

Emotional Intelligence and psychic distance: Impact on the Internationalization decisions of SMEs

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Abstract: A corporate's strategy for survival and growth in this dynamic global economy is very crucial and so are its internationalization decisions. Recent past has shown that when large multinationals have fallen apart in the global recession of 2008-10, Small and Medium Enterprises (SMEs) have been supporting the emerging economies all over the globe. SMEs have proven to be resilient in the tough times acting as cushion to the sudden volatility of economic crises. India's strong network of SMEs has enabled it to stand out globally and be economically empowered. Theories highlight the role of external factors like cultural and geographical distance, market size and various others in influencing the internationalization decision. Culture has an inevitable role to play in internationalization process. Present study highlights the importance of perceived cultural distance ie 'psychic distance' and proposes another important personal factor that could be responsible for the internationalization behavior of SME entrepreneurs, i.e. Emotional Intelligence (EI). This study conceptualizes and explores the mediating role of Emotional Intelligence as a personal factor of SME entrepreneurs on the relationship between psychic distance and internationalization decisions.

Keywords: Emotional Intelligence, Cross-cultural differences, Decision-making, Internationalization, Small and Medium Enterprises, Psychic distance.

I. Introduction

Internationalization and cultural diffusions has brought about dramatic changes in the national and global economies demanding businesses to be dynamic, innovative and flying across boundaries. In such a competitive economy, there is a pressing concern for all indigenous businesses to internationalize. Behavioral theory of the firm (Cyert & March, 1963), states that a business firm is an adaptively rational open system dynamically operating within the constraints posed by an uncertain environment.

Cross-border strategizing involves lots of cultural, political, economical and legal considerations. National culture influences a wide variety of operational management decision processes in the process of internationalization (e.g. facility management, production/operations, ERP implementation, quality systems, outsourcing decisions, employment and marketing practices etc.). Dealing appropriately with national cultural differences, or rather perceived differences called 'psychic distances', is of increasing importance to global operations management. Psychic distance is the perceptual distance between the firm's home market and foreign market, resulting from the perceptual interpretation of both cultural and business differences between the home and host country markets (Evans & Mavondo, 2002).

Various International Business theories reveal the significance of psychic distance in the choice of country for internationalization, however very little research answers the question on how the focus changes from nearby countries within a low psychic and geographical distance to more distant countries with large market opportunities (Ojala, Arto; Tyrväinen, Pasi, 2007). The direction to the answer has been shown in the present study.

Extant researches have shown that about 75% of business successes can be attributed to a personal ability called Emotional Intelligence, which is found to be a crucial factor influencing decision making at strategic, operational and even functional levels. It defines an individual's emotional awareness, control and maturity that eventually influence the efficiency of decision-making. Definitely all-global operational decisions are mediated by emotional intelligence of the decision maker. Specially, at the entrepreneurial level, emotional intelligence is a very crucial dimension predicting business success (Cross and Travaglione, 2003).

The recent past has witnessed the collapsing of some big business houses like a pack of cards leading to trillions of dollars of losses to the advanced economies. But what has kept the Asian economies floating through the crisis are their Small and Medium Enterprises that have led to exponential growth in the last couple of decades. Small and Medium Enterprises have developed as the backbone of the economy of emerging countries through innovations, new technology development and employment generation, acting as a cushion to the sudden volatility of economic crises.

Internationalization of Small and Medium Enterprises is the route to unlock the nation's potential towards a better economy. The present research is based on a survey of 150 SMEs in and around the cosmopolitan Indian Information Technology (IT) capital, Bangalore. On the basis of responses solicited by interviewing key decision makers from those SMEs, it was inferred that internationalization is an essential decision that to a large extent enables the SMEs overcome the domestic constraints and expand. Culture plays a crucial role in deciding the country of internationalization, according to the survey responses. The various challenges faced by the SMEs according to the respondents are – dearth of easy finance and credit instruments, limiting regulatory policies, unavailability of modern-affordable technology, lack of basic infrastructural facilities, absence of exclusive marketing platforms as well as distribution networks, inflexible labor laws and limited availability of affordable skilled labor among the other factors.

The research focuses on this aspect of the internationalization process of SMEs, in understanding the role of psychic distance and Emotional Intelligence in the internationalization of Indian SMEs. Emotional Intelligence is an individual's capacity to perceive, understand and regulate one's own as well as others' emotions (Mayer & Salovey, 1989), hence enhancing one's personal and professional effectiveness. As the decision to internationalize is actually taken by the entrepreneur or the key decision-maker of the SME, a major question that arises is "does the Emotional Intelligence of the key decision maker have any role in influencing the internationalization decision or not, besides the role of 'perceived cultural affinities and distances' ie, 'psychic distances' between the countries been considered."

