support is reduced when SMEs export internationally.

2.3.3. Government regulations

SMEs are a central part of any country’s economic policy; hence, the government in question may introduce any number of policies, rules and regulations applicable to SMEs in that country. However, these regulations can also have a constraining effect on SMEs, as argued by Mahadea and Pillay (2008). While SME-owners must conduct their own businesses and be their own bosses, the need to comply with government rules and

regulations erodes the SME's freedom of operation, making them subject to any number of laws and regulations that may be instituted by the government in question. Mahadea and Pillay (2008) also found that government regulations and taxation laws to be significant constraints to the development of SMEs, with industrial legislation and so-called "red-tape" forming part of this negative effect. Several past studies have identified the adverse effect of such government regulations on SME growth (Kozan et al., 2006; Mahadea and Pillay, 2008; Olawale and Garwe, 2010; Rankhumise and Rugimbana, 2010). Moreover, Krasniqi (2007) reported that the need to comply with government regulations results in increased costs for SMEs, thus constituting another major constraint to growth. Therefore, government rules and regulations can constrain SME growth. Also here, internationalization can be a way to avoid some of those rules and regulations. For instance, Lumpkin and Dess (1996); Zahra et al. (2000). suggest exporting as an essential act for SME-owners when they face local constraints. Therefore, the impact of internationalization in reducing the constraining effect of government regulations on SME growth can be hypothesized as follows:

Hypothesis 4: Internationalization is a moderator of the relationship between the government rules and regulations and SME growth. The negative effect of the government rules and regulations is reduced when SMEs export internationally.

2.3.4. Financing gap

Financial resources have been identified as one of the most important challenges faced by SMEs. Access to finance is a key factor governing the ability of SMEs to expand, grow and employ the latest technologies (Abor and Quartey, 2010; Krasniqi, 2007). Historically, SMEs have always faced challenges in terms of accessing loans and capital. Bolton (1971) outlines two issues underlying the financing gap for SMEs. First, the debt gap relates to a lack of awareness about the appropriate sources, advantages and disadvantages of finance; and second, the supply gap relates to the unavailability of financial resources or the higher cost of financing for SMEs than for larger enterprises. This study focuses on the supply gap, which is also referred to as the lack of access to finance.

Limited access to finance is a major constraint to SME growth, regardless of the location, size and industry, or the economic environment of the market (Hussain et al., 2006). Similarly, past studies have found the financing gap to be one of the greatest challenges hindering SME growth and expansion (Beck and Demirguc-Kunt, 2006; Beck, 2005; Hutchinson and Xavier, 2006; Mahadea and Pillay, 2008; Robson and Bennett, 2000). Financing gaps are the result of mismatches between supply and demand, and because all businesses require financial resources to start trading and to fund growth, any financing gap can be a major constraint to SME growth (Cassar, 2004). According to Fatoki (2011), the financing gap is a major problem for South African SMEs in particular because a lack of access to finance has been identified as the second biggest contributor in terms of slowing down the new SME creation process and increasing the failure rate, along with low levels of education and training. Concerning is the fact that only two percent of SMEs in South Africa are able to access bank loans (FinMark Trust, 2008). SMEs constrained by

lack of access to local financial resources, can, as a response, seek access to foreign financial institutions and resources. SMEs that trade internationally can increase the chance to access other foreign financial institutions. This leads to the following hypothesis:

Hypothesis 5: Internationalization is a moderator of the relationship between the financing gap and SME growth. The negative effect of the financing gap is reduced when SMEs export internationally.

2.3.5. Corruption

The current business environment in developing economies is, according to Krasniqi (2007), characterized mainly by an informal economy, corruption and a state of unfair competition, all of which hinder SME growth. Excessively restrictive regulations, for example, provide an incentive for entrepreneurs to seek ways of evading these regulations, resulting in the growth of what Krasniqi (2007) terms a “grey economy.” A state of corruption fuelled by high taxes, overly complex official regulations, an inadequate institutional environment and predatory behaviour on the part of government officials (in the form of seeking bribes from entrepreneurs even where there is full compliance with official regulations, for example) leads to increased expenditures on, and/or investment in security measures aimed at eliminating or at least minimizing the likelihood of crime.

