

## **A STUDY ON MOTIVATIONS AND BARRIERS FOR INTERNATIONALISATION OF SMES**

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### **ABSTRACT**

Small and medium scale Enterprises are increasing and contributing to the economic activities. There are SMEs which have the capability to go global. There have been research studies talking about the capabilities, reason for an SME to be international players but not all are going global. This paper manifests the motivations and the barriers faced by an SME to go global. The factors identified can be used to understand the reasons for an SME to be an international player.

**Keywords:** SME, motivation, barriers, international, global

### **I. Introduction**

Internationalisation process, help the firm to build long term sustainability, increase its growth opportunities, improve its competitiveness. It also helps the firm to spread its risks, have larger customer base. Internationalisation helps the country by making stronger cross- border contacts for further trades to happen. Exporting, a way for internationalisation helps the country to improve its economic stance. Internationalisation would mean process of growing the business across national borders. It would also mean geographical expansion of economic activities over national country's border (Ruzzier et. al. 2006). Internationalisation is synonymous to globalisation. Performing business activities even in one other country other than home country could be termed as internationalisation process. The economic internationalisation process accelerated in the post-second-world war era and appeared unrivalled until the early 1970s, when new phenomenon of globalisation started to emerge (Gjellerup, 2000).

Internationalisation has been defined by various author and various institutions. In manufacturing sector, the Harvard definition is internationalisation is manufacturing in at least six countries outside home country (Vernon,1971). The U.N. definition has considered transnational firm as the one with manufacturing in at least one country outside the home country (United Nations, 1974).

Welch and Luostarinen (1988) have defined internationalisation as the process of increasing involvement in international operations. Calof and Beamish (1995) have define internationalisation as "The process of adapting firms' operations (strategy, structure, resources etc.) to international environments" Beamish et. al,1997, have defined internationalisation as the process by which firms increase their awareness of the influence of international activities on their future, and establish and conduct transactions with firms from other countries". There has been other way to define globalisation which is "the linkage and interconnections between various states and the organisation" (Dana et.al., 1999).

As one could notice, in the definitions mentioned from the studies; network or connections forms a major part in internationalisation or globalisation. The extent of required networking could change based on the business to go international. In the case of small medium enterprises, networking is needed as it would help in reducing the expenditure required for internationalisation (Dana, 2018).

**Table 1: According MSME Act 2006, Micro Small and Medium Enterprise sector in India (mil- lion)**

Enterprise	Investment Ceiling for Plant, Machinery or Equipments	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs. 25 Lakh (\$50 thousand)	Upto Rs. 10 Lakh (\$20 thousand)
Small	Above Rs. 25 Lakh (\$50 thousand) & upto Rs. 5 crore (\$0.20 million)	Above Rs. 10 Lakh (\$20 thousand) & upto Rs. 2 crore (\$0.40 million)
Medium	Above Rs. 5 crore (\$1 million) & upto Rs. 10 crore (\$2 million)	Above Rs. 2 crores (\$0.40 million) & upto Rs. 10 crore (\$1 million)

Various stated models for SMEs to internationalise are:

1. Uppsala model (Gankema, H. G.J, Snuif H. R. & Zwart P.S.):

Uppsala model also known as U-model has been developed by Johanson and Wiedersheim Paul (1975) and Johanson and Vahlne (1977). The Johanson and Vahlne's U- model is based on the

“gradual acquisition, integration and use of knowledge about foreign markets and operation and on incrementally increasing commitments to foreign markets.”(p.23, Johanson J. & Vahlne J.). In this model the general and experiential market knowledge and resource commitment of firms affect commitment decisions and current business activities. In this model the involvement in the international market in which they currently is increased in small incremental steps (Ruzzier M., Hisrich R.D., Antoncic B.)

2. Innovation related model (Gankema, H. G.J, Snuif H. R. & Zwart P.S.):

Export involvement is operationalised by the sales ratio which reflects the firm’s dependence on foreign markets

Both U- model and I-model focused mainly on involvement of firm in the foreign markets (Gankema, H. G.J, Snuif H. R. & Zwart P.S.)

