

The role of human capital in the foreign market performance of US SMEs: does owner ethnicity matter?

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Abstract

Purpose – This paper adopts an intellectual capital perspective to investigate the role of owners who are ethnic minorities in the foreign market expansion performance of SMEs, and in particular considers the human capital dimension of intellectual capital.

Design/methodology/approach – Based on the empirical investigation of a sample of 10,326 small- and medium-sized US high-tech manufacturing enterprises, the authors' results reveal a positive relationship between the number of foreign markets where these SMEs operate and their financial performance, and that this effect is reinforced by the presence of ethnic minority owners, as ethnic minorities constitute a valuable source of intellectual capital which bring value to firms.

Findings – The authors' findings reveal the importance of intellectual capital in an SME's leadership position, specifically in terms of having individuals from normally disadvantaged groups as owners. In this sense, policymakers are crucial in supporting the inclusion of ethnic minorities in SME ownership, through advantageous treatment in firms, for example.

Practical implications – The study presents practical implications for managers seeking foreign market expansion. In addition, when defining ownership structure (e.g., in the start-up phase), the role of human capital, in the form of ethnic minorities, should not be neglected, especially if an SME intends to operate or is already operating in different national contexts.

Originality/value – The authors' results provide important insights into the positive effect of human capital on SME foreign market performance. The idea of a moderating role played by owners from ethnic minorities suggested here contributes to the literature on human capital and is one of the first attempts to consider this moderating factor in this relationship, especially in the SME context.

Keywords Small- and medium-sized enterprises (SMEs), Human capital, Foreign market expansion, Ethnic minorities

Paper type Research paper



1. Introduction

Within a fast-changing globalized economy, intellectual capital (IC), defined as the knowledge set firms utilize to create value and competitive advantage (Nahapiet and Ghoshal, 1998), is a fundamental driver for the internationalization of firms (Edvinsson, 2000; Nerdrum and Erikson, 2001). Intellectual capital is a complex construct which synthesizes and embodies all the different dimensions of human knowledge (Allameh, 2018), i.e. not only skills, capabilities and personal traits (human capital), but also the knowledge embedded within interactions among individuals (social capital) and the more “institutionalized” and codified knowledge stored within data sets, patents, manuals, structures, systems and processes (organizational capital). These three sub-constructs (human capital, social capital and organizational capital) constitute the three pillars of intellectual capital (Nerdrum and Erikson, 2001) and enable us to understand the importance of individuals within organizations more deeply, especially how firms perform and create competitive advantage. Since these dimensions contribute to a firm’s performance not only as singular entities but also through their interaction and combination, they create a unique and therefore difficult-to-imitate pool of knowledge and intangible resources (Subramaniam and Youndt, 2005).

Within this framework, the dimension of human capital, defined in terms of the firm’s management and/or owners’ education, skills, capabilities and characteristics, constitutes one of the driving forces in a firm’s international activities (Kianto *et al.*, 2014; Onkelinx *et al.*, 2016). In fact, human capital bolsters international commitment and shapes an organization’s values and orientation, as well as deploying the essential resources to pursue internationalization efforts (Javalgi and Todd, 2011).

The importance of human capital is further intensified in small- and medium-sized enterprises (SMEs), where the owners’ commitment has a stronger influence on foreign market expansion performance than in larger enterprises (Javalgi and Todd, 2011; Onkelinx *et al.*, 2016). This effect is due to the flat structure of SMEs and their non-bureaucratic, “free-floating” management style (Yew Wong and Aspinwall, 2004; Wee and Chua, 2013), where control tends to be based on the personal supervision of owners and where formal policies tend to be absent (Durst and Wilhelm, 2012), thus making SMEs more “sensitive” to the owners’ managerial attitude. Hence, human capital plays a crucial role in the foreign market expansion of SMEs because operating in foreign markets may be challenging due to issues related to cultural diversity, geographical distance, different consumer needs and national regulations, and limited resources available (Gassmann and Keupp, 2007). Human capital may promote SME foreign market expansion because it can smooth out cultural diversity, geographical distance, and different consumer needs and national regulations (Pangarkar, 2008).

With this in mind, individual with foreign origins in leading positions are believed to provide a particularly strong contribution in terms of new knowledge and different mental models and problem-solving approaches that make the presence of a firm in foreign markets more effective (Giudice and Maggioni, 2014; Cook and Glass, 2015; Liu and Almor, 2016; Usai *et al.*, 2018). Thus, given that SMEs may also lack the financial and human resources that could help them face complex, international economic environments, having foreign owners could modify the relationship between the presence of SMEs in foreign markets and their financial performance (Mcadam and Reid, 2001; Scuotto *et al.*, 2017). In line with this reasoning, ethnic minority ownership, defined as the presence of individuals from an ethnic minority group in the ownership structure, enriches the human capital of SMEs and may be a specific source of competitiveness or hindrance (Li, 2010; Del Giudice, 2012). Broadly speaking, ethnic minority groups are those that, because of physical or cultural characteristics related to their foreign origins, are singled out from the broader ethnic majority in the society in which they live, and that still possess fundamental cultural values and a strong sense of belonging to a certain ethnic group and feel identified by it

