

Application of HRM's Universal Model: an Examination of People vs Institutions as Barriers of Internationalization for SMEs in a Small Developing Country

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Executive Summary

Although the importance of people and institutions has been highlighted in MNE studies, the association between people, institutions and the internationalization of SMEs is under explored from a small developing country context. We examine theories subsumed under the Universal Model of HRM onto SMEs to study the hypothesized people and institutionally-orientated barriers posed to SMEs' internationalization. Using quantitative analysis, the impacts of the barriers on internationalization are highlighted with particular attention to employer attractiveness. Following extant literature review, this study has used primary data collected through questionnaires from 212 Bangladeshi SMEs. We developed and validated partial least square based structural equation model (PLS-SEM) to assess the impacts and successfully framed People versus Institutional barriers as a second order hierarchical reflective model which has not been done previously. Given their marginal significance over institutions, people-oriented cultural barriers should be included as an extension of the Universal Model to study SME internationalization.

Keywords: Universal Model, SMEs, people, emerging economies, internationalization, barriers

Introduction

For decades, researchers have witnessed significant developments in the fields of International Business, Human Resource Management (HRM)/Organizational Behaviour (OB) and small business. The important contribution of SMEs toward the economies of emerging countries has been categorized as twofold; firstly, that there is a growing number of SMEs and secondly they have registered positively significant effects “on developing national economies” (Steinerowska-Streb & Steiner, 2014, p. 375). Despite their important contributions to small developing countries such as Bangladesh’s garments’ industry’s heavy reliance on the international market, these economies are underrepresented in the internationalization literature (Williams et al., 2014). This calls for further developments, which has partly triggered the growing attention on the entrepreneurship activities of SMEs from an emerging country perspective. However, this needs further development and investigation (Alon & Rottig, 2013 Adomako et al., 2016).

Despite the three scientific disciplines’ individual contributions to society and organizations, the combined aspects of people, institutions/institutionalism and internationalization have been long overlooked. Institutional differences between countries are similarly important as these increase uncertainty and complexity in today’s highly competitive international business environment (Liu & Vrontis, 2017, p. 255). Despite their constraints and significance, it is claimed that location provides firms with exploitation opportunities (Zoogah & Mburu, 2015). Recent developments in institutional theory have attempted to include linkages between HRM practices and performance with a degree of legitimacy (Gruman & Saks, 2011; Saridakis et al., 2017). Other studies highlighted the influence of technological advancements on the future of HRM and on people’s behaviours at work although some challenges are still posed by technological change (Stone & Deadrick, 2015), employee engagement and entrepreneurial

commitment and performance (von Bonsdorff et al., 2015). Some scholars have examined the role of transformational leadership and trust (Top et al., 2015), the role of HRM practices in BRICS countries (Budhwar et al., 2017), cross boundary or cross-border teams/team-working (Edmondson & Harvey, 2017; Jimenez et al., 2017; Goerzen, 2017). However, these institutional sets of activities have been explored in isolation in such disciplines as International HRM, Organizational Behaviour and Entrepreneurship in large and small firms. Recent developments in the internationalization of firms include attempts to understand herding behaviour in Pakistan (Shah et al., 2017), market entry barriers (Rahman et al., 2017), macro-economic risks in developing countries (Kola & Kodongo, 2017), export processing and growth (Quaicoe et al., 2017). Although most recent small business research efforts have highlighted the importance of institutional frameworks in explaining differences within the cross-country informal sector (Williams & Horodonic, 2016), complex issues related to family influences on the performance of SMEs (Lwango et al., 2017) and leadership and firm performance in the growth of entrepreneurial activities in China (Zhou et al., 2017) are still under-explored areas.

Some studies have revealed that there are significant variations between developed and developing countries in terms of institutional settings and practices. Therefore, the barriers of internationalization could be very different particularly from a People and Institutions point of view. Based on the institutional theory developed by North (1990), Scott (1995) and Peng et al. (2008) it was stated that strategic choices such as export decisions are not just driven by industry conditions and firm capabilities, but also by formal and informal institutional constraints. The urbanization faced by MNCs and managers have also been accounted for as part of the behavioural barriers to internationalization (Estrin et al., 2017; Muellner et al., 2017).

Yet still, the combined area of the internationalization of small businesses, people and HRM systems and practices and their application to study barriers to entrepreneurial and internationalization activities has been under-represented and under-studied in the literature. Studies that have focused on the potential contribution of an entire set of HRM ‘bundles’ as part of institutional theory to facilitate business and entrepreneurial behavioural sense-making have been few and far-in-between. We ask the research question ‘what are the people and institutional barriers in entering foreign markets for Bangladeshi SMEs?’ Some scholars have mapped out the evolutionary journey that HRM has witnessed over the decades and the contribution of strategy (Ulrich & Dulebohn, 2015). Others have identified and discussed the potential impacts of technology on HRM practices (Stone & Deadrick, 2015) and the way organizations manage talent either in SMEs (Krishnan & Scullion, 2017) or large MNCs (Morley et al., 2015; Festing et al., 2013). Although most studies in this area focus predominantly on MNCs there is a need to highlight what has been happening in SMEs and entrepreneurship studies. There has also been an under-representation of HRM practices (Pfeffer, 1995) to see whether their much acclaimed ‘High Performance Work Systems’ contribute to their objectives or not (Huselid et al., 1997). The debate as to whether these High Performance Work Systems as an HRM bundle of practices has obtained some legitimate socially-constructed reality amongst academics and businesses is under-studied, under-researched and a grey area. It is therefore opportune and timely to combine institutional theory from an HRM perspective and the internationalization of SMEs in a developing and emerging market context. The combination of these theories is subsumed under the Universal Theory of HRM, examined hereunder to see what they could contribute. The structure of the paper subsequently examines literature subsumed under the Universal Theory, a conceptual model development, followed by research methodology, findings, discussions and conclusions. The study’s limitations and future research directions are also identified.

