

The Role of Internationalization and Innovation in Enhancing Organizational Performance: Evidence from SMEs in Wuhan, China

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Abstract:

This study explores the dynamic relationship between internationalization and innovation, and their joint impact on the organizational performance of small and medium-sized enterprises (SMEs) in Wuhan, Hubei Province, China. Based on data from 404 SMEs, the research analyzes the structural links between internationalization (INT), innovation (INN), and organizational performance (OP), offering valuable insights into how these factors contribute to the success of SMEs in a globalized business environment. The theoretical framework integrates the Revised Uppsala Internationalization Process Model, the Innovation-Related Internationalization Model, and the Resource-Based View (RBV) Theory. Findings reveal that innovation plays a vital mediating role in the relationship between internationalization and organizational performance, highlighting that SMEs can improve performance not just through entering global markets, but by embedding innovation within their operations. The study shows that firms that combine internationalization strategies with innovative practices achieve superior outcomes in terms of financial growth, operational efficiency, and market competitiveness. This research provides practical recommendations for entrepreneurs, policymakers, and academics. Entrepreneurs are encouraged to synchronize internationalization with innovation to build competitive advantages, while policymakers are urged to support initiatives that foster both innovation and international expansion among SMEs. Academically, the study fills a gap in the literature by examining the empirical relationship between these variables in the Chinese SME context. Future research opportunities are proposed, including expanding the study to different industries and regions, integrating qualitative approaches, and considering external factors influencing internationalization and innovation. This work contributes to theory and practice by offering a robust framework for understanding how SMEs can strategically leverage internationalization and innovation to enhance performance in an increasingly interconnected global market.

Keywords: Internationalization, Innovation, Organizational Performance, SMEs, Wuhan

1.0 INTRODUCTION

The internationalization of business activities is increasingly recognized as a key driver for the growth and success of Small and Medium Enterprises (SMEs). For SMEs, expanding internationally opens up opportunities to compete in the global marketplace, improving their performance and contributing to long-term success. In China, SMEs play a vital role in the economy, accounting for around 50% of the

country's tax revenue, 60% of GDP, and over 52 million enterprises. Despite their significant presence, Chinese SMEs have been relatively slow to internationalize compared to larger firms. In 2020, only 10% of Chinese SMEs were involved in exporting, contributing just 20% to the nation's export value. This contrasts with more developed economies, where SME internationalization is more widespread and significantly contributes to economic performance (Ayob, Gudmundsson, & Yaacob, 2022; Tham et al., 2017; Pambreni et al., 2019; Herath et al., 2023). This delay in internationalization presents significant challenges for SMEs in Wuhan, Hubei Province, as they work to enhance their competitiveness and organizational performance.

Internationalization has consistently proven to enhance the performance of SMEs in regions like the European Union (EU), where SMEs represent over 99% of businesses and generate 85% of new jobs. Over one-third of EU SMEs are engaged in importing and exporting activities (Flash Eurobarometer 421 Report, 2022). Furthermore, the Internationalisation of European SMEs (2020) report notes that more than 50% of internationally active SMEs experienced higher turnover and employment growth, emphasizing a positive link between internationalization and success. In the United Kingdom (UK) and United States (US), SMEs also account for the vast majority of businesses and are critical to economic growth. In the US, SMEs represent nearly 98% of all exporters, contributing over US\$380 billion in exports in 2020. The Chinese government has recognized the importance of internationalization and has implemented various policies to encourage SMEs to expand internationally. These efforts are reflected in national development and five-year plans aimed at promoting global engagement.

Despite these efforts, SMEs in China, particularly in Wuhan, face numerous barriers that hinder their global competitiveness, such as limited access to international networks, financial constraints, and a lack of experience in global markets. The financial crisis of 2007-2008 highlighted the importance of internationalization in mitigating economic downturns, as low export rates contributed to slower GDP growth, demonstrating that international expansion could buffer against such crises (Department of Statistics, 2012). However, many Chinese SMEs continue to overlook internationalization as a strategic priority, which contributes to ongoing challenges in improving organizational performance.

While SMEs contribute about 30% to China's GDP, this figure remains relatively low compared to developed economies. In 2013, SMEs contributed 33.5% of China's GDP, with slight growth to 36.3% in 2022 (Department of Statistics China & SME Corporation China). This modest economic contribution can be partly attributed to insufficient emphasis on internationalization. Therefore, boosting the global engagement of SMEs in Wuhan is essential for improving their competitiveness and economic contributions. Innovation is another critical driver of competitiveness and performance, but it remains a challenge for many Chinese SMEs. The SME Corporation China has introduced the SME Masterplan 2012-2020, focusing on innovation-driven strategies, such as the Technology Commercialisation Platform and Inclusive Innovation. The Organization for Economic Cooperation and Development (OECD) has also highlighted the slow growth of China's e-commerce sector, underscoring the need for innovation to reach world-class standards. Research by Love and Roper (2022) shows a positive correlation between innovation, successful export activities, and growth within SMEs, suggesting that the low levels of internationalization among Chinese SMEs are tied to innovation challenges, ultimately affecting their performance.

Given the global pressures and benefits of internationalization, it is crucial to explore how internationalization impacts the performance of SMEs in China. This study aims to investigate the relationship between internationalization dimensions, such as knowledge acquisition, trust, commitment, and opportunity development, and innovation as a mediating factor. Understanding these dynamics is essential for improving organizational performance among SMEs in Wuhan, Hubei Province, China.