The main aim is to study the mediating role of Emotional Intelligence on the influence of psychic distances on internationalization decisions. The study is conceptual and explorative in nature. The objectives of this study are-

- To determine the role of perceived cultural differences or psychic distances on the internationalization decisions of Small and Medium Enterprises.
- To determine whether Emotional Intelligence of key decision makers has a mediating role on the internationalization decisions.

II. Significance of Small and Medium Enterprises in Indian Economy

SMEs have been playing a vital role in the growth of Indian economy by contributing almost forty-five percentage of industrial output, as much as forty percentage of exports, employing forty-two million people, generating almost one million jobs annually and offering around eight thousand quality products to the Indian as well as international markets according to SME Chamber of Commerce reports. Small and Medium enterprises' contribution towards GDP in 2011 was 17%. This was expected to increase to 22% by 2012, but unexpectedly remained stagnant due to constraints like poor adoption of technology and low scale of production leading to very poor productivity, which mainly can be attributed to shortage of funds and inhibitions in internationalization of SMEs. There were approximately 48 million SME units in India and 81.2 million informal workers employed in this sector in the financial year 2012-13 including the service sector as per the statistics of Indian SMB Chamber of Commerce and the Ministry of Micro Small and Medium Enterprises (MSMEs). Their contribution to the Country's GDP during the same period was stated to be 37.54%, while total employment in the sector was 805.24 lakhs according to reports published by Central Statistical Office (CSO) and Ministry of Statistics and Program Implementation. India is second largest in terms of number of SMEs, next to China that has 50 million as of 2013 reports. SMEs are the fountainhead of several innovations in manufacturing, agri-business and service sectors. They are the major link in the supply chain to the corporate and the Public Sector Units. Yet these SMEs continue to struggle on multiple aspects, being challenged by credit and finance issues, stringent regulatory environments and numerous other issues in internationalization process that limits their opportunities for growth and expansion. Growth of SMEs depends upon the decision regarding the country of internationalization, which is influenced by various macro- and micro-environmental as well as individualistic factors. Filatotchev and Wright (2011) asserted that issues related to strategic controls in international business (IB) have a strong behavioral dimension, and hence personal dimensions of the decision maker need in-depth introspection.

Internationalization involves the decision regarding 'which' country to internationalize and 'how' to make the leap. Among the various factors that influence this crucial decision of internationalization of Indian SMEs, the most important variable is cultural similarities and differences between home and the foreign country. A great deal of importance is informally given by the decision makers to perceived cultural differences or psychic differences between home and host countries in deciding the country for internationalization.

III. Literature Review

3.1 Cultural Differences and International Business

Culture is a very important dimension in International Business. Every SME rationally decides upon a country for internationalization that is culturally similar, since cultural affinities results in similarities with respect to attitudes, values, beliefs, lifestyle, personality traits and communication. This to a large extent decides its success in a foreign market. Effectively managing an international supply chain and foreign business operations involves understanding and proactively responding to the 'how' and 'what' issues that make international operations management different and challenging in different countries. Specifically, managers must understand these dimensions of national culture that actively influence international operations decisions. The cultural dimensions proposed by Hofstede (1980) and Trompenaars (1994) helps us to understand the cultural differences between international markets but this study focuses on psychic distance based on the certain perceptual factors like- geographical distance, language difference, cultural affinity, management style, technological awareness etc. of decision maker which impacts their decisions. This study conceptualizes that it is not just the cultural factors but the perceived cultural distances called as psychic distances and also a personal ability called Emotional intelligence (popularized by Daniel Goleman in 1998) that influences the internationalization decisions of SMEs. The research therefore moves beyond the macro level theory that focuses on 'whether' culture matters, to the more micro level question focusing on 'how' culture matters and individualistic dimensions like emotional intelligence of decision makers impacting internationalization process of SMEs.

3.2 Significance of cultural Distance in the Internationalization of SMEs

Numerous studies have been conducted related to the issue of internationalization of Small and Medium Enterprises as this is of global importance and inevitable for the sustenance of the global economy. Internationalization has both economic and behavioral component and it is a process and not an event (Pollard, 2001). Thus all internationalization decisions include behavioral dynamics. Internationalization is the process of developing business opportunities outside the domestic market (Lu & Beamish, 2001), and driven by a high degree of uncertainty (Johanson & Vahlne, 2009). The lack of knowledge and understanding about the foreign market leads to the perception of uncertainties, which ultimately are caused due to the differences in managerial attitudes and perception (Yamin & Sinkovics, 2006). The extent of uncertainty depends on the macro-environmental variables as well as on managerial perceptions of the environment, which is rather a subjective form of uncertainty (Penrose, 1959). Internationalization decisions and managerial strategies to respond to the global environmental demands are based on the manager's perceptions of environmental uncertainty (Giaglis & Fouskas, 2011; Beyer *et al.*, 1997).