(van Dommelen *et al.*, 2015). People from these groups constitute an important human capital asset that offers a unique set of knowledge, cultural values and experience that can contribute to a company's competitive advantage (Youndt *et al.*, 2004). The effect of people from ethnic minorities in business environments is particularly strong in the US context, as it is one of the countries with the highest variance of ethnicities, and thus it provides the context for a better examination of the phenomenon of ethnic minority ownership (Froy and Pyne, 2011).

The ethnic background of top executives has been recognized as a potential issue in a firm's foreign activities, contributing to heterogeneous performance in the internationalization process (Mohr and Shoobridge, 2011; Shukeri *et al.*, 2012) – which suggests the relevance of multi-ethnicity when addressing a strategic need for flexibility. Ethnic minorities in the ownership structure may, therefore, possess a set of individual characteristics that can have visible effects on the strategy-performance relationship. They may, for example, affect the relationship between the presence of a firm in foreign markets and its financial performance.

Extant literature on human capital and the internationalization of firms confirms the importance of human capital in their internationalization performance (Huang and Lui, 2005; Clarke *et al.*, 2011; Onkelinx *et al.*, 2016). However, much of the research has focused on the effect of human capital when it comes to the owner or manager in the internationalization process (Salojärvi *et al.*, 2005; Zakery and Saremi, 2020); less attention has been devoted to exploring the managerial roles of human capital in SMEs (Durst and Wilhelm, 2012), and in particular the role of human capital in SME internationalization (Ulubeyli and Yorulmaz, 2019). Moreover, while the effect of ethnic diversity on large corporate boards has been explored (Cook and Glass, 2015), extant literature lacks a close-up examination of SMEs. Since these are considered the backbone of the economy (Paul *et al.*, 2017), and they are not simply scaled-down versions of larger companies (Curran and Blackburn, 2001), ad hoc studies focusing on SMEs are required.

Consequently, we address this gap by posing the following research question: how does the ethnicity of owners influence the financial performance of SMEs during their foreign market expansion? We dissect this issue in two steps. First, we investigate how the foreign market expansion affects the financial performance of SMEs, and secondly, we analyse how the presence of ethnic minority owners moderates this relationship.

The study was conducted by developing a number of hypotheses and testing them on a sample of 10,326 high-tech US SMEs registered in the Orbis database. The results of the study indicate that presence in foreign markets is positively related to SME financial performance and that this effect is strengthened when SMEs are owned by an ethnic minority. Sections 1 and 2 of this paper present our theory and hypotheses; section 3 describes data and methodology; section 4 outlines our results; and section 5 concludes the paper by discussing key findings, implications, and future research directions.

2. Theory and hypothesis

2.1 *The advancement of ethnic minorities in leadership roles*

The topic of ethnic minorities is currently prominent in the business environment, and companies are realizing the importance of ethnic diversity as an important ingredient for corporate success. In terms of revenues, companies with greater racial and ethnic diversity outperformed others in terms of profitability by 36% in 2019, up from 33% in 2017 (Hunt *et al.*, 2018). Although there is still a long way to go before ethnic minorities achieve equality, the beneficial effect of ethnic minorities has been widely acknowledged and ethnic minorities are gaining prominent predominant roles on corporate boards and in entrepreneurial activities as owners.

Ethnic minorities have made progress in achieving leadership positions, as shown by research conducted by Deloitte on *Fortune 500* companies between 2016 and 2018

(Deloitte, 2019). According to this research, the percentage of board seats held by African Americans or Blacks and by Asian or Pacific Islander Americans increased faster between 2016 and 2018 than in previous years. Ethnic minorities are also acquiring increasing relevance as firm owners. According to the 2018 US Annual Business Survey, 322,076 (5.6%) of all US businesses were Hispanic-owned, 555,638 Asian-owned, and 124,004 Black or African American-owned (United States Census Bureau, 2020).

2.2 *The role of human capital in SME internationalization*

Individuals constitute one of the most important assets in a firm's intellectual capital, which is defined as the combination of all the knowledge and competences that can contribute to the company's sustained competitive advantage (Brennan and Connell, 2000; Nerdrum and Erikson, 2001). It is considered a key driver in a firm's performance and value creation (Elia and Li, 2017).