According to Gaviria (2002), SMEs find themselves engaging in corruption in response to experiencing problems linked to regulatory compliance and bureaucracy. Cronje (2003) found that where SMEs must witness the weakening of their bargaining power, as many ultimately do, they find themselves unable to resist the apparent “solution” of agreeing to “under the table” payments. However, it was also found that approximately 70 percent of SMEs perceive corruption to be a constraint to their business. Although corruption can be found everywhere, SMEs can reduce the negative effect of corruption on growth by selecting other environments that are less corrupt or may have features that make it easier to deal with. From this review, the following hypothesis can be formulated:

Hypothesis 6: Internationalization is a positive moderator of the relationship between corruption and SME growth. The negative effect of the corruption is reduced when SMEs export internationally.

3. Methodology

The methodology employed in this study reflects the complex multi-dimensional nature of the factors influencing the growth of SMEs. A quantitative approach is applied in the research process to determine the factors affecting the growth of SMEs and the effect of internationalization in overcoming the relevant constraints.

3.1. Setting and sample

The population of the study consists of owners/managers of SMEs in the Western Cape Province of South Africa. SMEs are an important component of the economy in the

Western Cape and South Africa at large. There are varying estimates of the total size of the SMEs sector in South Africa; however, the estimates provided by the Labour Force Survey and the Global Entrepreneurship Monitor (GEM) are consistent (Roberts *et al.*, 2005). The GEM estimates there are approximately two million entrepreneurs in South Africa operating 1,19 million enterprises (Turton and Herrington, 2012). The Western Cape Government estimates that there are 336,000 entrepreneurs operating 190,000 SMEs, of which 100,000 are start-ups, 67,000 are new and 23,000 are established SMEs (Roberts *et al.*, 2005).

To ensure a high degree of reliability and validity, the study used a variety of sampling techniques in selecting the sample for the study. Within the Western Cape Province, a random sampling was applied to solicit responses from SMEs. The SMEs invited were selected on the basis of the firm qualifying as an SME in line with the South African National Small Business Act (NSBA), Act 102 of 1996 (as amended in 2003 and 2004). The data was collected by means of a questionnaire administered to the sample of SMEs. Of the total 1420 questionnaires that were distributed to three broadly defined industries in the autumn of 2013, 962 usable questionnaires were returned indicating a response rate of 67.7 percent.

3.2. Measurement

The literature on SMEs has used a range of variables to measure growth, but the most widely used measures are sales turnover and employment growth. Kozan *et al.* (2006) found a strong correlation between sales and employment growth. Also noticeable is the relationship between financial performance and employment growth. Employment growth is a more reliable and less volatile measure of growth than sales because owners/managers generally wait for demand to stabilize before recruiting personnel (Wiklund, 1999). In addition, reliable information on employment is easier to gather and less sensitive than financial data, making employment a widely used measure of growth (Barringer and Neubaum, 2005; Chaganti *et al.*, 2002; Davidsson *et al.*, 2002; Freel, 2004). Therefore, this study measures the growth of SMEs in terms of an increase in employment.

The study includes several control variables that may affect SME growth. Some researchers suggest that owner/manager demographic characteristics might affect SME growth (Dobbs and Hamilton, 2007; Onuorah, 2009; Welter, 2006). The study includes three control variables that reflect the demographic characteristics of owners/managers: gender, age and education level. There are five age groups and five levels of education, ranging from primary school up to post-graduate level. Moreover, the firms characteristics in terms of age, size and industry are also important predictors of SME growth (Delmar *et al.*, 2003; Dobbs and Hamilton, 2007) and are therefore included as control variables. SME size is measured according to the NSBA (Act 102 of 1996) (as amended in 2003 and 2004) (Parliament of the Republic of South Africa 1996), with enterprises falling into the category of micro, very small, small or medium enterprises. SME age is measure by the number of years the firm has been in existence until 2013. In terms of the control variable

of industry, three dummy variables reflecting the respective industry of the firms, namely manufacturing, trading or service.