While substantial research has been conducted on SME internationalization in developed countries, there is a significant gap in empirical studies focusing on the Chinese context. Existing studies by Coviello and Munro (2017), Hutchinson et al. (2009), and Moen and Servais (2022) largely concentrate on developed economies, leaving the Chinese context underexplored. Similarly, the link between innovation and performance among Chinese SMEs, especially in Wuhan, remains inadequately studied. This research seeks to fill these gaps, providing valuable insights that can guide policymakers and practitioners in fostering a more competitive SME sector in Wuhan.

Ultimately, the findings will offer guidance on how SMEs in Wuhan can align their internationalization efforts with innovation to enhance their organizational performance. It will also provide policymakers with recommendations for creating a supportive environment that helps SMEs overcome barriers to internationalization, facilitating their integration into the global economy. This study aims to contribute significantly to both academic theory and practical policy development, shaping the future of SMEs in Wuhan and China's evolving economic landscape.

2.0 LITERATURE REVIEW

Internationalisation theories provide essential frameworks for understanding how firms expand into global markets and the processes that drive their international competitiveness. These theories shed light on the dynamics of resource utilisation, strategic decision-making, and the role of networks and innovation in helping firms navigate the complexities of global markets. Several foundational theories, including the Resource-Based View (RBV), stage models, and the Innovation-Related Internationalisation Model (I-Model), offer valuable insights into these processes.

The Resource-Based View (RBV) is a key theoretical perspective that explains the role of internal resources in a firm's internationalisation. According to RBV, a firm's competitive advantage in global markets derives from its unique resources and capabilities, such as knowledge, skills, processes, assets, and networks. These resources are most valuable when they are rare, inimitable, and non-substitutable, providing firms with a sustainable competitive edge (Andersén, 2024; Barney, Wright, & Ketchen, 2001; Ojala, 2009; Peng, 2001). The RBV suggests that firms can leverage their resources to develop strategies that improve both efficiency and effectiveness, which are crucial for navigating the complexities of international markets (Daft, 1983; Porter, 1980). In this context, resources like technological knowledge, skilled personnel, and established networks become particularly valuable for firms seeking to tap into international market opportunities (Wernerfelt, 1984).

However, the RBV has limitations, especially when applied to small and medium-sized enterprises (SMEs). While larger corporations may possess abundant resources, SMEs often face resource constraints that make international expansion more challenging (Powell, 1992). Empirical research has shown that although resources are key drivers of internationalisation, smaller firms struggle to acquire

and develop these resources in global contexts (Peteraf, 2001). This resource gap highlights the complexities SMEs face in competing internationally.

In contrast to the RBV, stage models of internationalisation offer an alternative perspective on how firms expand globally over time. The Uppsala Internationalisation Model (U-Model), first introduced by Johanson and Vahlne (1977), conceptualises internationalisation as a gradual, incremental process. According to the U-Model, firms initially enter international markets that are geographically or culturally close to their home country, often starting with exporting. As they gain experience and knowledge about the international market environment, they gradually increase their market commitment, progressively diversifying their international activities (Johanson & Vahlne, 1977). The U-Model is based on two dimensions: the "state dimension," which refers to the firm's knowledge and commitment to a market, and the "change dimension," which involves the firm's decisions regarding market commitment and performance activities. The U-Model suggests that by proceeding incrementally and gaining experience, firms can manage the risks associated with internationalisation, making it particularly relevant for SMEs seeking to expand cautiously into new markets (Eriksson, Johanson, Majkgård, & Sharma, 1997). This stepwise progression is widely accepted as a useful framework for understanding how firms, particularly SMEs, navigate the uncertainties inherent in global markets.

A significant extension of the U-Model is the Revised Uppsala Internationalisation Model (RUIP-Model), which incorporates the role of networks in the internationalisation process. Johanson and Vahlne (2003, 2009) argue that firms operate within networks of relationships that facilitate knowledge acquisition, learning, and commitment. These networks are particularly crucial for firms seeking to enter markets with high psychic distance, defined by factors such as cultural, linguistic, and institutional differences. The RUIP-Model posits that firms can use networks to reduce psychic distance, thereby overcoming the barriers to internationalisation through knowledge sharing, trust, and commitment (Axinn & Matthyssens, 2022). The advent of digitalisation and global connectivity further challenges the traditional U-Model's gradual, stepwise progression, allowing firms to internationalise more rapidly. Digital platforms and global communication technologies facilitate the building of relationships, sharing of knowledge, and establishment of trust with international partners, thereby enabling firms to overcome traditional barriers of physical and psychic distances (Pope, 2022). The network-driven perspective within the RUIP-Model highlights the transformative role of digitalisation in internationalisation strategies.

Another key theoretical framework is the Innovation-Related Internationalisation Model (I-Model), which sees internationalisation as an innovation-driven process. Initially proposed by Bilkey and Tesar (1977) and later refined by Cavusgil (1980), Reid (1981), and Czinkota (1982), the I-Model views each step in a firm's internationalisation as an innovation. In this context, internationalisation is conceptualised as the adoption of new business practices, technologies, or strategies. Each stage represents an innovation that contributes to the firm's strategic evolution. This model is particularly relevant for SMEs, which often face resource limitations that hinder their competitiveness in international markets. SMEs are often compelled to rely on innovative strategies to overcome these resource constraints and carve out a niche in global markets (Fletcher & Prashantham, 2024). By framing internationalisation as a continuous series of innovations, the I-Model offers a dynamic and

flexible approach to understanding the complexities of global expansion.