Intellectual capital can be disaggregated into three different dimensions: organizational, human and social (Allameh, 2018). These dimensions are equal contributors to a firm's strategic decision outcomes, although the human capital dimension assumes a pivotal role in the SME context (Jordão and Novas, 2017), where control tends to be based on the owner's personal supervision. Human capital refers to the sum of employee competences, knowledge, skills, innovativeness, attitude, commitment, wisdom, and experience, and it constitutes the individual knowledge stock of an organization (Nerdrum and Erikson, 2001; Campbell *et al.*, 2012). Even though human capital management is less formal and bureaucratic for smaller firms, this does not mean that effective human capital management is less significant. In fact, it has been acknowledged to be a crucial driver contributing to SME performance and the exploitation of external opportunities (Hayton, 2003). For these reasons, individuals in the SME leadership positions (Steenkamp and Kashyap, 2010; Del Giudice *et al.*, 2017), especially those in ownership, can lead firms in their adaption to dynamic and constantly changing environments (Nadkarni and Herrmann, 2010), affecting the way in which a strategy is pursued to achieve profit goals (Thomsen and Pedersen, 2000; Carter *et al.*, 2010). In particular, ownership identity influences the proclivity to take risks and expand the scale and scope of a firm's internationalization efforts (Firer and Mitchell Williams, 2003; Oesterle *et al.*, 2013). Similarly, the export orientation and performance of SMEs are dependent on entrepreneurial characteristics (Filatotchev *et al.*, 2009) such as the international background and global networks of their owners.

2.3 *The internationalization performance of SMEs*

SMEs that are able to operate in different international contexts may ultimately present higher financial performances than their counterparts that have not internationalized since they are more likely to have a larger operating market, even if they only own a small market share per country, and they consequently profit from a broader geographic scope (Lu and Beamish, 2006; Ceccagnoli and Jiang, 2013).

A presence in foreign markets also favours the opportunity to tap into pools of (unique) scientific and technical labour and knowledge that are only available in specific geographical contexts (Doz, 2013). This may reduce R&D costs and risks (Ceccagnoli and Jiang, 2013), which often constitute a considerable constraint on SME innovativeness (Verhees and Meulenberg, 2004), as their small scale limits them from engaging in substantial R&D programmes. Moreover, their export strategy does not encompass the complexities of establishing a foreign subsidiary (Lu and Beamish, 2006). In particular, SMEs can use their existing production facilities rather than build new production plants in a foreign market. In fact, exporting requires less commitment than other internationalization strategies and can

be abandoned when the optimal conditions cease to exist (e.g., political instability or fluctuating markets) (Kalinic and Forza, 2012).

It may even be contended that SMEs that have expanded their business in foreign markets may lessen competitive pressure, find new growth opportunities, and pursue a sustainable growth strategy more easily. In this respect, growth through international market expansion is an important strategic option (Prange and Verdier, 2011), offering SMEs the opportunity to discover new and less crowded market opportunities, thus improving their financial performance (Lu and Beamish, 2001). Specifically, the contribution to SME financial performance derived from a presence in foreign markets is linear. By increasing sales through export activities, SMEs improve their financial performance. In turn, higher sales volumes provide opportunities for higher production volumes, which enable economies of scale and increase labour productivity (Lu and Beamish, 2006). In this way, SMEs benefit from a dual source of financial performance improvement. On the one hand, their sales increase and, on the other hand, their costs decrease thanks to economies of scale. Therefore, it can be argued that:

- H1. The higher their presence in foreign markets, the higher the financial performance of SMEs.

2.4 Ethnic minorities as source of human capital

Human capital constitutes an essential intangible asset contributing to successful strategies for SMEs (Steenkamp and Kashyap, 2010). Furthermore, it enriches the intellectual capital of firms, defined as the combination of all the knowledge and competences that can contribute to a company's sustained competitive advantage (Tan *et al.*, 2007; Benevene and Cortini, 2010). In this respect, people from ethnic minorities are a valuable source of human capital because they bring a unique set of values and cultural beliefs which are difficult to codify but that enhance value creation and firm performance in business processes (Elia and Lerro, 2017).

The main distinctive trait of ethnic minority groups is their adherence to specific and unique cultural values that are disappearing from western culture (Bowman, 2003) and this makes their presence in firms' human capital assets valuable. These values can be identified as the following: a greater emphasis on self-improvement, defined as a continuous personal growth effort; collectivism, which refers to the importance of thinking about one's group before oneself and viewing one's achievement as one's family's achievement; conformity to norms, meaning the importance of conforming to the role expectations imposed by family and society, and being careful with one's family and group reputation; family recognition through achievement, which refers to the importance of not bringing shame to one's family, along with spirituality, a sense of honour and humility, not being boastful, and being modest (Kim *et al.*, 2001). Their values emphasize the ideals of maintaining order, respecting seniority, the idea of one's working environment being like a family, reciprocating kindness, prioritizing group interests over individual interests, and maintaining harmony in relationships.