Regarding the predictors, the effect of internationalization is measured in terms of the respondents estimation of the level of exporting activities in their business growth. The constraint variables are measured in terms of the respondents estimation of the effect of these variables on business growth.

4. Analysis and Results

Table 1 presents the descriptive statistics and correlations of the variables of the study. The results show that the most significant correlation between the growth of SMEs and the independent variables is for internationalization. The second most significant correlation is SME size, followed by education. The results also show there is a major negative correlation between the financing gap and SME growth.

4.1. Constraints to SME growth

The relationship between the independent variables and SME growth was investigated using linear regression analysis. Preliminary investigations were done to avoid any violation of the assumptions of normality, linearity and homoscedasticity. The greatest variance inflation factor (VIF) of each independent variable is less than 2.70, which is below the rule-of-thumb cut-off of 10 (Hair *et al.*, 2009). Table 2 shows the results of the regression analysis and identifies the models used to test the hypotheses. Model 1 contains the control variables and shows a positive significant association between SME size and growth. The level of education of the owner/manager is also a significant predictor of SME growth, while the trading sector has a negative association with SME growth.

Model 2 adds the predictor variables and shows the negative effect of competition on growth ($-0.117, p < 0.001$). This provides support that higher competitive pressure has a negative effect on SME growth. The effect of lack of government support on SME growth was also examined in model 2; the result reveals that lack of government support has no significant coefficient, indicating that a lack of government support has no effect on SME growth. Consequently, there is no support for the negative effect of lack of government support on SME growth. The results also show a negative coefficient of ($-0.062, p < 0.050$) for government rules and regulations on SME growth, indicating that government rules and regulations have a negative effect on SME growth. There was a significant relationship found between the financing gap and growth ($-0.293, p < 0.001$). The negative coefficient indicates a negative effect of financing gap on growth. The results for the examining the effect of corruption on growth reveal that there was a negative effect of corruption on growth ($-0.115, p < 0.001$).

The results of model 2 also show a significant positive coefficient of ($0.338, p < 0.001$) for internationalization. This finding is in line with hypothesis 1, which predicts that internationalization is positively associated with SME growth. SMEs trade internationally,

Table 1. Descriptive statistics and correlations.

	Mean	Std.	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Growth in term of employees in-creased	2.632	0.598	962	1													
Gender	1.246	0.431	962	0.038	1												
Age	3.099	0.835	962	-0.059	-0.096**	1											
Education	3.955	0.870	962	0.254**	0.065*	-0.089**	1										
Business size	2.806	0.691	962	0.360**	-0.031	0.032	0.006	1									
Business Age	7.481	3.949	962	0.033	-0.024	-0.020	0.044	0.027	1								
Manufacturing	1.359	0.480	962	0.021	-0.025	0.008	-0.131**	0.098**	-0.021	1							
Trading	1.353	0.478	962	-0.167**	-0.024	0.063	-0.214**	0.079*	-0.005	0.150**	1						
Services	1.650	0.477	962	0.059	0.046	-0.064*	0.135*	0.090**	-0.010	-0.305**	0.305**	1					
Internationalization	2.960	1.092	962	0.363**	-0.032	-0.065*	0.106**	0.311**	0.021	0.140*	0.090**	-0.035	1				
Financing gap	1.017	0.128	962	-0.219**	0.039	-0.054	0.044	-0.058	0.005	-0.046	0.091**	-0.041	0.087**	1			
Constraint: Competition	1.162	0.369	962	-0.127**	0.030	0.056	0.000	-0.068*	0.000	-0.058	0.035	0.057	-0.093**	0.009	1		
Constraint: Corruption	1.506	0.493	962	0.078*	-0.069*	0.036	-0.181**	0.292**	-0.009	0.081*	0.178**	0.010	0.377**	-0.133**	-0.228**	1	
Constraint: Lack of government support	1.839	0.355	962	0.105**	-0.014	-0.046	0.005	0.146**	0.042	0.064*	-0.057	-0.021	0.315**	0.059	-0.068*	0.207**	1
Constraint: Government regulations	1.847	0.357	962	0.107**	-0.025	-0.026	-0.048	0.172**	.027	0.135**	0.030	-0.052	0.275**	-0.172**	-0.220**	0.377**	0.352**