According to Berry, Rodriguez, & Sandee (2001), Small and Medium Enterprises act as a cushion to the sudden volatility of economic crises. Various mechanisms such as technology diffusion through foreign buyers, subcontracting and presence of SME clusters benefit SME development and further contribute to national economy. Wernerfelt (1984) stated that a firm's growth emerges from the balance between exploitation of existing resources and development of new resources with new resource building resulting from international market diversification as well as FDIs. Kuivalainen and Bell (2004) also view that the entrepreneurs are the catalyst for new resources, capabilities and knowledge. Many firms discover internationalization barriers only after entering and experiencing the international markets (EIM, 2005). These barriers may be environmental or even cultural. According to the researchers, internationalization of Indian multinational firms (MNEs) was historically undertaken through greenfield investments, mergers and acquisitions in the period that preceded gradual liberalization of India's economy in 1991. These SMEs described as 'born global' or 'international new ventures', have been found to have a strong international focus right from their inception. Researches investigating the rapidly internationalizing firms reveal their focus on network relationships (formal and informal networks) for new market entry and product development strategies (Bell 1995, Coviello and Munro 1997; Zain and Ng 2006), knowledge- building and sharing (Bell *et al.* 2003; Jones 1999; Oviatt and McDougall 2005), and strategic resource creation and utilization (McDougall *et al.* 2005) behind the internationalization behavior of entrepreneurial SMEs. Zahra *et al.* (2000) considered internationalization experience and managerial expertise at the entrepreneur level but not at the firm level crucial in the internationalization process. However in many SMEs, the owners are the key resource. They accumulate industry expertise, physical, organizational and financial resources that enable the competitive production of goods and services. Personal abilities like entrepreneurial orientation, commitment to internationalization, and the ability to leverage human capital influence the international success of Indian SMEs (Rajshekhhar (Raj) G. Javalgi, Patricia R. Todd, 2011).

Cultural distance is a very critical variable in all internationalization decisions, having been applied to foreign investment expansion, entry mode choice, country of internationalization and the performance of foreign invested affiliates (Shenkar, 2001). The well-known Hofstede's (1980) dimensions of national culture

such as power distance (related to the social inequality and the way people deal with delegation of authority), individualism-collectivism (prevalence of the individual and group as guiding individuals' behaviors), masculinity-femininity (the drive towards achievement versus the concern with others) and uncertainty avoidance (pertaining to how individuals in different countries deal with uncertainty) have been predominantly used to determine the cultural distance between countries and understanding the cultural environment in the internationalization process of SMEs (Drogendijk & Slangen, 2006). According to Hofstede (1980), national cultures differ substantially along four dimensions, *i.e.*, power distance, individualism, masculinity, and uncertainty avoidance. However, traditional internationalization theories (Dunning 1973, 1992; Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975; Luostarinen 1979), speak about psychic or cultural distance, geographical distance, and market size as major factors that impact the target country selection. Fenwick et al. (2003) focus on the importance of cultural differences on companies' international performance. The positioning and hierarchy of significant values determine perceived cultural differences. Differences in management style and business practices may exist even between relatively close markets when it comes to psychic distance.

3.3 Psychic Distance and Internationalization Process

Strategic decision-making involves committing considerable amount of resources and affects the whole company, which makes it critical in today's business operations (Sousa & Bradley, 2005). Strategic decisions are considered to be influenced by the management's perceptions about the similarities and differences between the home and foreign country (psychic distance). The management's perceptions of psychic distance and actual differences between countries have a great impact on the entry decisions and choice of strategies and in turn on companies' organizational performance in foreign markets (Evans & Mavondo, 2002; Sousa & Bradley, 2005; Dow & Karunaratna 2006; Dikova 2009).