2.5 The relevance of human capital in SME internationalization and ethnic minority owners

As suggested above, the identity of its owners is fundamental in shaping and addressing a firm's strategic decisions, and different types of owners may lead to different attitudes regarding corporate decisions (Hautz *et al.*, 2013; Grimaldi *et al.*, 2016). In this context, cultural diversity within ownership boards can influence the effectiveness of internationalization strategies such as implementing a presence in foreign markets (Javalgi and Todd, 2011). This cultural diversity is produced by the presence of ethnic minority individuals. Indeed, people from ethnic minorities are often more accustomed to coping with structural disadvantages (Axtle Ortiz, 2009; Ojo *et al.*, 2013) such as racial exclusion and discrimination (Zhou and

Xiong, 2005), and they may need to accommodate to inferior conditions (Virdee, 2006) or push for higher results (Janmaat, 2008). In turn, they exhibit a strong “trader’s instinct” (Wauters and Lambrecht, 2008) and have a more positive attitude towards job and sacrifice. In addition, these individuals possess higher resilience and organizational commitment (Abeysekera, 2007), a lower inclination toward risk (Holt, 1997), and a more positive disposition towards external opportunities (Singh and DeNoble, 2003). Taken together, these personal traits constitute an advantage when dealing with foreign markets and different cultures.

2.6 The moderating role of ethnic minority ownership

We argue that the presence of owners from ethnic minorities empowers foreign market performance by bringing heterogeneity and multiple perspectives. In this manner, the presence of ethnic minorities in firm ownership exerts a positive effect on their human capital dimension.

There are multiple reasons for this effect. First, the propensity of ethnic minorities to achieve higher results (Seol, 2008), their lower level of job satisfaction (Janmaat, 2008), and their natural trading instinct (Wauters and Lambrecht, 2008) may be additional forms of stimulus favouring market expansion and new competitive opportunities. This may help to further enlarge the overall operating market, especially worldwide, given their international origin. The international strategy of minority-owned SMEs may even lead to a larger market size and more business opportunities that can increase financial performance. Second, owners belonging to an ethnic minority are more willing to approach different foreign cultures (van Dommelen *et al.*, 2015), and this is likely to be reflected across the whole organization, given their high-ranking position and the flatter structure of SMEs. As a result, the effectiveness of operating in foreign markets is probably enhanced thanks to their ability to understand, satisfy, and learn from more diversified, international customers (Altinay *et al.*, 2014). Third, their higher predisposition towards external opportunities (Singh and DeNoble, 2003) encourages and amplifies the process of learning from new international contexts (Michailova and Wilson, 2008). This means that, in terms of financial performance, the benefits originating from higher learning opportunities when operating in foreign markets are likely to be enhanced. Lastly, the general risk aversion of people belonging to ethnic minorities and their farsighted behaviour (Holt, 1997; Calluso *et al.*, 2020) foster the choice of pursuing low-commitment and low-risk internationalization strategies (Johanson and Vahlne, 2009). That is, as previously discussed, foreign market exports involve a lower level of resource commitment and can be easily abandoned in case of failure (Johanson and Vahlne, 2018), and this can be particularly beneficial for firms with resource constraints, such as SMEs. In addition, differences in ethnicity will very likely produce unique information sets that are available to management for better decision-making, and diverse directors provide access to important constituencies in the external environment (Carter *et al.*, 2010), enriching a company’s social capital dimension.

It follows from the foregoing discussion that the presence of ethnic minorities in their ownership structure should boost successful foreign market expansion by SMEs, thereby further increasing prospective benefits for their financial performance. Stated more formally:

- H2.* The relationship between the presence of SMEs in foreign markets and their financial performance is positively moderated by the presence of an ethnic minority in their ownership structure.

3. Data and methods

3.1 Data collection

Data for hypothesis testing were collected from the Orbis database (Bureau van Dijk). Specifically, a sample of high-tech manufacturing SMEs in the US was taken. It should be

noted that the US context was chosen because US SMEs manifest a peculiar strategic intent to move into foreign markets to improve their competitive potential (OECD - Organisation for economic co-operation and development, 2004). Furthermore, ethnic minority issues are particularly evident in the US context, which is one of the countries with the highest variety of ethnicities, which makes it possible to better examine the phenomenon of ethnic minority ownership (Froy and Pyne, 2011). The choice of focusing on high-tech manufacturing SMEs lies in the fact that market expansion is especially evident for this type of SMEs compared to SMEs belonging to low-tech and/or service industries (Baruch, 1997; Spence and Crick, 2006). For instance, it has been shown that foreign market expansion may be a more significant source of profits for high-tech SMEs especially, since they face fierce competition due to the presence of large incumbents in their national market (Freeman *et al.*, 2006). Consequently, they tend to internationalize more rapidly and follow different market entry routes (Baruch, 1997; Spence and Crick, 2006).

More specifically, for our data collection a search was carried out in the Orbis database for US companies classified as SMEs and belonging to high-tech sectors, as identified using previously suggested industrial sector codes (Gomez-Mejia *et al.*, 2014). Out of all the firms identified, the sample was restricted to 10,326 SMEs for which information on financial performance (in 2017) and ownership was available.