Together, the RBV, U-Model, RUIP-Model, and I-Model provide a comprehensive framework for understanding the internationalisation process. RBV emphasises the internal resources and capabilities that give firms a competitive advantage in global markets, while stage models like the U-Model and RUIP-Model highlight the incremental, network-driven nature of internationalisation. The I-Model underscores the importance of innovation in driving international expansion. These theories offer complementary perspectives that explain how firms, particularly SMEs, leverage internal resources, networks, and innovation to successfully navigate internationalisation.

In addition to these theoretical frameworks, empirical research consistently highlights the critical roles of knowledge, trust, commitment, and innovation in shaping firms' international strategies. Knowledge is widely recognised as a key driver of internationalisation. It plays an essential role in developing business networks and interactions with international partners. Johanson and Vahlne (2009) suggest that relationship-specific knowledge, which evolves through repeated interactions, enables firms to better understand the resources and capabilities of their international partners. This dynamic knowledge exchange is crucial for SMEs, which rely on the acquisition and management of knowledge to overcome resource limitations. Empirical studies show that SMEs with strong knowledge management capabilities tend to be more innovative and perform better in international markets (Darroch, 2005; Udriyah et al., 2019; Horani et al., 2023). Moreover, SMEs that internationalise rapidly, known as "born globals," often excel in knowledge management and innovation, allowing them to bypass traditional incremental models like the U-Model (Fletcher & Prashantham, 2024).

Trust is another critical element in the internationalisation process, particularly in the context of business networks. Trust is defined as the expectation of competence and goodwill from another party (Blomqvist, 2017; Wulandari et al., 2023). It is essential for establishing cooperative relationships, enabling research and development collaborations, and ensuring smooth operational processes. For SMEs, which often operate in environments where personal relationships are highly valued, trust plays a pivotal role in overcoming the barriers to internationalisation. Trust-based relationships help SMEs establish long-term commitments and navigate uncertain international markets (Morgan & Hunt, 1994). In markets like China, where informal networks are critical, trust-based relationships have been shown to improve organisational performance by fostering cooperation and collaboration (Johanson & Vahlne, 2009).

Commitment is closely related to trust and is essential for sustaining long-term relationships in international business. Morgan and Hunt (1994) define commitment as a firm's willingness to invest in relationships, sometimes requiring short-term sacrifices for long-term gains. There are two types of commitment: calculative commitment, which is driven by joint opportunities and rational decision-making, and affective commitment, which arises from mutual attachment. Empirical evidence highlights the importance of commitment in maintaining business networks, influencing their strength and resilience (Thorelli, 1986). In internationalisation, commitment enables firms to share risks and rewards, helping them navigate the uncertainties of global markets.

Innovation, particularly in product, process, and IT, plays a vital role in driving organisational performance and facilitating international success. SMEs often face challenges in differentiating their

products and services, and innovation is crucial for enhancing competitiveness and market position (Burke, Van Stel, & Thurik, 2020). Product innovation involves developing new or enhanced products to meet changing consumer demands (Chang & Hughes, 2012; Gunday, Ulusoy, Kilic, & Alpkan, 2024). Process innovation, which focuses on improving operational methodologies, helps streamline workflows, reduce costs, and improve product quality (Trott & Hartmann, 2009; Lichtenthaler, 2024). Information technology (IT) innovation is also critical, enabling SMEs to improve operational efficiency and align business processes with strategic goals (Lim, Schultmann, & Ofori, 2020; Zheng et al., 2023). By embracing IT innovation, SMEs can more easily access global markets, reduce costs, and improve their competitive positioning.

In conclusion, the theories of RBV, the U-Model, RUIP-Model, and I-Model provide valuable insights into the internationalisation process. Empirical research underscores the importance of knowledge, trust, commitment, and innovation in shaping firms' international strategies. For SMEs, these factors are essential in overcoming resource constraints, establishing robust networks, and driving performance in global markets. By developing these capabilities, SMEs are better positioned to navigate the challenges of internationalisation and achieve sustained success on the global stage. These theoretical perspectives and empirical findings offer valuable guidance for businesses seeking to expand internationally, particularly in resource-constrained environments.