Literature Review

Universal Theory of HRM

Some HRM scholars propound that there is a universal set of practices that could be applied to organizational and business/entrepreneurial activity such that their shared acceptance becomes a social reality over time (become institutionalized) and applicable in any context. In essence, the Universal Model suggests that HRM has a number of practices that is considered ‘best’ in delivering the ‘best’ possible forms of success in business performance or other indicators (Brewster, 1999; Huselid, 1995). The focus of proponents of the model such as Pfeffer (1995), amongst others, is the internal operationalization of the practices rather than on the internationalization of a business’s activities. They consider ‘fit’ or congruence between a range of the HRM logics and mechanisms whose perfect linkages will strengthen each other and be organizationally beneficial (Delaney & Huselid, 1996; Ichniowski et al., 1997; Huselid et al., 1997). The extent to which the alignment of the Universal Model of HRM practices to the internalization of SMEs, entrepreneurial activity and institutional frameworks especially from a developing country perspective has been studied remains an under-explored area.

The debate on what constitutes the universal set of practices is as polarised as the field itself. The question that still remains unresolved from researchers and practitioners’ perspectives is ‘what are the HRM/people management bundles that could be deemed to deliver best entrepreneurial results?’ ‘Is it in the ‘best’ interest of the entrepreneur, the employees/people, the institutional framework or the society that people and business organizations are managed using one universal set of HRM logics and practices? Researchers have focused on the extent to which the application of this institutional model can have a positive impact on organizations (Boxall & Purcell, 2003; Gerhart, 2005). Most studies focus on activities such as training and its impact on profits or turnover (Guzzo, Jette & Katzell, 1985; Gerhart & Milkovich, 1992; Harter et al., 2002; Koy, 2001). Other studies have shown that a combination of HR activities

(e.g. recruitment, selection, training and development) referred to as ‘High Performance Work Practices’ (HPWPs) (Huselid, 1995; Becker & Huselid, 2006) do have positive impacts on business activity. The question of how such activities actually work in practice is not addressed by proponents of the HRM bundle of institutional logics (Becker & Huselid, 2006; Bowen & Ostroff, 2004).

Firstly, such a ‘bundle’ includes a number of aspects that focuses primarily on human resources (the people). It is posited that these would help the organization and their members socially construct and over time improve on the delivery of core functions such as the *selective hiring*, talent management and retention of staff, their extensive professional and competency *training and development* as well as their performance (Boxall, 1996; Horgan & Muhlau, 2005; Marchington & Grugulis 2000; Dolan, Mach & Olivera, 2005). It is perceived that selecting the right people and applying appropriate internal flexible working practices (Phillips, 1996; Foot & Hook, 1999) will help heighten performance. Secondly, once the required employees are hired, ‘best’ HRM practices that are socially believed to boost staff morale, performance and career development (Paul & Anantharaman, 2003) are encouraged. Various forms of (re-)organizing work processes and procedures and incentivising people using monetary and non-monetary *compensation and reward* mechanisms are used where they are considered socially desirable (Patterson et al., 1997). Examples include job evaluation, performance-related-pay (or PRP) linked to staff output and employee/people-employer/entrepreneur-objectives (Perkins & White, 2011; Armstrong, 2010; 2015) and payment-by-results (or PBR) to help boost the organization’s financial standing (Van Wanrooy et al., 2013; Perkins & White, 2011). Over time, appraising people’s performance (Koch & McGrath, 1996; Pfeffer, 1995) has shifted away from the adoption of a standardized job evaluation method to a more consensual, although sometimes paradoxical set of employee and employer objectives (Marsden & Dickinson, 2010). This questions the universal institutional model of HRM and its application

in a developing country. Although much has been written about PRP and its benefits in managing and enhancing individual and organizational performance, conflicting perspectives still remain (Gerhart & Fang, 2014). The expected results are, at best, illusory (Marsden, *ibid*) partly as a result of (the lack of) higher-level commitment (Perkins & White, 2011) and what work-life balance might mean to people (Heywood et al., 2010).

Other aspects under contention include areas such as employment security, equality, team-work ethics and the extent of their application (Du & Choi, 2010; Jimenez et al., 2017; Goerzen, 2017). However, these HRM aspects are yet to be tested in the context of the internationalization of SMEs from developing countries. The extent to which people are committed, participate and are engaged in institutional practices also stands to question. Although Ostroff and Schmitt, (1993) and Rogers and Wright (1998) have posited about the effectiveness of institutionalized HRM practices on the achievement of core business objectives the extent to which the enterprise is adopting training, development and talent management practices to enhance further personal and collective business development (Phillips, 1996) and innovate services and products (Guest, 2001) is still open to debate (Moynihan & Allen, 2004). The problems highlight the need to focus on barriers caused to businesses that seek to internationalize. Such need becomes more acute in a small developing context like Bangladesh's given the resource constraints. Based on the literature we developed 2 main hypotheses with 8 supporting hypotheses (see next section). We also considered theoretical aspects, whose activities are subsumed under the Universal Model of HRM to see what the implications of doing so might be on SMEs' successes. We use empirical evidence to test the 8 supporting hypotheses to see the extent to which benefits attributed to universal theory by its proponents are applicable within an internationalization and small developing country context.

Conceptual Model and Hypotheses Development

Based on the extant literature used to identify the people and institutional barriers in entering in foreign markets (see below), this study proposes the following research model (Figure 1).