Johanson & Vahlne (1977) defined psychic distance as "the sum of factors preventing the flow of information from and to the market". Factors that constrain the co-ordination between foreign markets and create challenges in successful internationalization are differences in culture, language, education, business practices, and industrial development. Nordström & Vahlne (1994) defined psychic distance as "factors inhibiting or disturbing a firm's learning about and understanding a foreign environment". 'Psychic distance' is a term that has been widely used to explain a firm's behavior during the internationalization process (Dikova, 2009). It signifies the firm's perception of cultural distance *i.e.*, cultural affinities and distances that according to the key decision maker persists between the home country of the SME and the host country (country of internationalization). Cultural distances have been said to involve more of revealed culture than latent culture, the former is represented in behaviors and actions that potentially reveal latent cultural dimensions (Dan V Caprar et al., 2015). However, internationalization decisions of businesses today mainly involve stated culture and not revealed culture, with stated culture being used as a best-guess proxy for latent culture (Taras et al., 2010). Stated culture is the culture that is being revealed not by true behavior but through survey responses; GLOBE and Hofstede's value based model of culture do not represent anything other than culture as revealed by a survey. This theory of culture is considered to be based on a single contextual lens of an individual's cultural makeup as per one's opinion (Dan V Caprar et al., 2015). Besides psychic distance, which is basically the individual level perceptions of cultural differences, factors such as market size, opportunity seeking behavior, and actions taken by managers make the effect of psychic distance less visible in macro-level quantitative analysis (Ojala, 2009). Evans and Mavondo (2002) state that the degree of psychic distance is not only determined by external environmental factors, but rather by the perceptions of individuals of the cultural and business differences. Hence, as mentioned by Dikova (2009), psychic distance stems from variations in host-country consumer preferences, culture and business systems between the home country and host country. The outcome of these perceived differences is reduced level of understanding of the foreign country's local market conditions, which is another important concern in internationalization decisions. Dowling, Rose and Smith (2011, p.123) define psychic distance as the perceived psychological or mental distance held by business managers to foreign markets, as distinct from the actual physical distance. This clearly indicates that the concepts of actual cultural distance and psychic distance are not the same and is a crucial indicator in all internationalization decisions.

Psychic distance is an important construct in decisions when presenting and evaluating the operating differences between a company's home and foreign market. The general notion is, psychically close countries will succeed in their international operations. According to the concept of psychic distance paradox, perceived similarities within countries may result in cultural overconfidence and inadequate preparation prior to entering psychically close markets, resulting in poor organizational performance. Therefore, management's perception of psychic distance essentially affects the company's organizational performance in a foreign market. When management's perceptions of psychic distance are not in accordance with reality and the differences are overlooked, the company may face difficulties with poor organizational performance even in a psychically

similar market. The failure in internationalization decisions results mainly from the management's perceptions of psychic distance that are not based on actual facts and that are not reflecting the actual similarities and differences between the home and foreign market.

Cultural differences, whether actual or perceived (psychic) have been identified to be an important factor in the internationalization of Small and Medium Enterprises by many researchers. Many studies (Davidson 1980; Erramilli 1991; Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975; Luostarinen 1979) suggest that firms tend to first internationalize into countries within a low geographical and/or psychic distance, and when they gain more international experience, they start to expand to countries with a larger market size and greater psychic and geographical distance. This reveals the importance given to psychic (cultural) and market oriented dimensions in taking the internationalization decision.

The decision to internationalize through any mode of internationalization is a strategic choice of the entrepreneur or the key decision maker of the SMEs. Strategic orientation is a factor closely influenced by the entrepreneurial orientation traits. The traits and abilities of the entrepreneurs or the key decision maker are well correlated with the decision to go global. Strategic orientation has a deep impact on both management expectations and organizational performance (Kohli&Jaworski, 1990). According to Wood & Robertson (1997), strategic orientation involves many traits including entrepreneur or manager's attitudes towards risk-taking, entrepreneurship, objectivity, assertiveness, and rationality. Bhatti&Dileep Kr. (2012) empirically verified their assumption that the entrepreneurial orientation factors influence the SME entrepreneurs to take up risk and channelize their energy towards internationalization opportunities. Hence this personal trait of the SME entrepreneur towards internationalization decision and selecting the country of internationalization greatly depends upon emotional intelligence.