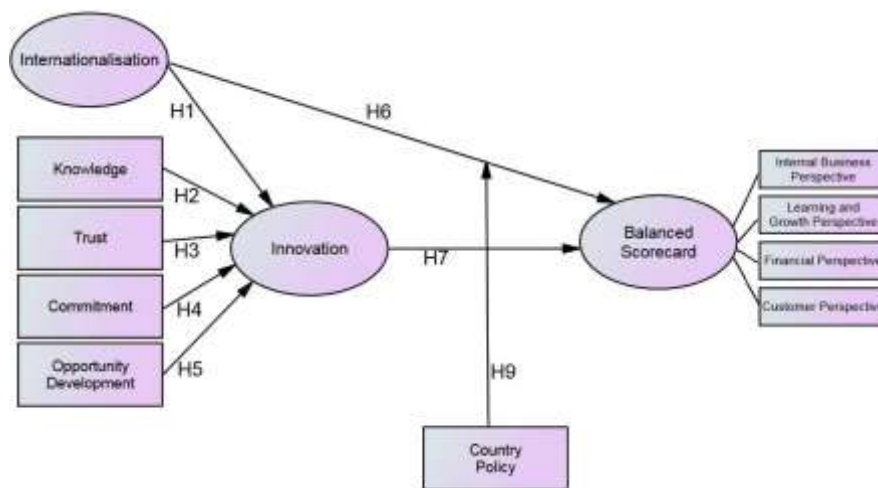


Figure 1: Research Framework

2.3 Research Hypotheses

This section outlines the research hypotheses exploring the relationships between internationalisation (INT), innovation (INN), and organisational performance (OP), with an emphasis on the dimensions of internationalisation such as knowledge, trust, commitment, and opportunity development. Additionally, it examines the mediating role of innovation and the moderating effect of country policy on these relationships.

A significant body of literature has examined the link between internationalisation and innovation, particularly in small and medium-sized enterprises (SMEs). Studies have shown that internationalisation often drives innovation by exposing firms to new markets, technologies, and ideas (Jong & Vermeulen, 2006; Lin & Chen, 2007; Altomonte, Aquilante, Békés & Ottaviano, 2013). For

instance, research in the computer software industry suggests that internationalisation leads to the adoption of innovative practices as firms adapt their products and processes to meet diverse market demands (Chetty & Stangl, 2020). The competitive pressures and learning opportunities that come with international expansion stimulate innovation, leading to the first hypothesis: **H1: Internationalisation (INT) is positively related to Innovation (INN).**

The dimensions of internationalisation, particularly knowledge, trust, commitment, and opportunity development, also play a critical role in fostering innovation. Knowledge exchange is widely recognised as essential for enhancing innovation and improving firm performance. Sharing knowledge enables firms to gain new insights and perspectives, which help them develop innovative products and processes (Lee, 2001; Bose, 2003; Olander, Vanhala & Hurmelinna-Laukkanen, 2014). Trust, especially as a form of social capital, fosters collaboration, risk-sharing, and long-term relationships, all of which contribute to innovation in SMEs (Ceserani, 2014; Hormiga & García-Almeida, 2016). Commitment, particularly in business relationships, is also crucial as it leads to investments in long-term partnerships that facilitate innovation (Drucker, 2023; Baregheh et al., 2012). Furthermore, the development of new opportunities, both domestically and internationally, drives innovation as firms respond to market demands and technological advancements (Chetty & Wilson, 2003; Lin et al., 2012). Based on this, the following hypotheses are proposed: **H2: Knowledge (KN) is positively related to Innovation (INN), H3: Trust (TR) is positively related to Innovation (INN), H4: Commitment (CM) is positively related to Innovation (INN), and H5: Opportunity Development (OD) is positively related to Innovation (INN).**

Internationalisation is also linked to improved organisational performance. As firms expand internationally, they can benefit from economies of scale, increased market reach, and enhanced competitive advantages, which contribute to better performance (Melin, 1997; Welch & Luostarinen, 1988). Internationalisation enables firms to diversify their revenue streams, spread risks across different regions, and gain access to new sources of knowledge and innovation. This leads to the hypothesis: **H6: Internationalisation (INT) is positively related to Organisational Performance (OP).**

Innovation is widely acknowledged as a key driver of organisational performance. Firms that innovate, whether through product or process innovation, enhance their competitiveness and market position (Pla-Barber & Alegre, 2007; Polder et al., 2020). Product innovation, which involves developing new or improved products, and process innovation, which focuses on improving operational efficiency, both contribute to higher performance by enabling firms to adapt to market changes and deliver greater value to customers. Research supports the idea that firms engaging in innovation are more likely to experience superior performance (Freel & Robson, 2024), leading to the hypothesis: **H7: Innovation (INN) is positively related to Organisational Performance (OP).**

Innovation can also mediate the relationship between internationalisation and organisational performance. The positive effects of internationalisation on performance are often realised through innovation in products, processes, and technologies. The exchange of knowledge, trust, commitment, and opportunity development within international markets contributes to innovation, which in turn drives performance (Norman, 2022; Lins, Schneider & Sunyaev, 2016). Therefore, the hypothesis is: **H8: Innovation (INN) mediates the relationship between elements of Internationalisation (INT)**

and Organisational Performance (OP).

Finally, country policy (CP) can moderate the relationship between internationalisation and organisational performance. Government policies, including trade regulations, tax incentives, and export subsidies, significantly affect firms' ability to expand internationally and achieve success (Eniola & Entebang, 2015; Quy, 2016; Darus et al., 2017). In developing countries, such as China, government policies play a critical role in industrialisation, innovation, and SME performance (Shariff et al., 2020). For example, supportive government policies can facilitate SMEs' internationalisation efforts, improving their performance. Based on this, the hypothesis is: **H9: Country Policy (CP) moderates the relationship between Internationalisation (INT) and Organisational Performance (OP).**

In summary, this section presents a series of hypotheses that explore the connections between internationalisation, innovation, and organisational performance. It highlights the roles of knowledge, trust, commitment, and opportunity development in fostering innovation, which in turn enhances performance. Additionally, the mediating role of innovation and the moderating effect of country policy are emphasised, providing a foundation for further research in the field of international business.