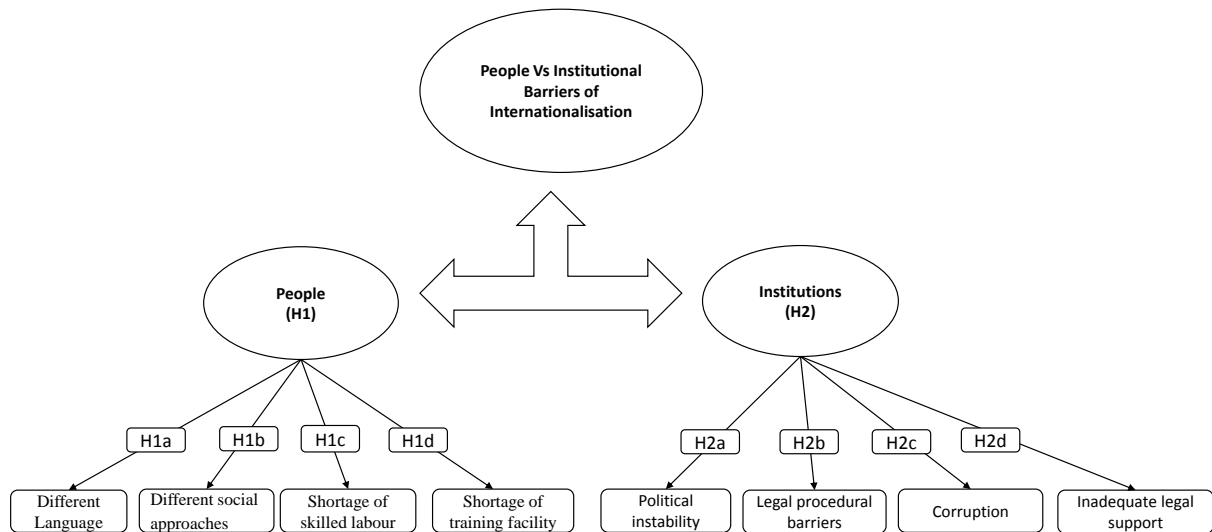


Figure 1: Hypothesis on the People Vs Institutional barriers of internationalization for SMEs in an emerging economy

In Figure 1, there are 2 main hypotheses with 8 supporting hypotheses that are formed based on the factors found in literatures on the internationalization of SMEs. Out of the 8 supporting hypotheses, 4 hypotheses are related to People and the remaining 4 are related to Institutions as SMEs in a developing country seek to enter in foreign markets.

It is propounded by institutional theorists that HRM practices should be viewed as part of a set of organizational business activities, policies and procedures. The latter gain some degree of currency and acceptance via the way they become accepted by social participants. Language is a vehicle through which social actors legitimise their behaviours, their attitudes, their ways of doing things or their socially-accepted norms and value systems in the tradition of Berger and Luckman (1967). However, Meyer and Rowan (1977, p. 341) go a step further by considering ‘institutionalism’ as part of people’s actions that, over time, “take on a rule-like status in social

thought". When this happens, there is an implicit assumption that such socially-constructed reality (Oliver, 1997) becomes, in essence, a shared approach to culture (Okpara & Kabongo 2010). The debate and discussions regarding the extent to which HRM practices become universally accepted as the social norm especially in SMEs seeking to overcome barriers related to internationalizing their businesses is by no means a closed reality.

On the basis of the above discussions and argument, the following hypotheses are proposed for this research:

H1a. Language difference as a factor of people-oriented barriers and internationalization of SMEs will not be independent from one another.

H1b. A different social approach as a factor of people-oriented barriers and internationalization of SMEs will not be independent from one another.

Skill is the ability or capacity to do something and has been noted for the success of businesses particularly SMEs (Jasra et al., 2011). Though skill can be required anywhere due to institutional conditions, educational facilities vary worldwide. Developing countries may have insufficient educational facilities to facilitate skilled labour and global competitive advantage as compared to larger firms' capability to buy skilled labour (Roza, Bosch & Volberda 2011). Besides, this resource limitation may also restrict SMEs to carry on the organizational staff development schemes (Tseng & Yu, 1991) thereby posing barriers to SMEs internationalization process (Hadjimanolis, 1999). In contrast, some other studies neither take into account shortage of skilled labour nor the shortage of training facilities (Okpara & Kabongo, 2010). Considering the important linkage between shortage of skilled labour and training facilities with social (and cultural) barriers of internationalization, this study proposes shortage of skilled labour and training facilities as functions of socially and culturally constructed barriers of internationalization in the context of developing countries' SMEs. In the light of the above, the following hypotheses are proposed:

H1c: Shortage of skilled labour as a factor of people-oriented barriers and internationalization of SMEs will not be independent of each other.

H1d: Shortage of training facility as a factor of people-oriented barriers and internationalization of SMEs will not be independent of each other.

It is also purported in the literature that politics has the ability to hinder HRM, its practices, policies and procedures. Such policies, it is argued, are as a result of manifestations of power and control and the organizational structures that produce these (Johns, 1993) both internally as well as externally. It is therefore argued that institutional, the legal complexity of registering international businesses and politically-related practices could influence the potential for SMEs to internationalize their firm's operations. It is also propounded in the literature that corruption can 'grease the wheels' of a firm's desire to internationalize its entrepreneurial activities (Dreher & Gassebner, 2013) thereby facilitating the setting up of such businesses. However, other studies have posited the negative impacts that corruption could have on internationalization and their growth and development (Dutta & Sobel, 2016).

In the light of the above, it is hypothesized that:

H2a: Political instability as a factor of institutional barriers and the internationalization of SMEs will not be independent from one another.

H2b: Legal procedural complexity as a factor of institutional barriers and internationalization of SMEs will not be independent from one another.

H2c: Corruption as a factor of institutional barriers and the internationalization of SMEs will not be independent from one another.

Legal support is the advocacy support that a person or a firm may seek perhaps as a way of saving money and time and avoiding reputational/brand damage. Businesses prepare the legal contract and thus, require legal support. Similarly, for negotiation and to understand the terms and conditions in property renting or leasing, business organizations need to go through several

legal issues. Legal advisors may be employed (Benito-Hernández, et al., 2015) to navigate the home and target market although government funded legal support for SMEs is largely available in developed countries (Mole & Bramley, 2006). This is primarily why inadequate legal support is considered as one of the major barriers of internationalization (Gunaratne 2009; Hornby, Goulding & Poon, 2002). The impact of inadequate legal support as a key internationalization barrier is still open for discussion and debate. Hence, it is hypothesized that:

H2d: Inadequate legal support as a factor of institutional barriers and internationalization of SMEs will not be independent from one another.