3.4. Significance of Emotional Intelligence

Howard Gardner's "*Frames of Mind: the Theory of Multiple Intelligences*" (1983) introduced the idea of multiple intelligences, which included both *interpersonal intelligence* (the capability to understand the intentions, motivations and desires of other people) and *intrapersonal intelligence* (the capacity to understand oneself, to appreciate one's feelings, fears and motivations). According to Salovey and Mayer (1990) emotional intelligence is "the subset of social intelligence that involves the ability to monitor one's own and others' feelings and emotions, to discriminate among them and to use this information to guide one's thinking and actions". Abraham Rebecca (1999) asserted that emotionally intelligent individuals are more skilled to cope with life activities and they have productive thinking that often includes affective awareness. Bar-On et al. (2000) defined emotional intelligence as an array of emotional, personal and social abilities and skills that impact individual's ability to challenge and cope with environmental pressures and demands in effective ways. R. Bar-On is known to have coined the term "EQ" and developed the first test of assessing emotional intelligence (the EQ-I). Organizations are "emotional places" (Armstrong, 2000), "incubators of emotions" (Muchinsky, 2000) and "emotional arenas" (Fineman, 2000) and are stated to stimulate doubt and commotion (French, 2001). Workplace outcomes and decision-making are influenced by organizational psychic pressure and stress (Fineman, 2000). Emotions such as pleasure, love and anger and social emotions such as shame, guilt, jealousy and envy construct affective mood and sentiments (Ashforth& Humphrey, 1995) that impact workplace performance and definitely decision-making. Thus as Goleman asserted in his researches, emotional intelligence (EI) takes more than intelligence quotient (IQ) to achieve success at workplace. Goleman (1995) defined emotional intelligence (EI) as the ability to be conscious of one's emotions as well others', to manage the emotions in self and others. EI has been found to affect individual's skill to effectively cope with environmental demands and control behavior under stressful work conditions (Bar-On, 1997).

Zampetakiset al., (2009) made a significant contribution to this less researched area by introducing a model, connecting emotional intelligence and entrepreneurship attitudes, as well as entrepreneurial intentions. These entrepreneurial intentions to a large extent influence the decision regarding the country and mode of internationalization for Small and Medium Enterprises. These decisions are greatly influenced by cultural or psychic distance. The feeling of self-efficacy in an individual can be attributed to Emotional Intelligence to a considerable extent. A person with higher Emotional Intelligence acts decisively and rationally, and hence their entrepreneurial initiatives are more likely to achieve success (Neghabi et al., 2011). Success of SMEs' ongoing internationalization depends on the capabilities and competencies of individuals who engage in decision-making. SME leaders involved in internationalization decisions have a significantly higher level of cultural intelligence (CQ) ie, "an individual's capability to function effectively in situations characterized by cultural diversity" (Claus Schreier and Luca Macchi, 2016). Emotional intelligence and social intelligence both influence effectiveness in global leadership (Alon and Higgins, 2005) and development of a global paradigm (Lovvorn and Chen, 2011) to excel in international business. Crowne (2013) indicated through his research that business leaders who possess high degree of cultural empathy, open-mindedness, social initiative, emotional stability, and flexibility are likely to be high on cultural intelligence because of their cultural empathy, open-

mindedness, social initiative, and flexibility and they are also likely high on emotional intelligence because of their emotional stability and flexibility. Such leaders tend to be multicultural and perform well through better decisions in an international scenario. Emotional Intelligence and cultural factors have been found to have significant impact on internationalization decisions. In this study, psychic distances have been considered as a critical cultural factor, and emotional intelligence of the SME leaders mediates the influence of psychic distance on the internationalization decisions.

An in-depth introspection uncovers the disguised, intangible personal dimension that may be conceptualized as a moderating variable influencing the internationalization decision. This variable is 'Emotional Intelligence' of the entrepreneurs or key decision makers which influences the decision of internationalization in addition to the cultural dimension- psychic distance as the core variable influencing internationalization of SMEs. Hence this research attempts to explore the influence of emotional intelligence and psychic distance on the choice of country for internationalization in SMEs. The study is mainly focused on the internationalization process in Indian SMEs, taking into consideration the SMEs located in and around the IT capital of India, Bangalore. Karnataka, the southern state of India is a hub for MSMEs owing to the entrepreneurship and MSME friendly government policies to promote 'make in India' policy and economy of the state.

IV. Research Methodology

The research method adopted in this study is conceptual as well as explorative in nature. It proposes a novel concept on the basis of some assumptions that need to be further worked on to arrive at a concrete conclusion. The study involves a review of and reflection on the pertinent literature on SME internationalization and the role of cultural distances, specifically psychic distances as well as emotional intelligence of the SME entrepreneurs in the internationalization of SMEs. The study aims at finding out and verifying the role of psychic distances on the internationalization decision of SMEs on the basis of facts obtained through a survey of these small and medium enterprises. The relationship is developed and verified quantitatively on the basis of responses gathered through a survey of SME entrepreneurs. Hence it probes into the conceptual relationship between Emotional Intelligence and perceived cultural factors in order to prove that Emotional Intelligence has a mediating role on the influence of psychic distances in the internationalization of SMEs.

The main objective of the study is to determine the role of perceived cultural distances and affinities, psychic distances on internationalization decisions of Small and Medium Enterprises in Southern India. It also aims to propose a relationship between Emotional Intelligence of SME entrepreneurs or key decision makers in the internationalization decision.