3.2 Variables

The dependent variable in this study (*Financial Performance*) was measured as the natural logarithm of an SME's operating revenue (Collins-Dodd *et al.*, 2004). The independent variable (*Foreign Markets*) was calculated by counting the number of main foreign markets in which an SME operates (Ellis, 2007), as indicated in the Orbis database. The moderating variable (*Ethnic Minority Ownership*) is a binary variable taking the value of 1 if an SME is recognized as minority-owned by the Orbis database – that is, when an SME is at least 51% owned by one or more members of a socially and economically disadvantaged minority group that also controls its management and daily business operations.

Control variables were added to improve the reliability of the analysis. First, firm age (*Firm Age*) (Sorensen and Stuart, 2000), calculated as 2017 minus the incorporation year, was considered. Second, a variable considering firm size (*Firm Size*), in terms of number of employees (Damanpour, 1992), was added. Third, in order to take the level of innovativeness of an SME into account, the number of patents it owns (*Innovativeness*) (Hall *et al.*, 2005) was calculated. Fourth, the number of branch locations recorded worldwide by an SME (*Branch Locations*) (Hoopes, 1994) was included. Fifth, regarding the ownership structure, information was collected on the number of recorded shareholders (*Shareholders*) (Amihud *et al.*, 1999), including a dummy variable if an SME was also a woman-owned enterprise (*Woman-Owned*) (Piperopoulos, 2012), and we also considered the share of family owners who are also managers (*Family Management*) (Block, 2010). Finally, dummy variables controlling for an SME's main sector (*Dummy Sectors*) were included.

4. Results

Tables 1 and 2 show, respectively, descriptive statistics and pairwise correlations. Correlation values are all below 0.70, thus limiting multicollinearity concerns (Cohen *et al.*, 2003). An ordinary least square (OLS) regression with robust standard errors was used to test the hypotheses. Indeed, a cross-sectional dataset, where the dependent variable assumes continuous, not censored values (Wooldridge, 2015), was built. Table 3 presents the results. Model 1 provides the baseline model, including control variables and the moderating variable (*Ethnic Minority Ownership*). Model 2 adds the independent variable (*Foreign Markets*).

Variable	Mean	Dev. Std	Min	Max
1-Financial Performance	6.40	1.16	5.52	8.92
2-Foreign Markets	0.017	0.38	0	19
3-Ethnic Minority Ownership	0.13	0.34	0	1
4-Woman-Owned	0.131	0.34	0	1
5-Family Management	1.83	13.19	0	100
6-Shareholders	0.24	0.62	0	13
7-Innovativeness	0.97	10.44	0	919
8-Branch Locations	0.34	1.36	0	26
9-Firm Size	9.23	14.48	1	75
10-Firm Age	21.86	15.93	0	187

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Table 1.
Descriptive statistics

	1	2	3	4	5	6	7	8	9	10
1-Financial Performance	1									
2-Foreign Markets	0.02*	1								
3-Ethnic Minority Ownership	-0.04*	0.04*	1							
4-Woman-Owned	-0.01	0.02*	0.35*	1						
5-Family Management	0.12*	0.02	0.01	-0.01	1					
6-Shareholders	0.04*	-0.00	-0.05*	-0.04*	0.27*	1				
7-Innovativeness	0.06*	-0.00	-0.02*	-0.02	0.07*	0.10*	1			
8-Branch Locations	0.19*	0.01	-0.04*	-0.02*	0.02	0.01	0.04*	1		
9-Firm Size	0.51*	-0.00	-0.04*	-0.02*	0.20*	0.08*	0.06*	0.15*	1	
10-Firm Age	0.23*	0.01	-0.07*	-0.04*	0.09*	0.04*	0.02	0.05*	0.21*	1

Note(s): * $p < 0.05$

Table 2.
Pairwise correlations

	Model 1	s.e.	Model 2	s.e.	Model 3	s.e.
Foreign Markets			0.038**	0.018	0.032*	0.018
Foreign Markets X Ethnic Minority Ownership					0.508***	0.158
Ethnic Minority Ownership	-0.061**	0.030	-0.060**	0.030	-0.063**	0.030
Woman-Owned	0.038	0.030	0.039	0.030	0.038	0.030
Family Management	0.001	0.001	0.001	0.001	0.001	0.001
Shareholders	-0.024	0.020	-0.025	0.020	-0.025	0.020
Innovativeness	0.003**	0.001	0.003**	0.001	0.005**	0.001
Branch Locations	0.099***	0.008	0.100***	0.008	0.099***	0.008
Firm Size	0.037***	0.001	0.037***	0.001	0.037***	0.001
Firm Age	0.009***	0.001	0.009***	0.001	0.009***	0.001
Dummy Sector						
Constant	5.81***	0.045	5.806***	0.045	5.801***	0.045
F statistic	161.22***		153.31***		145.04***	
R ²	0.2919		0.2920		0.2924	

Note(s): $N = 10,326$; * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Table 3.
OLS results with robust s.e.