** Correlation is significant at the 0.01 level (2-tailed); *Correlation is significant at the 0.05 level (2-tailed).

Table 2. Regression analysis of predicting SME growth.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
(Constant)	1.497***	1.812***	1.746***	2.000***	1.814***	1.815***	1.814***
Gender	0.031	0.043	0.043	0.040	0.040	0.041	0.041
Age	-0.042	-0.027	-0.026	-0.019	-0.019	-0.020	-0.020
Education	0.220***	0.179***	0.181***	0.173***	0.184***	0.183***	0.183***
Business size	0.376***	0.293***	0.299***	0.301***	0.301***	0.307***	0.307***
Business Age	0.012	0.010	0.013	0.013	0.014	0.013	0.013
Manufacturing	0.024	-0.031	-0.037	-0.030	-0.034	-0.037	-0.037
Trading	-0.166***	-0.124***	-0.116***	-0.112***	-0.112***	-0.113***	-0.113***
Services	-0.052	-0.036	-0.037	-0.030	-0.034	-0.042	-0.042
Internationalization		0.338***	0.333***	0.330***	0.328***	0.338***	0.338***
Constraint: Competition		-0.117***	-0.107***	-0.129***	-0.114***	-0.116***	-0.116***
Constraint: Lack of government support		0.003	0.011	-0.047	-0.052	-0.052	-0.052
Constraint: Government regulations		-0.062*	-0.060*	-0.078*	-0.028	-0.032	-0.032
Constraint: Financing gap		-0.293***	-0.294***	-0.292***	-0.272***	-0.343***	-0.344***
Constraint: Corruption		-0.115***	-0.116***	-0.108**	-0.104**	-0.102**	-0.101**
Internationalization*Competition			0.062*	0.042	0.061*	0.061*	0.060*
Internationalization*Lack of government support				-0.126**	-0.154***	-0.158***	-0.157***
Internationalization*Government regulations					0.105**	0.108**	0.109**
Internationalization*Financing gap						0.091*	0.091*
Internationalization*Corruption							-0.004
R	0.470	0.607	0.610	0.619	0.624	0.627	0.627
R square	0.221	0.368	0.372	0.383	0.390	0.393	0.393
Adjusted R square	0.214	0.359	0.362	0.372	0.379	0.381	0.381
F	33.728***	39.430***	37.326***	36.654***	35.483***	33.918***	32.100***
N	953	947	946	945	944	943	942

***p < 0.001; **p < 0.010; *p < 0.050

achieve positive growth rates. Accordingly, internationalization could be a moderator of the negative effect of local constraints on SME growth.

4.2. *The moderation effect of internationalization*

A regression analysis was performed to assess whether internationalization is a positive moderator of the relationship between local constraints and SME growth. Prior to forming a product term to represent an interaction between internationalization and constraints variables, the moderator and constraint variables were centered by subtracting the sample mean. The purpose of centering is to reduce the potential problem of multi-collinearity (Aiken and West, 1991).

Models 3 to 7 examine the interaction effect between the constraints to growth and internationalization. The moderating effect of internationalization was tested by examining the interaction term between constraints to growth and internationalization. The results show an increase in model fit following the inclusion of the product terms of the internationalization variable. Hypotheses 2 to 6 predict that internationalization is a positive moderator of the relationship between constraints to growth (competition, lack of government support, government rules and regulations, financing gap and corruption) and SME growth. The negative effect of these constraints on growth is reduced when SMEs export internationally, thus confirming the basic prediction that internationalization is a way to overcome local constraints.