Research Methodology

This study has proposed a hierarchical reflective model based on the need to focus on barriers in entering foreign markets for Bangladeshi SMEs. It formulates empirically testable theory. To be able to achieve this, an empirical survey was carried out to attempt to measure whether there is a causal network relationship as proposed by Jenkins (1985) within the context of barriers faced by Bangladeshi SMEs during internationalization. To carry on the empirical investigation, a cross-sectional survey technique was applied to extract views from the respondents (Malhotra, 2008). To achieve the maximum response rate a postal survey was applied rather than a telephone, e-mail or online survey (Malhotra, *ibid*).

Questionnaire Survey

Data were collected from four major divisions of Bangladesh as a small developing country – Dhaka, Khulna, Chittagong and Rajshahi from July/2011 until September/2011. 250 questionnaires were distributed to each division following a cluster sampling technique. From each division, districts were selected and from each district, villages or wards of the four major city corporations were selected, and, finally, international SMEs were selected from each

village and each ward. To ensure equal opportunity for selection, a systematic random sampling technique was applied. The survey population fitted their definition as SMEs doing international business in a developing country - Bangladesh (Steinerowska-Streb & Steiner, 2014). Out of 1,000 questionnaires sent, 219 (22% survey response rate) responses were received. Among the 219 received questionnaires, seven were unsuitable due to excessive missing data. Finally data from 212 questionnaires were analysed.

Particulars	Category	%	Particulars	Category	%
Gender	Male	68.10	Sector of business	Primary	13.90
	Female	32.90		Manufacturing	51.40
Area	Dhaka	28.50	Business Type	Service	34.70
	Chittagong	25.80		Sole trader	28.90
	Rajshahi	22.10		Partnership	21.40
	Khulna	23.60		Family	09.10
				Co-operative	06.90
			Private Ltd	33.70	

Table 1: Demographic Profiles of Respondents

From Table 1, it can be comprehended that the data were collected from a diverse cross-sectional population. Out of 212 respondents, 68.1 per cent were male and 32.9 per cent were female. From the business sector point of view, 13.9 per cent were from primary, 51.4 per cent from manufacturing and 34.7 per cent from the service sector. In total, 28.5 per cent were from Dhaka, 25.8 per cent from Chittagong, 22.1 per cent from Rajshahi and 23.6 per cent from Khulna division. From the business point of view, 28.9 per cent were sole traders, 21.4 per cent were partnership, 9.1 per cent were a family business, 6.9 per cent were co-operative and 33.7 per cent were a private limited company facing different barriers. Case materials are reported elsewhere. Items of the questionnaire were identified from the systematic review conducted using theories subsumed under the Universal Model of HRM. All of the items of the questionnaire were measured in five-point Likert-scale. Before the final data collection, a pre-test was carried out among 20 samples and five academics were drafted to ensure the

appropriateness of the wording, contents, scales, sequence and format. Very minor amendments were made on the basis of the pre-test and its results. The latter highlighted the people and institutional barriers in entering foreign markets for Bangladeshi SMEs as a hierarchical reflective model. Hierarchical construct (also known as the multidimensional construct) is defined as a construct with multiple dimensions at several hierarchies to capture an overall latent variable (Jarvis et al., 2003), in our case the people/cultural component.