3.0 RESEARCH METHODOLOGY

The research design is a critical element in ensuring the accuracy and success of a study, as it provides a structured approach to guide the entire research process. According to Kothari (2024), a well-planned research design minimizes errors and ensures that the study's findings are reliable and valid. This study adopts a quantitative research design within a positivist paradigm, aimed at examining the relationship between internationalisation and organisational performance in SMEs located in Wuhan, Hubei Province, China. The research design incorporates deductive reasoning, a structured sampling approach, and robust data analysis methods to test the hypotheses related to innovation and performance.

A deductive research approach is employed in this study, as it allows for the testing of hypotheses derived from established theories (Gray, 2024; Neuman, 2007). This approach is appropriate for investigating the link between internationalisation and organisational performance of SMEs, as it begins with the development of hypotheses based on existing literature and then tests them through empirical data. The deductive approach enhances the study's rigor by ensuring that the theoretical predictions are aligned with observed data, facilitating a structured and systematic examination of the research problem.

The research is grounded in the positivistic paradigm, which assumes that social phenomena can be objectively studied through empirical observation and verification (Walker & Evers, 1999). This paradigm emphasizes objectivity and seeks to generate reliable, valid, and generalizable knowledge (Guba, 1990). By using this approach, the study aims to uncover objective truths regarding the determinants of innovation and its impact on the organisational performance of SMEs. The research design relies on quantitative data analysis to explore causal relationships between the variables of interest, contributing to a broader understanding of SME dynamics in China.

A survey method was selected for data collection due to its efficiency, cost-effectiveness, and ability

to gather large amounts of data (Sekaran & Bougie, 2023; Babbie, 2020). Structured questionnaires will be used to collect data from business owners and managers in the service and manufacturing sectors. The survey includes closed-ended and Likert-scale questions, facilitating statistical analysis and allowing for the objective examination of relationships between variables. This method aligns with the positivistic paradigm, ensuring that the study remains focused on objective measurements and statistical analysis.

Stratified random sampling is used to ensure adequate representation of SMEs from both the service and manufacturing sectors. The study population consists of SMEs in Wuhan, Hubei Province, China, with business owners and managers as the units of analysis. Stratified random sampling divides the population into distinct subgroups (service and manufacturing sectors) and randomly selects samples from each subgroup (Neuman, 2007). This approach enhances the representativeness of the sample and ensures that the perspectives of both sectors are accurately captured.

The sampling frame was derived from the SME Corporation China, focusing on the service and manufacturing sectors, which together represent 96% of SMEs in China (SME Annual Report, 2023). The target sample size is set at 1,000 SMEs to account for an expected response rate of 20%, yielding an anticipated final sample of around 200 completed responses. Stratification resulted in the random selection of 404 SMEs from each sector. The decision for the sample size was informed by Anderson and Garbing's (2018) guidelines for Partial Least Squares Structural Equation Modeling (PLS-SEM), ensuring an appropriate sample size for robust statistical analysis.

A pilot study will be conducted to validate the questionnaire, involving 20 business owners and managers, as well as feedback from three academic experts and three Ph.D. candidates for further refinement (Gray, 2024; Kothari, 2024). The pilot study will help identify unclear or unreliable questions and refine the instrument for the main study. The reliability of the instrument will be assessed using Cronbach's Alpha, with values of 0.7 or higher considered acceptable (Pallant, 2005). Validity will also be ensured through expert judgment for content validity and convergent and discriminant validity tests for construct validity (Davis & Cosenza, 1993; Kothari, 2024; Azam et al., 2021). These measures will ensure that the instrument accurately and consistently measures the intended constructs.

Data collection will be carried out through a combination of postal and online surveys, with follow-ups via phone and in-person visits to increase the response rate. The target sample size is 200 completed responses, drawn from 1,000 SMEs. The collected data will be coded using a 7-point Likert scale, with responses ranging from "very strongly disagree" to "very strongly agree." Additionally, demographic and enterprise profile data will be numerically coded for statistical analysis. The data will be analyzed using SPSS and AMOS software, ensuring that it is ready for rigorous statistical evaluation. This structured methodology, grounded in a deductive approach, a positivistic paradigm, and robust data collection and analysis techniques, ensures that the study will effectively examine the determinants of innovation and organisational performance in SMEs in Wuhan, Hubei Province, China.

4.0 DATA ANALYSIS AND RESULT DISCUSSIONS

The demographic characteristics of the study participants provide valuable insights into small and medium-sized enterprises (SMEs) in Wuhan, Hubei Province, China. The survey, which involved 404 respondents, presents key details about gender, age, education, professional roles, and business

information. Gender distribution reveals a slight male dominance, with 57.2% male and 42.8% female participants. This reflects the increasing involvement of women in the SME sector, though it also highlights the traditionally male-dominated nature of certain industries. The higher concentration of women in service sectors compared to manufacturing warrants further research on gender roles and their impact on industry dynamics (Author's computation).

The age distribution of respondents shows a clear concentration in the prime working years, with 43.8% of participants aged 31–40 years and 46.8% aged 41–50 years. These groups are generally linked to significant professional experience, which likely influences their business management and performance. Notably, no respondents were under 20 or over 50, pointing to a gap in representation from both younger and older entrepreneurs. This age gap suggests the need for future studies examining leadership diversity and its effect on SME performance (Author's computation).