Model 3 shows a positive effect (0.062, $p < 0.050$) of the interaction term of competition and internationalization, which implies that the relationship between competition and SME growth is significantly changed by the effect of internationalization as a moderator. This supports hypothesis 2, which predicts that internationalization is a positive moderator of the relationship between competition and SME growth.

The main effect of a lack of government support is not a significant predictor for SME growth, as shown in model 2. However; model 4 tests the product term of internationalization and lack of government support, showing that in this model lack of government support has a significant negative effect on SME growth. The effect of a lack of government support is more negative when firms are trading internationally, meaning that lack of government support is in fact a constraint to SME growth. Hypothesis 3, predicting that internationalization is a positive moderator of the relationship between lack of government support and SME growth, is not supported by the evidence.

As depicted in model 5, there is a significant positive effect from the interaction between internationalization and government rules and regulations (0.105, $p < 0.010$). Hypothesis 4, predicting that internationalization is a positive moderator of the relationship between government rules and regulations and SME growth, is thus supported by the study's analysis.

Model 6 shows that the effect of the financing gap has changed significantly (0.091, $p < 0.050$) when considering the moderating effect of internationalization. This supports hypothesis 5, predicting that internationalization is a positive moderator of the relationship between the financing gap and SME growth. Hypothesis 6 predicts that

internationalization is a positive moderator of the relationship between corruption and SME growth. However, model 7 shows no significant relationship between the product term of internationalization and corruption and SME growth. Furthermore, the model fit is not improved by adding the product term of internationalization and corruption, meaning that this term has no effect on SME growth. Thus, there is no support for the hypothesized moderating effect of internationalization on the relationship between corruption and SME growth.

To visualize the nature of the product term interactions, a regression analysis was done after the dataset was split into two groups according to the internationalization level. The overall model fit for the two levels of internationalization is statistically significant.

Within the group classified as having a low level of internationalization, the variables of financing gap, competition and government regulations are the most significant negative predictors of SME growth. These variables have a more negative effect on SME growth when the level of internationalization is low. Corruption and lack of government support are not significant predictors of SME growth at this level. Within the group classified as having a high level of internationalization, the variables of financing gap, competition, lack of government support and government regulations are significant predictors of SME growth. The most important and significant constraint to growth at this level is lack of government supports.

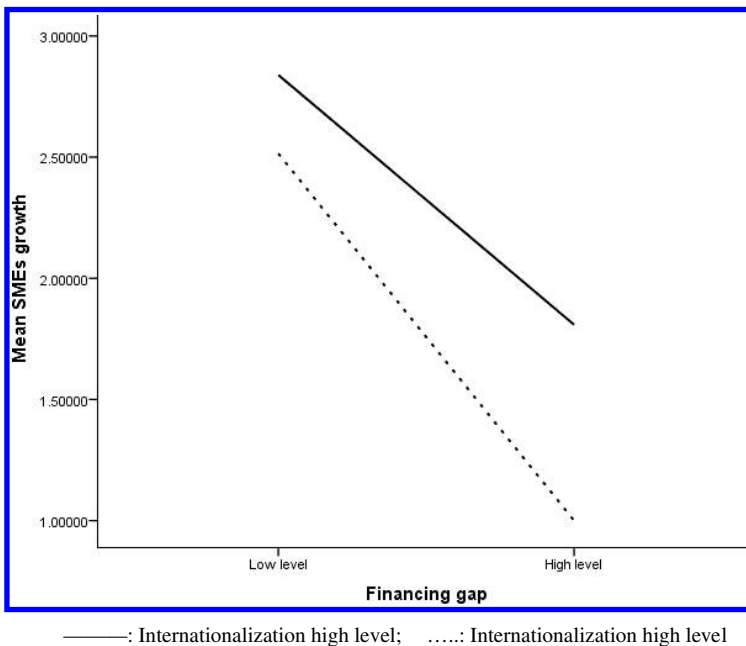


Fig. 1. The moderating effect of internationalization on relationship between financing gap and SME growth.