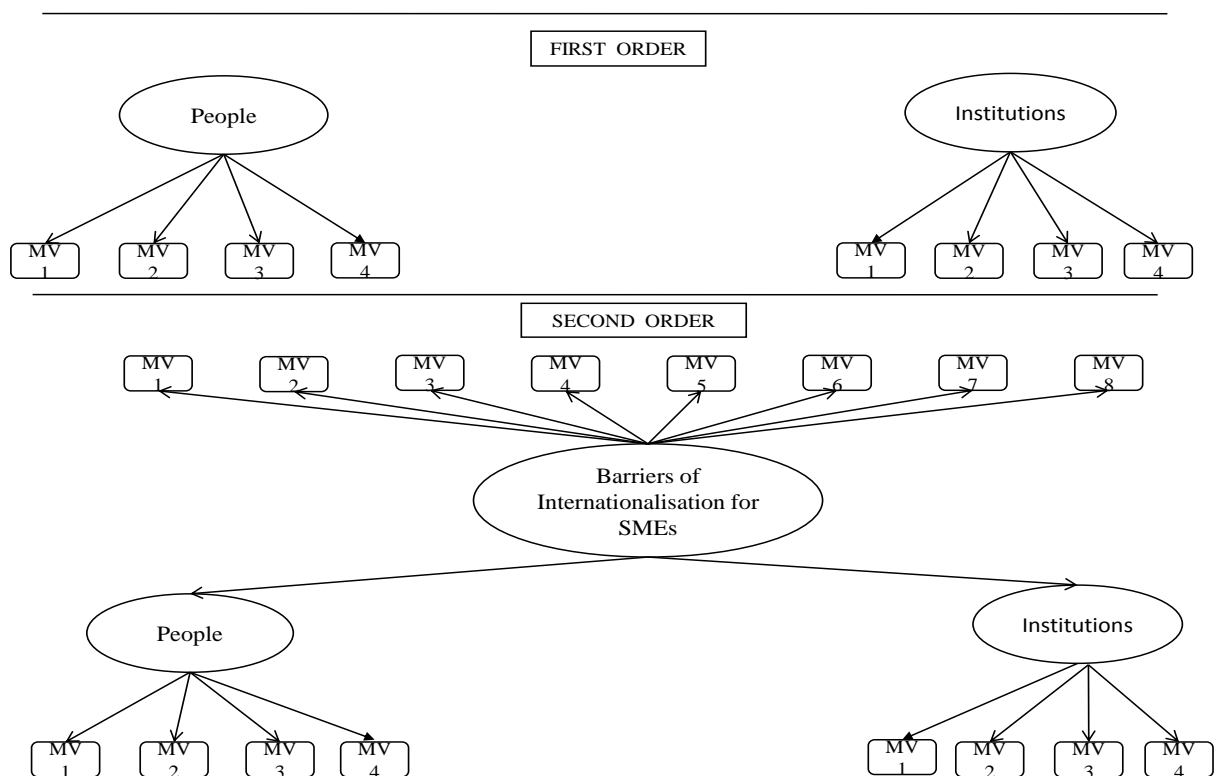


Figure 2: Socio-economic Barriers to Enter in Foreign Markets for Bangladeshi SMEs as a Hierarchical Reflective Model

For the advantages of reducing the model’s complexity and increasing theoretical discretion, these constructs (hierarchical constructs) have proven to be successful by many studies (Akter et al., 2010). In addition, the “level of abstraction for predictor and criterion variables” is considered as one of the most important advantages of using the hierarchical constructs in the research studies (Chin & Gopal, 1995). This study set out its aim to identify the barriers to entering foreign markets for Bangladeshi SMEs similar to some of the ‘challenges’ Mendy

(2017, p. 1) drew our attention to. Considering this exploration, this study specifies the barriers of internationalization for Bangladeshi SMEs as a hierarchical reflective model with two reflective constructs (see Figure 1) – people and institutional barriers to enter in foreign markets for Bangladeshi SMEs. Besides, all of these constructs of this model share the common theme that is the overall people and institutional barriers faced by Bangladeshi SMEs in entering foreign markets. According to Bollen and Lennox (1991), the correlation between two measures is supposed to be highly positive for a reflective construct. This is also supported by Akter et al. (2010), who have explained internal consistency as one of the most important elements of reflective constructs. Besides, the un-dimensional nature of the reflective measures assists to get rid of the individual measures for the purpose of improving the construct validity with no effect on the content validity (Petter et al., 2007). In Figure 2, there are two orders – first and second. In the first order, there are two latent variables of people and institutional barriers in entering foreign markets for Bangladeshi SMEs – people and institutional barriers that are related to the respective indicators (manifest variables (MVs)) each.

First Order	Second Order
$y_i = \Delta_y \cdot \eta_j + \varepsilon_i$	$\eta_j = \Gamma \cdot \xi_k + \zeta_j$
y_i = manifest variables	η_j = first order factors (e.g. political)
Δ_y = loadings of first order latent variables	Γ = loadings of second order latent variables
η_j = first order latent variables (political, economic, technological and social)	ξ_k = second order latent variables (procedural barrier)
ε_i = measurement error of manifest variables	ζ_j = measurement error of first order factors

Table 2: Estimation of the Socio-economic Barriers to Enter in Foreign Markets for Bangladeshi SMEs as a reflective hierarchical model

In the second order, barriers to enter foreign markets for Bangladeshi SMEs are shown in a hierarchical reflective model that is constructed by eight MVs (four + four) of two first-order constructs. In Table 2, the equations for estimating the hierarchical reflective models on the people and institutional barriers to enter foreign markets for Bangladeshi SMEs are presented.

There are two-order models – first-order model and second-order model. The equation for the first-order model specifies first-order MVs (y_i), latent variable (η_j), loadings (Δy) and an error term (ϵ_i). The equation of the second-order model specifies the first-order factors (η_j) in terms of the second-order latent variables (ξ_k) and error (ζ_j) for the first-order factor and second-order latent variable loadings (Γ). Using partial least square (PLS) we assess the people and institutional barriers to enter in foreign markets for Bangladeshi SMEs. PLS path modelling, also known as the component-based SEM, is popularly used for ensuring theoretical parsimony (Akter et al., 2010). On the basis of the afore-mentioned, it has been discussed that a higher order, reflective model will be used in this study to encompass the constructs having more than one dimension and indicator. By using the higher order reflective model, this study will avoid the limitations of co-variance-based SEM. Therefore, this study will be free from the common drawbacks of SEM, including measurement level, sample size, distributional properties and lack of identification (Wetzels et al., 2009). Besides, “it can give more accurate estimates of mediating and moderating effects by accounting for the measurement error that attenuates the estimated relationships and improves the validation of theories” (Akter et al., 2010, p. 293). Furthermore, it is also suitable for the study where the objective is prediction and the research context is new or changing (Chin & Gopal, 1995). Therefore, a higher order reflective model will be suitable for this study as this research aims to assess the people and institutional barriers to entering foreign markets for Bangladeshi SMEs.

Findings

Findings from the investigation into the barriers for the internationalization of Bangladeshi SMEs on the basis of theories subsumed under universal theory are presented in three stages – 1) firstly, an evaluation/analysis of the model measurements; 2) secondly, an evaluation/assessment of the model and 3) finally the testing of the relationships in the model. These three result-presentation stages ensure the validity and reliability of the latent variables

(people and institutions) prior to drawing conclusions on the hypotheses (Akter et al., 2010) and identifying the study's contribution.

