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## TOO MUCH OF A GOOD THING? THE ROLE OF HUMAN CAPITAL IN SME INTERNATIONALIZATION (SUMMARY)

Jonas Onkelinx

*Vlerick Leuven Gent Management School, jonas.onkelinx@vlerick.com*

Tatiana S. Manolova

*Bentley University*

Linda F. Edelman

*Bentley University*

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## ≈ SUMMARY ≈

**TOO MUCH OF A GOOD THING? THE ROLE OF HUMAN CAPITAL IN SME INTERNATIONALIZATION**

*Jonas Onkelinx, Vlerick Leuven Gent Management School, Belgium*

*Tatiana S. Manolova, Bentley University, USA*

*Linda F. Edelman, Bentley University, USA*

**Principal Topic**

A greater human capital stock enables SMEs to profitably exploit international opportunities and manage the risks and complexities involved in internationalization. However, human capital is costly and SMEs need to carefully align it with their internationalization strategy, which can be a “waterfall strategy”, slowly cascading from one country to the next, or a “sprinkler strategy”, targeting multiple countries at once (Kalish *et al.*, 1995). SMEs following a “waterfall” strategy can absorb foreign market knowledge and transform it into organizational routines. In contrast, a “sprinkler” strategy calls for human capital to substitute organizational expertise. Even in the case of a “sprinkler” strategy, there is a limit to the ability to efficiently deploy human capital (Wright *et al.*, 2001). Hence, we propose: (H1) Greater human capital will increase the probability of survival of internationalizing SMEs; and (H2) Greater human capital is positively associated with the degree of internationalization of SMEs following a “sprinkler”, but not “waterfall” strategy. Finally we suggest that (H3) for SMEs following a “sprinkler” strategy, there is a curvilinear relationship between a firm’s human capital and its degree of internationalization.

**Method**

In collaboration with the National Bank of Belgium (NBB), we constructed a comprehensive dataset of manufacturing SMEs incorporated in Belgium during the 1998-2005 period ( $n = 7771$ ). We developed a human capital index comprising the weighted average education, wage, and average value added of employees. We classified firms as following a “sprinkler” or “waterfall” strategy according to their initial export scope, and specified several regression models on the effect of human capital on the degree of internationalization and survival, controlling for firm-level, industry, and year effects.

**Results and Implications**

In support of our hypotheses, human capital is positively associated with survival and the degree of internationalization of SMEs following a “sprinkler strategy”, but only up to a point, after which the relationship becomes negative. This suggests human capital needs to be carefully aligned with the internationalization strategy. Our findings have important implications for SME managers and public policy makers in developed economies where human talent is costly and labor markets are highly regulated.

**CONTACT:** Jonas Onkelinx; [jonas.onkelinx@vlerick.com](mailto:jonas.onkelinx@vlerick.com); (T): +32-16-248849; (F): +32-16-248800; Vlerick Leuven Gent Management School, Vlamingenstraat 83, 3000 Leuven, Belgium.