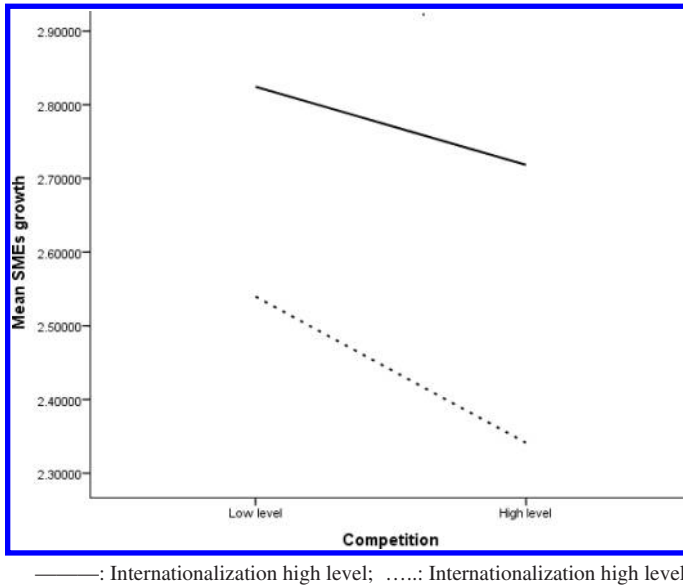


Fig. 2. The moderating effect of internationalization on relationship between competition and SME growth.

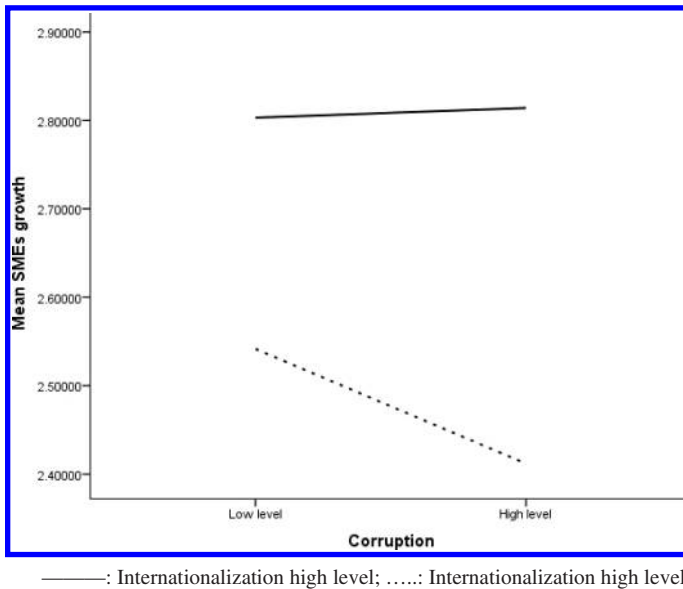
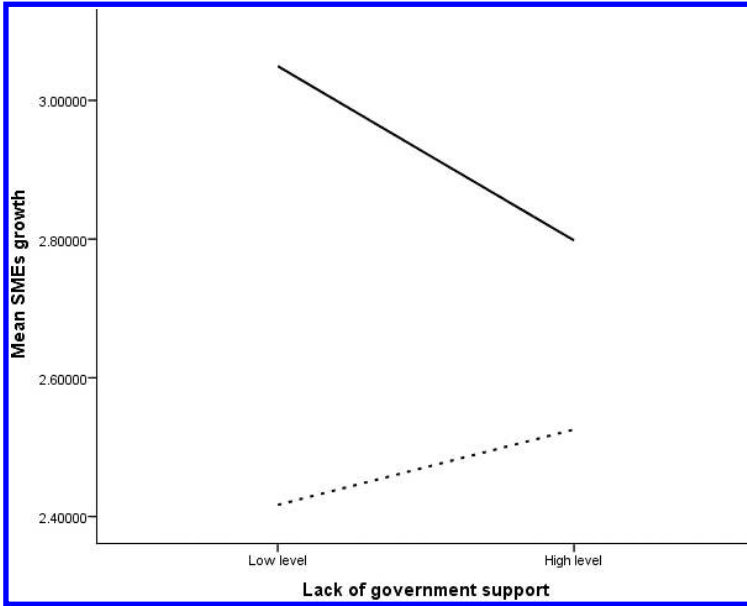
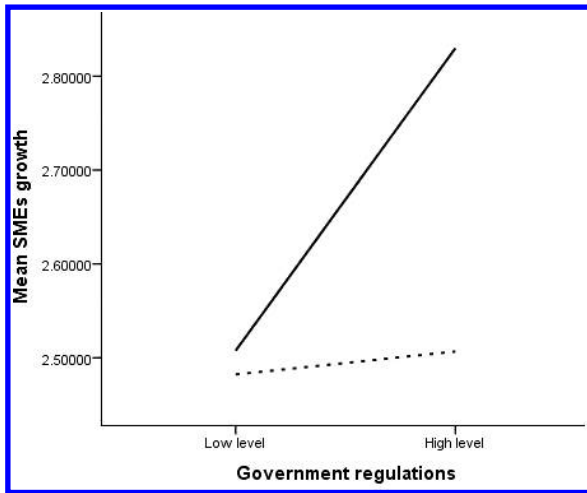