Analysis of measurement model

This study has used PLS graph 3.0 (Wetzels et al., 2009) to investigate the people and institutional barriers to internationalization by using the hierarchical model with PLS path modelling to aid approximation (Akter et al., 2010). Following the path weighting scheme, this study used non-parametric bootstrapping (Wetzels et al., 2009) where the standard error of the estimates are obtained by using 500 replications. Following the suggestion made by Akter et al. (2010), this study has used the approach of repeated indicators to estimate the higher order latent variables. Therefore, the second-order factor (people and institutional barriers to enter foreign markets for Bangladeshi SMEs) is directly measured by the indicators (MVs) of the first-order factors (people and institutes). As proposed by Wetzels et al. (2009), a confirmatory factor analysis is conducted to test the model and analyse the reliability and validity. Table 4 shows that the individual item loading is higher than 0.70 and which is also significant at 0.01. Further, reliability of the scale is assessed through the composite reliability (CR), Cronbach's α (CA) and average variance extracted (AVE) as recommended by Akter et al. (2010). The result (Table 4) finds that the values for CR and CA on the people and institutional barriers are well above the threshold point of 0.70 (Hulland, 1999), which indicates the scale consistency for each item. On the other hand, AVE for people and institutional barriers (Table 4) is also higher than the modest threshold 0.50 (Fornell & Bookstein, 1982). Again this indicates that each construct captures adequate variance from its items and all the constructs are conceptually distinct. Therefore, the convergent validity of all the scales is ensured. Finally, the result of the square root of AVE found in Table 3 ensures discriminant validity as below:

	People	Institutions
People	0.918*	
Institutions	0.717	0.901*

Table 3: Latent Variable Correlations

Note: square root of AVE on the diagonal*

The square root value of AVE confirms that they are higher than the corresponding correlation coefficients in the correlation matrix (Fornell & Bookstein, 1982). Therefore, it can be concluded that all the empirical results (see Table 4) related to the analysis of the measurement model are satisfactory with respect to adequate reliability, convergent validity and discriminant validity.

Constructs	Items summary	Loadings	CR	CA	rho_A	AVE
People	Language differences	0.952	0.955	0.936	0.941	0.842
	Different social approaches	0.949				
	Shortage of skilled labour	0.943				
	Shortage of training facilities	0.820				
Institutions	Political instability	0.951	0.944	0.920	0.931	0.811
	Legal procedural barriers	0.958				
	Corruption	0.913				
	Inadequate legal support	0.765				

Table 4: Psychometric properties for first order constructs

Assessment of higher order model

Based on the results, a hierarchical construct model is developed to show the people and institutional barriers in entering foreign markets for Bangladeshi SMEs in Figure 2. The second-order constructs (overall barriers – also see hypotheses) are reflected in the first-order constructs and the degree of explained variances are people (86 per cent) and institutional (85 per cent). The result shows that (Table 5) the path coefficients from overall barriers of internationalization to second order (people and institutional) are significant at $p < 0.01$ and

should therefore be included in the universal model. Further, the validity of higher order reflective model is confirmed from the CR and AVE value. CR and AVE for the first-order constructs are higher than threshold value of 0.70 and 0.50, respectively.

Analysis of structural model and results of hypotheses testing

This study has estimated the relationship between the overall people and institutional barriers and sub-dimensions with an objective of measuring the structural validity of the model (see Figure 3). The respective standardized β found in Figure 3 for people and institutional barriers are 0.929 and 0.923 each; thereby indicating a strong association between those variables. Further, all these path coefficients are significant at 1%. Therefore, the overall findings support the hypotheses (please see Table 6).

	Original Sample coefficient	Sample Mean coefficient	Standard Deviation (STDEV)	P Values	T Statistics
Overall Barriers -> People	0.929	0.928	0.011	0.000	86.161
Overall Barriers -> Institutions	0.923	0.921	0.014	0.000	65.370

Table 5: Analysis of Structural Model Path Coefficients (Mean, STDEV, T-Values)

Hypotheses	Path coefficient	t-value	Conclusion
H1a: Language difference as a factor of people oriented barriers and internationalisation of SMEs will not be independent from each other.	0.952	121.523	Supported
H1b: Different social approach as a factor of people oriented barriers and internationalisation of SMEs will not be independent from each other.	0.949	126.182	Supported
H1c: Shortage of skilled labour as a factor of people oriented barriers and internationalisation of SMEs will not be independent from each other.	0.943	97.596	Supported

H1d: Shortage of training facilities as a factor of people oriented barriers and internationalisation of SMEs will not be independent from each other.	0.820	29.735	Supported
H2a: Political instability as a factor of Institutional barriers and internationalisation of SMEs will not be independent from each other.	0.951	120.782	Supported
H2b: Legal procedural barriers as a factor of Institutional barriers and internationalisation of SMEs will not be independent from each other.	0.958	142.563	Supported
H2c: Corruption as a factor of Institutional barriers and internationalisation of SMEs will not be independent from each other.	0.913	55.820	Supported
H2d: Inadequate legal support as a factor of Institutional barriers and internationalisation of SMEs will not be independent from each other.	0.765	21.022	Supported