Model 3, the full model, includes the coefficient estimates of the interaction term *Ethnic Minority Ownership X Foreign Markets*.

According to model 1, the financial performance of SMEs is positively related to an SME's innovativeness ($\beta = 0.003, p < 0.05$), number of branch locations ($\beta = 0.099, p < 0.01$), firm size ($\beta = 0.037, p < 0.01$), and firm age ($\beta = 0.009, p < 0.01$), whereas it is negatively related to ethnic minority ownership ($\beta = -0.061, p < 0.05$). Model 2 supports [Hypothesis 1](#), thus confirming the positive relationship between SME foreign market performance and financial performance, since the linear term Foreign Markets is positive and significant ($\beta = 0.038, p < 0.05$). For robustness, in a separate model, the presence of curvilinear effects was tested by adding the quadratic term Foreign Markets. The quadratic term was found to be not significant, hence confirming the initial presumption. Model 3 proves to be in line with [Hypothesis 2](#). Indeed, the interaction term Ethnic Minority Ownership X Foreign Markets is positive and statistically significant ($\beta = 0.508, p < 0.05$), proving that presence of ethnic minorities owners positively moderates the relationship between foreign market performance and financial performance. To gain additional insight into the moderating effect of Ethnic Minority Ownership, a simple slope analysis ([Toothaker et al., 1994](#)) was carried out. Different levels of Ethnic Minority Ownership – high (when an SME is ethnic minority-owned) and low (when an SME is not ethnic minority-owned) – were included. Afterward, the effect of Foreign Markets on Financial Performance was plotted for both levels of Ethnic Minority Ownership ([Figure 1](#)). [Figure 1](#) provides further support for [Hypothesis 2](#) since higher financial performance manifests at the high level of Ethnic Minority Ownership.

5. Discussion

Based on a sample of 10,326 high-tech manufacturing SMEs in the US, the present study examines the effect of human capital, in the form of owners from an ethnic minority, in enhancing the successful internationalization of SMEs through foreign market expansion.

Our findings reveal that the presence of ethnic minority owners adds value to the international commitment of SMEs. Ethnic minority ownership contributes to empowering intellectual capital assets by enriching the asset of human capital, and it provides additional soft skills which may be critical when facing barriers to internationalization. We contend that this added value is embodied in the set of attitudes and personal traits which are typical of

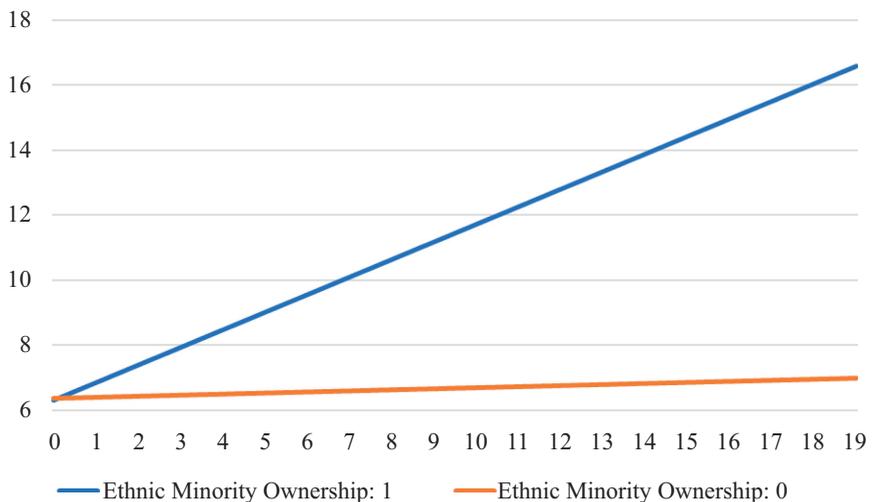


Figure 1.
Robustness check for the effect of ethnic minority ownership

ethnic minorities and which they also manifest when they are owners. The relevance of these traits is stronger in the SME context, where flatter structures and the central role of owners/managers makes the contribution of ethnic minority values stronger than in larger counterparts. Being an ethnic minority owner means, in the first place, enriching the organization with values such as modesty, patience and a sense of duty (Verkuyten and De Wolf, 2002). Second, as regards foreign market expansion, the presence of ethnic minority owners in SMEs enhances the process because it adds a set of cultural values which are relevant when approaching a different market/culture. Namely, these values are a constant desire to achieve higher results (van Dommelen *et al.*, 2015), a natural trading instinct (Wauters and Lambrecht, 2008), greater confidence when approaching different cultures, higher predisposition toward external opportunities (Singh and DeNoble, 2003), and higher risk aversion (Calluso *et al.*, 2020) – all of which make them more rigorous when evaluating risk and benefits.