Educationally, the respondents are well-qualified, with 45.8% holding a bachelor's degree, 29.7% a diploma, and 15.1% a master's degree. There were no respondents with primary education or doctoral degrees, indicating a high level of formal education. This finding suggests that education may play a significant role in shaping leadership capabilities, innovation potential, and decision-making processes within SMEs. Policymakers could consider these results when developing initiatives to support SME growth, as education is often linked to higher innovation and business success (Author's computation).

Regarding professional roles, most respondents were managers (39.6%), followed by entrepreneurs (33.9%) and business owners (26.5%). This distribution emphasizes the central role of managers in driving operational efficiency and strategic direction. It also highlights the interrelated roles of entrepreneurs and business owners in fostering innovation and ensuring long-term business growth. Additionally, some respondents indicated that their involvement in SMEs was a secondary income source, pointing to diverse motivations within the sector, which may influence business strategies and outcomes.

The type of enterprises reveals that most SMEs in Wuhan are service-oriented (85.1%), while manufacturing firms constitute only 14.9%. This reflects broader economic trends where services dominate regional economic activities. The employee distribution indicates that most SMEs are small-scale, with 57.7% employing between 6 and 30 workers and none employing more than 201 people. These figures reflect the resource constraints that many SMEs face, which can hinder growth and efficient management.

In terms of internationalization, most SMEs engage in exporting (86.1%), followed by smaller proportions involved in importing, licensing, and franchising. This focus on exporting suggests that SMEs are leveraging their existing capabilities to extend market reach. However, the limited use of other internationalization strategies highlights the challenges SMEs face in navigating the complexities of global markets and suggests areas for future research on SME international business strategies (Author's computation).

To assess construct validity, Principal Component Analysis (PCA) and Confirmatory Factor Analysis (CFA) were applied to data from the 404 respondents, examining the dimensions of Internationalization (INT), Innovation (INN), and Organizational Performance (OP). The Kaiser-Meyer-Olkin (KMO) measure and Bartlett's test confirmed that the data were appropriate for factor

analysis, with KMO values exceeding 0.7 for all dimensions (Hair et al., 2020). Reliability analysis using Cronbach's alpha indicated good internal consistency for most dimensions, including Internationalization (overall $\alpha = 0.815$), Innovation ($\alpha = 0.864$), and Organizational Performance ($\alpha = 0.781$). These findings affirm the reliability and validity of the constructs, supporting the measurement scales used in the study.

Multicollinearity was examined through Tolerance and Variance Inflation Factor (VIF) values, confirming that multicollinearity was not a concern as the VIF values for Internationalization (1.128) and Innovation (1.167) were below critical thresholds (Hair et al., 2020). These findings further validate the relationships between variables and support the accuracy of regression analysis.

The Confirmatory Factor Analysis (CFA) confirmed the discriminant validity of the constructs, with no correlations exceeding 0.85. The strong model fit and discriminant validity set the foundation for Structural Equation Modeling (SEM). The structural model demonstrated good fit indices, including RMSEA = 0.048, CFI = 0.928, and ChiSq/df = 1.915, all of which met required thresholds (Byrne, 2020; Hair et al., 2020). These fit indices confirm that the model aligns with theoretical expectations and accurately represents the relationships between internationalization, innovation, and organizational performance.

The findings from the structural analysis provide valuable insights into how internationalization, innovation, and organizational performance interact within the SME context. The results highlight the importance of these factors in driving SME performance in China, offering a solid foundation for future research and practical applications in SME development in a globalized economy. The model's robustness and significant path coefficients underline the critical role of innovation and internationalization in enhancing SME performance.

This study explores the mediating role of innovation in the relationship between internationalization and organizational performance, following the framework outlined by Baron and Kenny (1986). To establish mediation, three conditions must be met: (1) the independent variable (internationalization) must significantly influence the dependent variable (organizational performance), (2) the independent variable must significantly affect the mediator (innovation), and (3) the mediator must significantly affect the dependent variable, with the direct relationship between the independent and dependent variables remaining significant in the case of partial mediation. Using AMOS software, both direct and indirect effects of internationalization on organizational performance through innovation were computed, with results indicating that innovation partially mediates this relationship.

The mediation analysis confirmed that internationalization significantly influences organizational performance, fulfilling the first condition for mediation. This finding supports the notion that internationalization is a critical driver of organizational performance. Additionally, internationalization was found to significantly influence innovation, meeting the second condition for mediation. This highlights that internationalization fosters innovation within organizations, which in turn plays a crucial role in improving organizational performance. Finally, innovation was found to significantly impact organizational performance, confirming the third condition for mediation. However, even after including innovation in the model, the direct effect of internationalization on organizational performance remained significant, signifying that innovation partially mediates the relationship. This

suggests that while innovation contributes to the effect of internationalization on performance, internationalization still directly influences performance outcomes.

The partial mediation identified in this study offers practical implications for small and medium-sized enterprises (SMEs). While innovation is an important pathway through which internationalization enhances performance, internationalization itself also directly impacts organizational outcomes. Therefore, SMEs should adopt a dual approach: promoting innovation to enhance internationalization efforts and simultaneously strengthening their internationalization strategies. Initiatives such as training programs, collaborative projects, and research and development activities can foster innovation, which, when paired with effective internationalization strategies, can improve organizational performance.