Fig. 3. The moderating effect of internationalization on relationship between corruption and SME growth.



——: Internationalization high level;: Internationalization low level

Fig. 4. The moderating effect of internationalization on relationship between lack of government support and SME growth.



——: Internationalization high level;: Internationalization low level

Fig. 5. The moderating effect of internationalization on relationship between government regulations and SME growth.

The regression prediction lines for the effect of the internationalization levels concerned are displayed in Figs. 1 to 5. As shown in Fig. 1, the highest growth rates are achieved at higher levels of internationalization, with lower levels of perceived financing gaps. With increasing internationalization SMEs become more efficient in overcoming the financing gap constraint. Figure 2 shows that at a low level of internationalization, competition is a significant constraint to growth, while a higher level of internationalization serves to reduce the effect of competition on growth. Similarly, as shown in Fig. 3, with low level of internationalization, the highest level of SME growth can be achieved at a low level corruption. In other words, corruption is a significant constraint to SME growth at low levels of internationalization. In contrast, corruption has no significant effect on SME growth at high levels of internationalization. Figure 4 shows that at high levels of internationalization, with high level of lack of government support SME achieves lower growth. Figure 5 shows that government regulations have a significant negative effect on SME growth at low levels of internationalization; as the level of internationalization increases, the negative effect of government regulations is reduced.

The above results suggest that at low levels of internationalization, SMEs suffer the negative effects of constraints and are unable to achieve high growth rates, while the higher the level of internationalization, the more SMEs are able to overcome the constraints and achieve higher growth rates.

5. Discussion

Constraints have been used, among other growth factors, to understand why some SMEs fail to grow. However, the findings of past studies on the effects of constraints on innovation and SME growth are contradictory (Van Burg et al., 2012; Weiss et al., 2014). This study focuses on the effect of five types of constraints on SME growth in South Africa: competition, lack of government support, government rules and regulations, the financing gap and corruption. Subsequently, internationalization of the firm is considered as a potential way to avoid, reduce or mitigate these constraints. Building on internationalization, constraints and performance theories, the study generates a range of hypotheses predicting how constraints may affect SME growth.

There is evidence that competition, government rules and regulations, the financing gap and corruption are important constraints to SME growth in South Africa, while a lack of government support is not a direct constraint to SME growth. These findings are consistent with the theoretical framework, which defines local constraints as factors that limit the chances of growth for firms seeking to grow (Gibbert et al., 2014; Storey, 1994). Linking these findings with the existing literature on relevant constraints, this study supports the idea that the constraints experienced by SMEs have a negative effect on their growth.