5.1 Theoretical implications

The study contributes to the theoretical discussion on intellectual capital, and in particular the human capital dimension, and to that on SME internationalization, providing evidence of the importance of human capital in the decision-making of SMEs. Indeed, most prior work on intellectual capital and internationalization focused on a broad definition of intellectual capital rather than articulating an analysis based on the single pillars (Korsakienė *et al.*, 2017; Ulubeyli and Yorulmaz, 2019; Zakery and Saremi, 2020), with less attention paid to human capital and international strategies in the specific context of SME internationalization (Manolova *et al.*, 2002; Loane *et al.*, 2007; Ganotakis and Love, 2012). In this respect, our findings support previous results, which found a positive impact of human capital on SME internationalization performance (Matlay *et al.*, 2006; Ruzzier *et al.*, 2007; Javalgi and Todd, 2011; Onkelinx *et al.*, 2016), but we also added the element of ethnic minorities in leading positions. Their distinctive “ethnic” traits add to a firm’s human capital assets and propel a competitive advantage which is difficult to emulate. Our study findings are also consistent with previous results which found that in the context of SMEs, human capital does not directly affect firm performance but rather needs to be mediated by self-efficacy (Zuhir *et al.*, 2019), defined as self-confidence in its own competence to complete an action. People from ethnic minorities could add self-efficacy to the SME human capital base, enabling SMEs to achieve better performance and competitive advantage. In these respects, a structured and formal set of human capital management practices would be critical for small- and medium-sized enterprises trying to leverage their performance (Hayton, 2003).

We also advance previous research that focused on the way diverse cultural backgrounds in the composition of top management teams shapes their international strategy and on how such diversity results in superior performance (Nielsen and Nielsen, 2011). Our contribution adds to that literature, introducing the racial/ethnic element to the human capital dimension, namely the effect ethnic minority-related characteristics have on improving internationalization performance. Diversity of national cultures has a profound effect on leaders’ orientations and logic; indeed, it appears that belonging to a minority groups adds extra values, logic and wisdom, which are good for foreign market operations.

Our results also contribute to the broader literature on SME internationalization. Most previous empirical work on SMEs emphasized the idea that they are characterized by the presence of aides and adversaries that defy their ability to cope with complexity and uncertain environments (Okreglicka *et al.*, 2015; Vecchiato, 2015). Conversely, the results of this study confirm the positive effect of internationalization on SME performance (Lu and Beamish, 2001; Matlay *et al.*, 2006), thereby echoing existing research which acknowledges the view that foreign market expansion is significant in a firm’s competitiveness, including SMEs (Majocchi and Zucchella, 2003; Arbussa *et al.*, 2017).

5.2 Managerial implications

The present study has important implications for practitioners. First, we advise managers to expand into foreign markets, in view of an improved financial performance. In particular, managers are advised that they may overcome competitive pressure from larger competitors by exploiting their resources to expand into foreign markets. Second, practitioners should take advantage of the lean structure of SMEs, where ownership and management often overlap (Brunnering *et al.*, 2007), and convert it into an advantage by assigning a major role to the human element, in the form of the owner, who plays a key role in an SME (Lloyd-Reason and Mughan, 2002). Indeed, the ownership structure of an SME would be positively affected by the presence of an individual belonging to an ethnic minority, especially with a view to implementing a growth strategy through foreign market expansion. This presence may give a positive boost to expansion operations, adding a superior value to the process and empowering the internationalization process as a whole. This could mean that, in defining the ownership structure (for example, during the start-up phase), ethnic minorities should not be neglected, especially if an SME intends to operate or is already operating in different national contexts. In turn, these outcomes could be helpful for funding organizations and/or venture capitalists by providing them with an additional lens to assess SMEs.

Despite the increasing relevance of the debate regarding minority groups in leading roles, there is still huge underrepresentation of minority groups in leadership/owner positions. In this respect, the development of ad-hoc Human Resource Management Practices (HRMP) to raise awareness of the advantages of having leaders from ethnic minority groups might address such shortfalls. The proper design and implementation of diversity management actions would affect single individuals, the way they interact as group, and, consequently, the entire organization (Benschop, 2001). Moreover, such HRMPs would produce other collateral benefits, i.e. enhancing individual learning and the motivation and retention of employees for knowledge acquisition and knowledge sharing (Gope *et al.*, 2018). Also, in consideration of the broader definition of intellectual capital, a proper combination of the human capital dimension with other factors, such as the set of social capital relationships, could further enhance the strength of the human capital-related traits of ethnic minorities. Clearly, companies should also take firm positions against racial discrimination and define appropriate policies and practices to discourage any discriminatory practices making equality and diversity part of the firm's culture.