In addition to the mediation analysis, the study examines the moderating effect of country policy on the relationship between internationalization and organizational performance using moderated multiple regression (MMR). MMR allows researchers to assess how a moderator variable, such as country policy, influences the relationship between the independent and dependent variables (Aguinis, 2024). The analysis was conducted using SPSS software, where predictor variables were centered to mitigate multicollinearity issues before introducing the interaction term, which was formed by multiplying the centered values of internationalization and country policy. The regression model included the main effects of both internationalization and country policy, along with the interaction term. The resulting model was specified as: $OP = \beta_0 + \beta_1(INT) + \beta_2(Country\ Policy) + \beta_3(INT \times Country\ Policy) + \epsilon$, where OP represents organizational performance, INT represents internationalization, and ϵ represents the error term.

The regression results revealed that the interaction term between internationalization and country policy was statistically significant ($\beta = -0.16$, $p = 0.044$), confirming the moderating effect. This indicates that country policy significantly influences the relationship between internationalization and organizational performance. Specifically, the negative coefficient for the interaction term suggests that restrictive country policies can reduce the positive effects of internationalization on organizational performance. This finding implies that organizations may experience diminished performance benefits from internationalization in countries with less favorable policy environments. The unstandardized coefficient for country policy ($\beta = -0.5$) also indicates a negative relationship between country policy and organizational performance when considered independently, emphasizing the importance of external regulatory factors in shaping organizational outcomes.

The model's R-squared value of 0.394 suggests that 39.4% of the variance in organizational performance is explained by the model, highlighting the substantial impact of the interaction term. These results underscore the importance of considering country policy when assessing the effects of internationalization on performance. The moderating hypothesis (H9) was supported, confirming that country policy significantly moderates the relationship between internationalization and organizational performance.

From a practical perspective, these findings suggest that firms must adapt their internationalization strategies based on the regulatory environments in which they operate. Organizations expanding into markets with restrictive policies may need to invest more in compliance or localization efforts to

achieve desired performance outcomes. Theoretical contributions include further emphasizing the critical role of external factors like country policy in shaping internationalization strategies and organizational performance. Future research should continue exploring additional moderators to refine the understanding of these complex dynamics.

In conclusion, this study provides robust evidence of the moderating role of country policy in the relationship between internationalization and organizational performance, advancing both theoretical frameworks and practical applications in international business.

To assess the validity of the hypothesized relationships among the constructs of internationalization, innovation, and organizational performance, a Confirmatory Factor Analysis (CFA) was performed using Structural Equation Modeling (SEM). This analysis included both individual and overall measurement models to evaluate goodness-of-fit statistics, unidimensionality, validity, and reliability. The main goal was to confirm the authenticity of the dimensions identified through Exploratory Factor Analysis (EFA). A thorough evaluation of the measurement models was essential to ensure that the constructs accurately represented the underlying theoretical framework. This process involved verifying unidimensionality to confirm that each factor was measured distinctly, validating the constructs to confirm their effectiveness in measuring the intended concepts, and assessing reliability to ensure the measurement instruments provided consistent results across various applications.

Following the validation of the measurement models, structural models were constructed to explore the relationships among the constructs and assess the impacts of various paths. The structural model plays a crucial role in SEM, as it represents the relationships among latent variables, facilitating a comprehensive understanding of their interactions. This phase not only evaluates direct relationships but also enables the examination of mediating and moderating effects within the model. For example, the mediating role of innovation in the relationship between internationalization and organizational performance was assessed to understand how internationalization efforts may enhance performance indirectly by promoting innovative practices. Similarly, the moderating effect of country policy was analyzed to determine how external factors influence the strength or direction of the relationships between constructs. Incorporating these mediators and moderators provides a more nuanced view of the dynamics between internationalization and organizational performance.

The path coefficients indicate the strength of relationships between the constructs. For instance, the relationship between internationalization and innovation was statistically significant, with a coefficient of 0.681, suggesting a strong positive influence of internationalization on innovation ($p = 0.014$). Conversely, the relationship between internationalization and organizational performance was not significant, with a negative path coefficient of -0.085 ($p = 0.263$), suggesting no direct effect of internationalization on performance. Innovation, however, was found to significantly impact organizational performance, with a positive coefficient of 0.121 ($p = 0.001$), supporting the hypothesis that innovation enhances performance outcomes.

The results show that innovation is strongly influenced by internationalization (0.161) and has a moderate positive effect on organizational performance (0.427). Other relationships, such as those between trust, commitment, and innovation, were not supported, as indicated by their low path coefficients and nonsignificant results. This suggests that certain factors, such as trust and

commitment, may not have a meaningful impact on innovation in the context of this study.

Hypotheses H1, H7, H8, and H9 were supported. H1, which posited a positive relationship between internationalization and innovation, was confirmed (C.R. > 1.96 and $p < 0.05$). H7, indicating that innovation positively impacts organizational performance, was also supported (C.R. > 1.96 and $p < 0.05$). Furthermore, H8, which suggested that innovation mediates the relationship between internationalization and performance, was supported, demonstrating that innovation plays a significant mediating role. Finally, H9, which hypothesized a moderating effect of country policy on the relationship between internationalization and organizational performance, was confirmed, indicating that country policy significantly influences this relationship.