Table 6: Results on Hypotheses

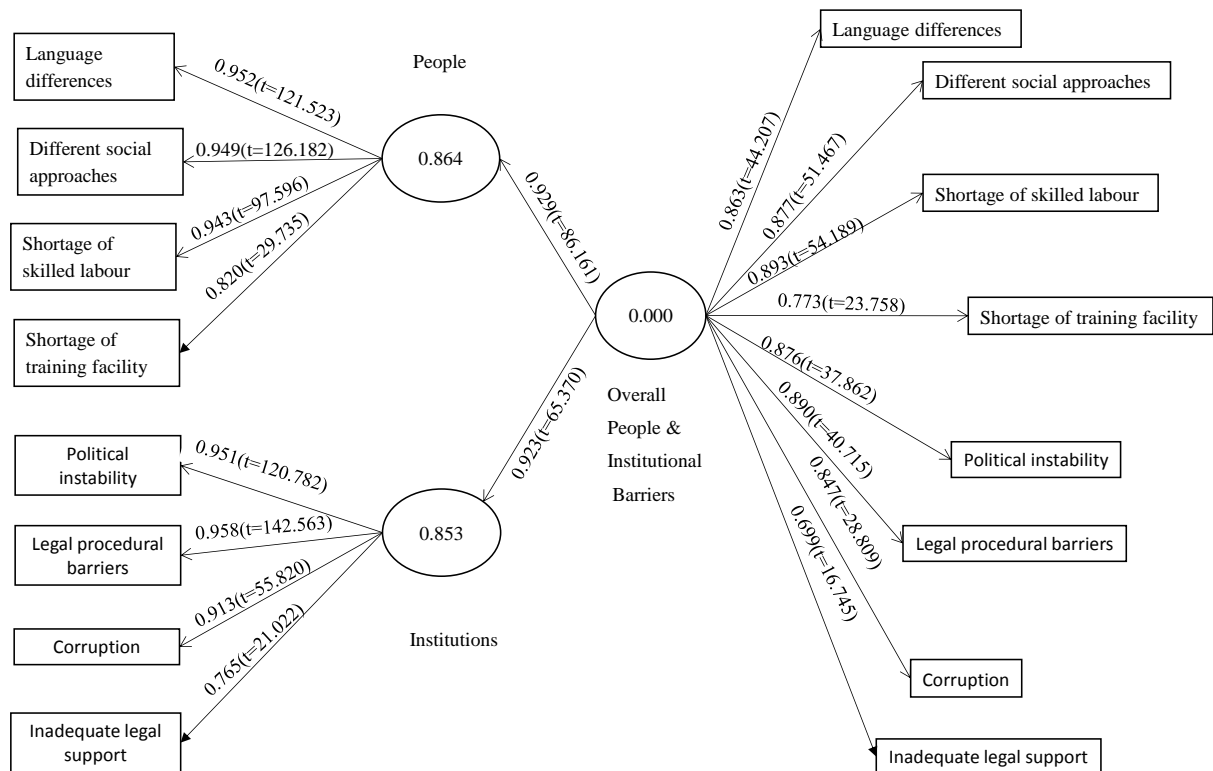


Figure 3: Main Loadings of the Model

Summary of findings

One of the key objectives of this study is to identify barriers of SMEs' internationalization from a small developing country. To fulfil this objective, this study has looked at institutional and related theories whose characteristics fitted the Universal Model of HRM. Following the findings from the extant literature, we initially identified 2 main hypotheses with 8 supporting hypotheses which were developed into a structural barriers-model. Its benefits were found to be able to explain the major people and institutional barriers faced by a developing economy's (Bangladeshi) SMEs to enter into the international market. This study also contributes to extend our knowledge-assets (Yoo & Reimann, 2017) especially on significant types of SME barriers from a Bangladesh perspective by categorising the barriers into two dimensions (people and institutions) following the tradition of Steinerowska-Streb and Steiner (2014). The empirical results in this study support that both people and institutional barriers are significant for SMEs internationalization in a small developing country context.

People related barriers are supported with path coefficients between 0.820 and 0.952 at 1% significant level. Similarly, institutional barriers are also supported with coefficients between 0.765 and 0.951 at 1% significant level. It has effectively progressed the barriers from a first to a second-order reflective model where both dimensions reflect *overall* the people and institutional barriers as they have been constructed. Hence it extends Steinerowska-Streb and Steiner's (ibid) work. Additionally, it supports the application of the Universal Model to see whether HRM activities (Becker & Huselid, 2006; Bowen & Ostroff, 2004; Van Wanrooy et al., 2013) can become part of an institution's framework. The Universal Model has been found incapable of accounting for SME culture (Okpara & Kabongo, 2010) especially from a small developing country angle. Our model has been shown to be competent to provide the ranking of these barriers which the universal model cannot. In general, people-oriented barriers seem to be marginally more influential than institutional barriers of internationalization for SMEs in developing economies. 86 per cent of overall variance was explained by people oriented

barriers followed by the institutional barriers with 85 per cent. Though the ranking has been done on the basis of the explanatory power of individual constructs, the magnitude of difference is relatively very small. Therefore, it can be recommended that all these constructs should be given equal attention.

Another objective of this study was to demonstrate the relationship among the latent variable of people and institutional barriers. These were empirically-tested through PLS path modelling. To support this objective, a second-order reflective hierarchical model is developed using the data collected from SMEs in Bangladesh to see what can be added. This model should be able to better explain that the relationships are more complex than earlier suggested by Fornell and Bookstein (1982) and cultural aspects noted by Okpara and Kabongo (2010) should be part of theories subsumed under the Universal Model. Following the suggestion made by Wold (1985), this study has used repeated indicators from first to second-order model. The validity of all the results have been confirmed. Therefore, individual barriers of internationalization have been progressed to overall barriers of internationalization as stated by Wold (1985, p. 589): “PLS comes to the fore in larger models, when the importance shifts from individual variables and parameters to packages of variables and aggregate parameters”. Such progression and appreciation of the level of the twofold barriers to internationalization have been developed and validated in a second-order model which has not been attempted before in SME internationalization theorizing. This has surely extended our knowledge as intimated earlier (Yoo & Reimann, 2017) particularly from Bangladeshi SME context. However, it is believed that the findings of this study will assist policy makers and owners of SMEs to know their priority in terms of the backing of internationalization of SMEs. Through the PLS path model, this study clearly rated the barriers faced by SMEs to entering into international markets. It shows that people related barriers are marginally more dominant over institutional barriers in developing countries. Therefore, support services given by government and non-government

organizations in developing countries to assist the growth of SMEs should prioritise the people-related issues followed by the institutional barriers.

Discussions

The results of the study are useful in a number of ways. Firstly, they can help policy designers and implementers, SME owners and managers to appreciate types of behaviours they need to recognise especially when they operate in international business circles. The study's results could therefore be taken to extend our understanding and knowledge as they have demonstrated that business people and policy makers should consider people and institutionalized aspects posing as challenges as they are in the process of formatting and implementing business expansion and development activities within the SME sector. Given the fact that the study found that institutions are behind people related barriers, it is therefore pivotal that people's beliefs, customs and norms are given greater emphasis in the scientific disciplines of International Human Resource Management and also in the internationalization of SMEs. This view has previously been supported by Okpara and Kabongo (2010) especially given the complexity of the relationships that SMEs have to navigate (Oliver, 1997), notwithstanding the legal and political challenges faced.