The findings are based on a survey of 150 Small and Medium Enterprises in Southern Bangalore. Through the survey, responses are solicited from entrepreneurs or key decision makers of SMEs using snowball-sampling technique. On the basis of the responses, the research explores a new dimension influencing the decision-making regarding the country of internationalization. This new dimension is Emotional Intelligence of the SME entrepreneurs or key decision makers of the Small and Medium Enterprises. Finally an attempt is made to conceptualize the mediating role of Emotional Intelligence in the SME internationalization decision-making regarding the country of internationalization. Sample frame included 150 Small and Medium Enterprises in and around Bangalore. The respondents interviewed were key decision makers of SMEs, such as Owners and Managing Directors, CEOs, Business Heads, Import/Export Managers, Production Heads, among others. The sampling technique adopted for the survey was random sampling and a standard questionnaire was used, i.e. a EI scale based on Goleman's five constructs, i.e. Emotional and Social Competency Inventory (ESCI) developed by Daniel Goleman and Boyetiz. Each question was related to the role of perceived cultural differences in deciding the country of internationalization in order to understand to what extent the decision makers consider the issue of psychic or cultural distances in making their internationalization decisions and how does their Emotional Intelligence influence their risk-taking as well as proactive propensity in decision making. The data was statistically analyzed using multiple correlations analysis and Regression analysis based on the data gathered through the survey. The internal consistency of the questionnaire was tested using Cronbach's Alpha Co-efficient reliability Assessment technique. The value of Cronbach Alpha was found to be 90.4. Hence it can be concluded that the questionnaire was acceptably reliable.

In order to verify the conceptual model of Emotional Intelligence quantitatively with respect to the role of cultural affinities and distances (psychic distances) in selecting the country of internationalization for SMEs, the hypothesis formulated are:

H₀: Psychic distances do not influence the internationalization decision of SMEs.

H₁: Psychic distances significantly influences the choice of country for internationalization

H₂: Emotional Intelligence has a mediating influence on the internationalization decision of SMEs.

V. Discussion on Findings

The study focuses mainly on the role of psychic differences on the entrepreneurial motivation to internationalize and decide the specific country for internationalization. The study considered entrepreneurs and key decision makers from a specific SME industry. Food and beverages and included enterprises from various sectors like- Beverages, Food products, Production of flour, Cooking oil, Processed food products, spices and milk-by products. A sample of SMEs having varying years of operational experience is considered, with ‘period of operation’ as the main criteria. This criterion is chosen in order to analyze the period that was involved to take ahead their firm towards internationalization. 160 small-scale unit entrepreneurial respondents were approached initially for responses. Out of which 150 provided appropriate information related to the topic selected. Thus, the study considered 150 small and medium enterprises all over Bangalore for analysis and verifying the concept introduced in this study. The study of one specific industry ensures that the Emotional Intelligence of the entrepreneurs of these SMEs is comparable on the same scale and standards.

Table No. 1 - Sampling Distribution.

Sr. No.	Sector	Years in the field			TOTAL
		0-3	4-7	8-11	
1	Beverages	5	10	10	25
2	Food products	7	11	7	25
3	Production of flour	10	8	7	25
4	Cooking Oil	6	9	10	25
5	Spices	9	9	7	25
6	Milk by products	9	8	8	25
Total		150			

Source: Author’s calculations based on Primary data.

The data collected was analyzed on the basis of Descriptive Statistics, Correlation, and regression. SPSS 16.0 version was used to analyze the data collected. The details of the analysis are given below. Table 2 shows the correlation between internationalization decision related to choice of host country and the Psychic distance factors. The variables of Psychic distance are- Competition in Foreign Market (CFM), Language similarity (LS), networking in Foreign Market (NFM), Cultural Similarity (CF), Technology Awareness in foreign market (TA), Knowledge of Managerial Skills (KMS), Strategic Orientation (SO), Government Support and Regulations (GSR), Awareness of the foreign country (AFC), Resource Utilization (RU) and Political Instability (PIS).

Table No. 2 - Correlation between choice of country of Internationalization and Psychic distance factors

Analysis	Independent Variable: Psychic distance factors										
Dependent Variable:	CFM	LS	NFM	CS	TA	KMS	SO	GSR	AFC	RU	PIS
Choice of Country of internationalization	0.41	0.442	0.491	0.411	0.398	0.401	0.400	0.422	0.439	0.403	0.39

(*Significance at 0.05 level)

Source: Summary of Author’s calculations based on the primary data.