Previous studies have suggested that internationalization has a positive effect on SME growth (Hashi and Krasniqi, 2011; Kim et al., 1993; McDougall and Oviatt, 1996; Tallman and Li, 1996), but the mechanism through which internationalization may have a positive effect was not always clear. There is evidence that SMEs engaging in internationalization activities are more growth-oriented when they export internationally. In this

study, we propose another mechanism, which is particularly relevant to developing economies characterized by many constraints. We propose that SMEs can internationalize to overcome local constraints. Although this might not be an explicit reason to internationalize, implicitly this mechanism might be at work. To understand how internationalization helps SMEs overcome local constraints and achieve high growth rates, the study tested the moderating effect of internationalization on the relationship between the five types of constraints identified above and SME growth. The study provides evidence supporting the moderating effect of internationalization on the relationship between local constraints and SME growth.

The results also reveal that a lack of government support is a serious constraint to growth when SMEs export internationally. This result is consistent with the existing literature on the negative effect of a lack of government support on SME growth. However, contrary to the hypothesis in this regard, internationalization does not moderate the relationship between lack of government support and SME growth. This can be attributed to the important role to be played by the government in supporting export activities and foreign trade. The government should be concerned with mutual agreements and the establishments of good relationships with other countries to eliminate trade restrictions and facilitate export internationally to create an enabling environment for SMEs to grow. The failure of government to play its role in this respect severely impedes SME growth.

Similarly, the analysis also reveals that the negative effect of corruption on SME growth is not moderated by internationalization. Evidently, corruption is also a constraint to SME growth in South Africa and has an impact on those who export to foreign markets. Gaviria (2002) argued that government regulations are intentionally used to maximize corruption. Thus, the reason the negative effect of corruption on SME growth is not moderated by internationalization might be related to problems with government regulations compliance. When SMEs go international, they overcome the effect of local government regulations, but they could suffer regulatory compliance in another country, which increases the level of corruption. According to Hindess (2005) and Lee and Oh (2007), corruption can be found everywhere.

5.1. Implications for practice

These results imply that internationalization can play a positive role in SME growth, particularly for SMEs that experience constraints within their respective local markets. Awareness of the fact that exploring international markets can help SMEs to grow provides a route to navigate away from difficult and structural local constraints. The study also suggests that governments should provide increasing support to SMEs, particularly those seeking to trade on international markets.

The study, on the basis of theoretical and empirical results also provides important insights for both policymakers and SMEs. Policymakers must be aware that complicated regulations negatively affect SMEs and create environment, which increases the levels of corruption. Governments should simplify the legislations governing SMEs, in particular those related to international trading. SMEs must also be aware of the legislations and

trade restrictions in foreign countries, thus these are serious constraints facing SMEs when trading internationally. Furthermore, governments must establish mutual agreements with other countries to eliminate the effect of legislations and trade restrictions in foreign countries on SMEs; thereby allowing SMEs to find a healthy environment in which to grow.

5.2. Limitations and future research

This study is not without its limitations. First, the study is based on the situation in the Western Cape Province of South Africa. In a South African context, the two-tiered economy in the Western Cape is perceived to be a “developed” economy as opposed to the economies of other developing African countries. Further studies could be conducted in other countries or future South African studies could include samples from other provinces to compare the results. Second, because this study only provides a measurement at a single moment in time, it does not allow for any causal and longitudinal effects to be established. However, the current study’s sample size is favorable in comparison to other recent studies and thus, provides extended validity Naldi and Davidsson (2013); Wu et al. (2012). Studies applying longitudinal designs are needed in future to establish the causality of the relationships found in this study.

6. Conclusion

This study provides evidence for the expected moderating effect of internationalization on the relationship between some important growth constraints such as competition, government rules and regulations and the financing gap. The results also show that internationalization is not a moderator for the relationship between corruption and SME growth. This study makes an important contribution in that internationalization is shown to provide a way to overcome or mitigate local constraints in countries that exhibit constraints to SME growth. The negative effect of competition, government rules and regulations and the financing gap is reduced when SMEs export internationally. The higher the level of internationalization, the more SMEs are able to overcome local constraints and achieve high growth rates. As such, this is an important finding that adds to the existing studies on the role of constraints as well as the existing literature on entrepreneurship in developing economies. The economic environment and associated constraints have significant and unequal effects on SMEs. Constraints have been used, among other growth factors, to understand why some SMEs fail to grow while others prosper.

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