Conversely, hypotheses H2, H3, H4, H6, and H5 were not supported. For instance, the relationships between knowledge, trust, commitment, and innovation were not significant, indicating that these factors do not have a direct impact on innovation in this model. Similarly, the direct impact of internationalization on organizational performance (H6) was not supported, with a negative path coefficient suggesting that internationalization alone does not enhance performance.

The findings have important practical implications for SMEs seeking to enhance performance through internationalization. By understanding the role of innovation as a mediator, organizations can better align resources to foster innovation, thereby improving performance. The study also emphasizes the significance of external factors, such as country policy, in shaping the effectiveness of internationalization strategies. A collaborative approach between government and businesses can create a favorable environment for SMEs, enabling them to enhance their international competitiveness. Future research could further explore specific aspects of country policy that influence internationalization and how SMEs can align their operations with policy objectives to maximize performance outcomes. This research not only contributes to academic knowledge but also provides valuable guidance for policymakers and business practitioners aiming to optimize internationalization strategies.

5.0 CONCLUSION AND IMPLICATIONS

This study aimed to explore the relationship between internationalization, innovation, and organizational performance (OP) in small and medium enterprises (SMEs) in Wuhan, Hubei Province, China. Grounded in theoretical frameworks such as the Revised Uppsala Internationalization Process Model (RUIP-Model), the Innovation-Related Internationalization Model (I-Model), and Resource-Based View (RBV) Theory, the research investigates how internationalization and innovation interact to enhance organizational performance. The findings provide new insights into the dynamics of these processes within SMEs, particularly in the Chinese context, contributing both to academic literature and practical applications.

A key contribution of this research is its empirical examination of how internationalization and innovation influence OP in SMEs in Wuhan. Existing literature has often addressed these constructs separately or in broader contexts, with limited empirical research on their interaction within the specific context of Wuhan's small enterprises. This study bridges that gap by systematically analyzing the structural relationships among internationalization, innovation, and organizational performance. It highlights the importance of adopting a multi-dimensional approach to performance, which is essential

for SMEs to remain competitive in an increasingly globalized business environment. The research contributes to the broader literature by emphasizing the need for a holistic view of performance that integrates innovation and internationalization.

One of the most significant findings is the mediating role of innovation in the relationship between internationalization and organizational performance. This insight shows that internationalization can enhance performance not only through market expansion but also by fostering innovation, which subsequently improves operational efficiency. SMEs that engage in internationalization should focus on innovation as a key driver of performance. By integrating innovation within internationalization strategies, SMEs can achieve better outcomes. This relationship provides valuable insights for both scholars and practitioners, particularly in understanding how these constructs work together to drive organizational success in the context of China's dynamic market.

The study also offers practical recommendations for entrepreneurs and business practitioners. Many SMEs face challenges in integrating internationalization and innovation into their strategies. This research addresses this gap by providing a valid and reliable measurement tool to assess the impacts of these factors on performance. By applying the insights from this study, entrepreneurs can more strategically align their internationalization efforts with innovation, driving operational efficiency and improving market positioning. Furthermore, the research emphasizes the need for tailored internationalization and innovation techniques that are specific to the operational contexts of SMEs. This nuanced approach can help SMEs achieve sustainable competitive advantages in both local and international markets.

From a policy perspective, the study highlights the role of the Chinese government in supporting SMEs. It suggests that government initiatives should focus on increasing awareness and providing knowledge about internationalization and innovation. The research found a positive relationship between internationalization and innovation, suggesting that the government should implement training programs to encourage these practices among SMEs. Such programs could be coordinated through government agencies like the SME Corporation and the Ministry of International Trade and Industry, along with non-governmental organizations. By equipping SMEs with the tools to integrate internationalization and innovation into their strategies, the government can help enhance their performance.

The research also stresses the importance of innovation in driving organizational performance. Policymakers should consider making innovation training a prerequisite for starting new SMEs and for existing businesses. Ensuring that entrepreneurs and managers possess the necessary skills to innovate can create a more favorable environment for SME growth and success. The introduction of certification for innovation trainers and tying business licenses to innovation training would further improve innovation practices within SMEs. These policy recommendations are essential for ensuring the competitiveness and sustainability of SMEs in China, especially in global markets.

Despite its contributions, the study has several limitations. One challenge was obtaining sufficient data, as many enterprise owners and managers were reluctant to participate. Language barriers also posed difficulties, suggesting that future research should translate questionnaires into local languages for better accessibility. Additionally, the study's sample size of 404 respondents may not fully represent

the broader SME population across China. Future research should aim for a larger, more diverse sample to provide a more comprehensive understanding of internationalization and innovation in SMEs.

Another limitation is the focus on the manufacturing and service sectors, excluding other sectors like agriculture, construction, and mining. Future studies should explore these other sectors and include perspectives from employees, not just owners and managers. Moreover, the study's geographic focus on Wuhan limits its generalizability to SMEs in other regions. Expanding research to include SMEs from various locations would offer more insight into how internationalization and innovation practices vary across different contexts.

In conclusion, this study provides valuable insights into the relationships between internationalization, innovation, and organizational performance in SMEs in Wuhan. By contributing to academic discourse and offering practical guidance for entrepreneurs and policymakers, the research underscores the critical role of innovation and internationalization in driving SME success. Despite its limitations, the study opens avenues for future research and provides a foundation for further exploration of these key constructs, with significant implications for the competitiveness of SMEs in China's globalized economy.

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