The Hypothesis (H1) indicates that the perceived cultural distance influences the choice of the country of internationalization, psychic distance variables like competition, language, cultural similarity, governmental policies, managerial styles etc. of the foreign country into consideration. Hence, internationalization process is significantly influenced by country specific factors as well as perceived cultural differences. Higher the perceived cultural differences or psychic distances between two countries, the easier and risk averse it is to internationalize and do business in that foreign country. In the contrary, higher the psychic distances or differences between the two countries, more difficult it is to do business there. Table-2 clearly indicates that there is positive correlation (significant at the 0.05 level) between Dependent Variable – choice of country of internationalization of SMEs with 11 of sub variables of independent variable – psychic distance factors like- competition in foreign market, language similarity, networking in foreign market, cultural similarity, technology, knowledge of managerial skills, strategic orientation, governmental support and regulations of foreign country, awareness of the foreign country, resource utilization and political stability. Similarity and better awareness about all these perceived cultural and country specific factors positively influences the choice of the country as it eases the process of international business in the foreign land. Hence the study accepts the first hypothesis stated for the study.

Through multiple regression analysis, the study claims that the decision for internationalization and determining the country for internationalization definitely depends upon psychic distances. Hence, the study confirms this conceptual proposition made through a quantitative analysis explained in Table 3.

Table No. 3 - Regression Analysis: Psychic Distance Factors and Entrepreneurial Motivation

Analysis						Independent Variable: Cultural Internationalization factors						Adjusted R2
Dependent Variable:	CFM	LS	NFM	CS	TA	KMS	SO	GSR	AFC	RU	PIS	
Entrepreneurial Motivation	0.07*	0.069*	0.068*	0.70*	0.066*	0.062*	0.066*	0.669*	0.074*	0.070*	0.068*	0.39

(*Significance at 0.05 level)

Source: Author’s calculations based on Primary Data

The second hypothesis (H2) involves the verification of whether Emotional Intelligence has a moderating influence on the internationalization decision of SMEs.

In order to verify H2, the researcher first develops a relationship between entrepreneurial motivation to internationalize in any specific country of his choice as the dependent variable and the eleven psychic distance factors as the independent variable. Through a Multiple regression analysis, the relationship between the dependent and multiple independent variables is verified.

Multiple regression analysis (table no. 4) was used to examine whether internationalization motivation /intent of the respondents ie, entrepreneurs or key decision makers involved in the internationalization decision of Small and Medium Enterprises has any relationship with the perception of cultural factors been considered in the internationalization decision.

All regression models are significant at the 0.05 levels. The finding is in line with the second hypothesis stated in the study that the cultural internationalization factors significantly influences the entrepreneur motivation.

Entrepreneur motivation is a construct of Emotional Intelligence according to Goleman’s Emotional Intelligence Mixed Model. The model introduced by Daniel Goleman focuses on Emotional Intelligence as a wide array of competencies and skills that drive leadership performance. According to Goleman, Emotional Intelligence is a function of five constructs- self-awareness, self-regulation, social awareness, empathy and motivation. Goleman includes a set of emotional competencies within each construct of Emotional Intelligence. Emotional competencies are not innate talents, but rather learned capabilities that must be worked on and can be developed to achieve outstanding performance.

To measure Emotional Intelligence of the respondents, Goleman’s Emotional and Social Competency Inventory (ESCI) has been used. The responses, when analyzed and correlated with entrepreneurial motivation using Pearson’s Correlation Technique, show positive correlation.

Table-5. Pearson’s Correlation Analysis

		Self awareness	Self control	Entrepreneurial motivation
Self awareness	Pearson Correlation	1	1.000**	.521
	Sig. (2-tailed)		.000	.056
	N	150	150	150
Self control	Pearson Correlation	1.000**	1	.519
Entrepreneurial motivation	Pearson Correlation	.521	.519	1
	Sig. (2-tailed)	.056	.057	
	N	150	150	150
**. Correlation is significant at the 0.01 level (2 tailed).				
*. Correlation is significant at the 0.05 level (2-tailed).				

Source: Author’s calculations on the basis of Primary Data of ESIC

The above Table shows Pearson’s Correlation Analysis of the data related to the variables of emotional intelligence- self awareness and self control and an entrepreneurial variable- entrepreneurial motivation. It clearly shows the high positive correlation between self-awareness, social control and entrepreneurial motivation of the respondents. This verifies that motivation of an entrepreneur or key decision maker to internationalize with a specific country is influenced by a moderating variable ie, his own emotional Intelligence. Thus the second hypothesis is accepted.