Theoretically, this study has extended the application of the institutional model of HRM to the domain of study some notable barriers of SME internationalization based on the following argument. The results of the study has shown that although institutions trail slightly behind people, it is recommendable that these are included as part of the people-management 'bundles' that have not been addressed by Becker and Huselid (2006) or Steinerowska-Streb and Steiner (2014). Such inclusion has the implication of factoring in the way SMEs develop partnerships with foreign investors and collaborators as part of their internationalization initiatives. There are two levels where this becomes pertinent to examine – the macro and micro-level. On the macro-level, high level commitment will be needed in the formation of partnerships between

SMEs and international collaborators so as to enhance their navigation of legal and other technical challenges. This will enhance their ability and resource generation capacity to be able to deal with the barriers identified especially those categorised within the domain of skilled labour shortage, education/training (Hypotheses 1c and 1d), political instability and legal procedural barrier (Hypotheses 2a and 2b). There is another level to be dealt with though. On the micro-level, although Boxall and Purcell (2003) identified some benefits for the firm and ‘High Performance Work Practices’ are claimed to help (Huselid, 1995) more specific areas such as training and development (Marchington & Grugulis, 2000), financial performance (van Wanrooy, 2013), SME owners and members’ and managers’ commitment in applying the universal and institutional models has warranted a call for closer scrutiny. One way we thought we could address this call was to examine theories subsumed under the Universal Model to study barriers faced by developing economies’ SMEs within the internationalization research agenda. Counteracting the barriers identified in H1c, H1d, H2c, and H2d deserve an integrated and more strategic ‘scaffolding’ approach (Mendy, 2017, p. 1). If the Universal Model were to become beneficial in serving the needs of small firms, people’s social orientations, including the potential of ‘greasing the wheels’ (Dreher & Gassebner 2013) (H2c) need to be embedded within the conceptual development of the model as SME businesses internationalize operations. Thought this perspective is corroborated by Maharjan and Sekiguchi (2016), this study has added people-oriented socio-cultural perspective as an important ingredient when scholars and researchers examined the application and usefulness of the institutional model. A specific bundle based on institutions or people will be less effective than a combined effort of bundles based on both. The combined bundle should involve people’s cultural orientation, organizational cultural orientation as well as the technical aspects (Research and Development, education/training) and institutional aspects such as government and related agencies. The application of the characteristics of the extended Universal Model could also be used to study

international entrepreneurship to see what other potential barriers there might be based on the initial extension of the universal model in this study. Having identified the barriers for SME internationalization from extant literature review and theoretical analysis, data from 212 Bangladeshi companies were validated through PLS-SEM and it was found that each of the barriers was equally as significant for entrepreneurial development. Therefore support services given by government and non-governmental agencies in developing countries that assist the growth of SMEs should prioritise both people and institutional barriers to SMEs' internationalization likewise.

Conclusion and future research

The main objective of our study was based on considering theoretical aspects under the Universal Model of HRM to see what could be added to our understanding of types of barriers posed to SMEs as they access international markets. A small developing economy was chosen given their neglect in the literature. This study has identified key people and institutional barriers faced by the SMEs. To help answer our research question and achieve the research objective, the theories were subsumed under the Universal Model and explored. Based on their discussions, we identified and developed 2 main hypotheses and 8 supporting hypotheses. The study's findings have shown that although the concept of business strategy and aligning HRM practices to the achievement of business goals and the external context is a novel idea for Bangladeshi SMEs, applying the model has shown some benefits for the way we understand SMEs' internationalization. One of these is that people and institutions constitute major barriers for small businesses and their attempts to enter foreign markets especially if their combined cultural aspects are not taken into account.

Our study has successfully framed the two types of challenges as a second-order hierarchical model, indicating both dimensions of barriers significantly reflecting on the overall barriers. The 8 supporting hypotheses are all supported (Table 6). This is significant in the sense that

there is no study, so far, on the people and institutional barriers faced by the SMEs from the Bangladesh perspective. To this end, studies need to consider these barriers and embed them as part of theoretical developments in this research area. As part of such developments, the importance of investigating the determinants in the light of relevant theories, for example, the capital structure of SMEs has been hypothesized by financial theories such as the pecking-order theory (POT) (Newman, Borgia & Deng, 2013). Findings of this study will contribute to highlighting the need to develop further insights in this people and institutional barriers/determinants gap in International HRM theory and research. Another key contribution of this study is the development of hierarchical reflective model using PLS to assess the people and institutional barriers to enter in foreign markets for the SMEs in a developing country. This is not an occurrence that researchers in the discipline of HRM with specific interests on SMEs have been keen to undertake.

Future research should consider the environmental factors that SMEs in developing countries are having to deal with such as political, legal, economic, financial and socio-cultural. Findings from developed countries could also be compared to those from a developing economy perspective to see whether adopting people's beliefs, norms and values can be operationalized as part of a coordinated strategy to deal with SME's financial constraints so as to optimize people's performance as postulated recently by Jimenez et al. (2017).

Research Limitations

This study has some limitations that may be considered as part of future research developments. Firstly, the model developed here is based on a specific context (a developing country) which may not be generalized in the other context (a developed country or developed countries). Secondly, this study used cross-sectional data which may have some common method variance (Straub et al., 2004). By using longitudinal analysis, future research can achieve better measurement reliability. Finally, the comparative analysis between the hierarchical models of

component-based PLS and covariance-based SEM could be done under different research circumstances, such as the number of MVs, sample size per latent variables and distributional properties of the MVs. These variations may be able to develop a model comparing both formative and reflective approaches of SEM and the extent to which they could be applied within SMEs' internationalization efforts either in a developing or developed country perspective or both.

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