The issue of racial difference in the workplace, especially between owners and employees, should not be neglected. In this regard, the ethnic identity of owners could generate the so-called phenomenon of ethnocentrism among employees, which is the situation where people tend to apply their own culture or ethnicity as a frame of reference when judging other cultures, practices and behaviours, typically in a negative manner, and having the perception that their own culture is superior to, or more correct or normal than, all others (Young *et al.*, 2017). This attitude could cause obstacles to and misalignment between top decisions (by owners) and the executors (the employees), as the latter may not perceive the "authority" of the decision-maker. To cope with this possibility, we encourage ethnic minority owners and managers to take this into account, create a fair working environment and make sure their decisions are not being boycotted by their employees. Social diversity in groups and organizations can still cause discomfort, rougher interactions, lack of trust, interpersonal conflict, inferior communication, and less cohesion. Human resource management needs to provide support against discrimination from the top level, encouraging people of different ethnicities to be in ownership and leadership positions, in light of the multiple beneficial effects stemming from their contribution when heading the company, especially in the role of owner. Furthermore, governments and social players need to leverage their policy mechanisms to encourage the expansion of ethnic minorities within SMEs first, and more generally in all companies. Such a fresh internal dynamicity thanks to the presence of ethnic

minorities in ownership or leading positions may be leveraged to enrich the whole intellectual capital asset, especially enhancing soft skills and the set of potential relationships among people within the organization.

The widespread expansion of SMEs and their increasing importance in every national economy (Ribeiro-Soriano, 2017) have attracted the attention of policy makers. The latter should be aware that it is important to stimulate the export orientation of SMEs, possibly by streamlining the legal procedures for selling in foreign markets and thereby favouring the connection between foreign countries through ad-hoc agreements, which may encourage the export orientation of SMEs, and by introducing incentives for export activities. In addition, policy makers should consider the positive effect of ethnic minorities on the relationship between strategic agility and financial performance for SMEs. They can thus support the inclusion of ethnic minorities in SMEs ownership through, for example, potentially advantageous treatment.

6. Conclusions

This study focuses attention on the increasing importance of ethnic minorities in leading positions, which are typically the role of owner(s) in SME internationalization strategies. In particular, we contribute in three ways to the debate regarding the role intellectual capital plays in SME internationalization. First, we confirm existing research which acknowledges foreign market expansion is relevant for a firm's competitiveness and also for SMEs. Second, we find that ethnic minority ownership contributes to heightening the intellectual capital asset, in particular by enriching the human capital dimension and providing additional soft skills which may be critical when facing barriers to internationalization. Third, we find that belonging to minority groups enhances foreign market performance.

The study has three acknowledged limitations that, nonetheless, indicate interesting points for future research and refinement. First, the dataset employed here includes only US high-tech SMEs. A comparison with SMEs from other countries beyond the US could further validate our results or, in contrast, provide additional insights. Second, our data set do not provide measurements of the actual percentage of ownership and lack additional information regarding the personal background of owners belonging to an ethnic minority. For instance, it would be interesting to consider the social context where they were born and raised, and in particular it would be useful to see whether, despite belonging to a certain ethnic minority, they were actually raised far from the ethnic context of origin and closer to a globalized social context. Demographic information, such as gender, education and age, is also missing, which hinders a more in-depth analysis. In fact, the social class in which an individual grew up plays an important role in shaping their personal traits (Buccioli *et al.*, 2015). Third, additional information on foreign market characteristics, such as emerging/not emerging markets, or the size of the foreign market in term of sales – which may provide additional interesting implications for the effect of strategic agility on financial performance – is missing.

We encourage future researchers to expand their analysis to consider the whole construct of intellectual capital – human, organizational and social capital – and how ethnic minority owners of SMEs contribute to enriching this capital. A more holistic view of the importance of ethnic diversity in intellectual capital is needed, as a whole set of knowledge, skills, patents and licenses, experiences, external and internal relationships, and processes and routines, along with an understanding of how such diversity contributes to different subsets of those elements. This holistic view will enhance our understanding of how to leverage ethnic diversity. In addition, future researchers are invited to broaden the boundaries of their research from foreign market performance to more company-related dimensions, i.e. analysing the effect the ethnic diversity of owners has on their business model, and they could address whether and how human capital, in the form of ethnic minority owners, affects business model innovation (Elia and Lerro, 2017). Measuring the effect of ethnic racial diversity on a company-related

framework will also make it possible to generalize the findings of positive effects on internationalization performance to a more general value creation concept.

In the current scenario, where companies are triggered by goals of value creation, competitive advantage, profit and growth, SMEs still have to achieve the goal of making a profit and improving their financial performance, which is an essential condition in fostering company growth. Foreign market expansion is a potential way to achieve this result, seeking long-term and stable expansion and prosperity. SMEs are thus orientated towards international market expansion, and the cultural differences among owners improve their strategic agility and provide positive stimuli. However, in order to resist increasing competition, SMEs need to differentiate their “recipe” for success, especially in terms of ownership and management, and we believe this study provides support for such differentiation.

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