It is therefore inferred that perceived cultural distances or psychic distances becomes an inevitable factor to be considered in deciding the country for internationalization of Small and Medium Enterprises. Finalizing such critical decisions on which the future business sustainability wholly depends, Emotional

Intelligence of the decision maker becomes an important variable. This indicates that if the decision maker or SME entrepreneur is reasonably high on their Emotional Intelligence, they would tend to take smarter decisions with higher risks involved but definitely after quite a lot of SWOT analysis of their country of choice for internationalization. Whatever is the consequence of the endeavor, they would show a high degree of maturity, resilience, pro-activity, motivation and effective leadership in making the internationalization strategy a success for the SME.

VI. Discussion

The findings and quantitative analysis of the data illustrates and probes into the conceptual framework of the relationship proposed earlier. The study infers that perceived cultural factors like- language, country specific factors, geographical factors, labor demographic characteristics, governmental regulations, political stability, technology, market potential etc. play a crucial role in deciding the country to internationalize with. Thus, countries that have higher degrees of cultural affinities or similarities would easily incline to internationalize through modes like export-import, partnerships, mergers & acquisitions etc. However, the increase in psychic distance reduces the likelihood for internationalizing in such markets. As Small and Medium Enterprises are enterprises involving low investments, hence it is understood that their initial moves of internationalization would be rather risk-averse. This infers that SMEs that feel that they have high perceived cultural affinity or lower psychic distance with a particular foreign country would deem it convenient to internationalize with, owing to awareness about its people, market structure, value-system, political structure, networking etc.

The study concludes that in such cases where the Emotional Intelligence of the SME entrepreneur or key decision maker is quite high, it acts as a mediating variable in deciding the country of internationalization, and in such cases, even if perceived cultural distances are high, SMEs decide to venture into the psychically distant markets. The reason behind this strategy may be the higher degree of entrepreneurial motivation, intuitiveness and risk-taking attitude of those entrepreneurs who rate higher on their Emotional Intelligence. In such cases, the SMEs take decisions to venture into foreign countries, which may be highly diverse than theirs in terms of culture and psychic distance factors. These may be better strategized for success of SMEs in foreign markets due to enhanced professional effectiveness promised by high levels of Emotional Intelligence.

VII. Practical Implications

The research indicates various internationalization factors and its influence on entrepreneurial motivation. The findings show that majority of SME entrepreneurs usually have increased concerns about the various psychic distance factors which is cited in the study. Among the various psychic distance variables, cultural similarity between the home country of the SME and host country is considered to be the most important factor. Higher the cultural differences, more difficult it is to venture into the foreign market and capture it. Cultural differences bring into the arena vast number of differences and issues like- language, values, demography of labor population, country- specific factors, geographical factors, and availability of resources, governmental regulations and many more. Hofstede (1980) has focused on value based cultural dimensions. However, in this study, perceived cultural differences is considered broader concept than just values. Hence, SME entrepreneurs tend to enter into countries, which have higher perceived cultural affinities and hence are less hostile for them to venture into. In such a scenario, SME entrepreneurs or decision makers do not have the confidence to face the acute level competition existing in psychically distant markets since there is lack of awareness, networking and less strategic orientation.

Indian SMEs face another difficulty like the support from the government to go global in addition to the effect of strict regulations. The atmosphere of political instability also contributes to the SME environment that weakens entrepreneur's confidence level to go global. The entrepreneurs are expected to avail more information about how to go ahead with internationalization through the adoption of modern technology, consultancy and information sharing.

The study concludes that all efforts from the SME entrepreneurs or decision makers will be useless if they lack the emotional intelligence to gain awareness about the foreign countries that may or may not be having high psychic distances, develop appropriate networking with foreign investors and stakeholders and proactively take risks to enter into markets that have the potential to enhance the competitiveness of the Indian Small and Medium Enterprises.

VIII. Conclusion

Sustainable development of the economy in the 21st century mandates the sustainable growth and development of the Small and Medium Enterprises. Being an emerging nation, India's exponential growth is attributed to the fast growing Small and Medium Enterprises. SME internationalization definitely requires considerable measures on the part of the Government, the citizens as well as the researchers to pay importance

to this need. It's our SMEs that can help us attain our Millennium Development Goals and sustain in the dynamic economy. Hence, it is the call of the hour to focus on the growth and enhancement of Indian SMEs. Growth and sustainability is possible through internationalization. Hence, this research highlights this important issue related to internationalization of Indian SMEs. Through this research, the crucial role of cultural affinities and distances i.e., psychic distance in the choice of the country of internationalization is highlighted. The study envisages the importance of emotional intelligence of SME entrepreneurs or key decision makers in influencing the decision regarding the choice of country for internationalization. It is re-iterated that emotional intelligence has a mediating role in influencing the decision of internationalization of SMEs. This study points towards further research on the influence of immigration of cultures on the strategies adopted by Small and medium firms in order to sustain in foreign markets.

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