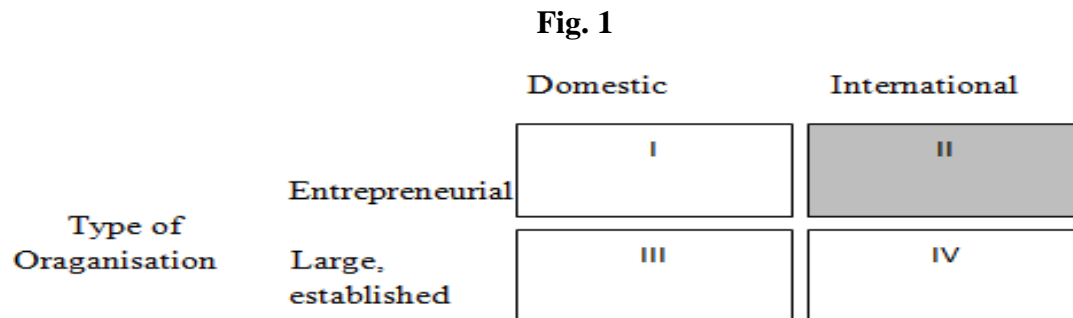
3. Network approach:

Network approach is the extension of U model which would mean applying network perspective. This includes investments in network which are new to the firm. From the Johanson and Mattson model, it is about development of market knowledge through inter- action in the network. This approach has four stages- early starter, late starter, lonely international and the international (Ruzzier M., Hisrich R.D., Antoncic B.)

4. International Entrepreneurship approach:

This approach is useful in the economic point of view where the production facility is established at the later stage in firm’s internationalisation but the process part would be missing. This approach would mean creation of activities which are associated with the entrepreneurial firms who are seeking cross national borders. McDougall and Oviatt(2000) has summarised this approach.

## **GEOGRAPHICAL SCOPE**



**Table 2: Policies of the government for Small Medium Enterprises (MSME 2009)**

Year	Policy
1948-1991	Recognition was given to micro and small enterprise as a tool to provide employment, National Small Industries Corporation, the Khadi and Village Industries Commission and Coir Board was setup, MSME Development Institutes were developed
1991-1999	Policy of Small, tiny and village enterprise was setup. SIDBI and technological development and Modernisation fund were created. Industrial Infrastructure Development (IID) scheme was launched
1999 onwards	MSME came into being. Micro, Small and Medium Enterprise Act enactment. Foreign Development Investment (FDI) policy enactment, Limited Liability Partnership Act was enacted in the year 2008.

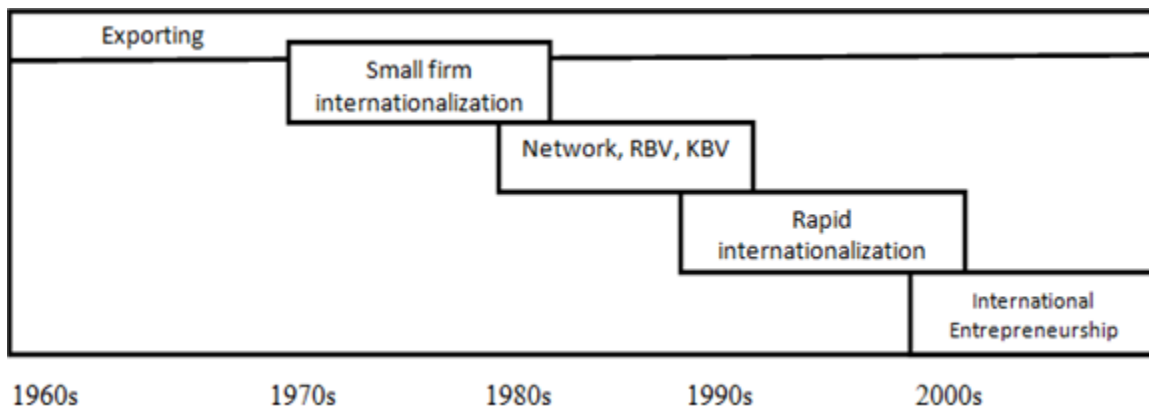
## II. Literature Review

From archeological sites it has been evident the trade between nations been going on since dawn of time. Post World War II, some MNC had become very large that the turnover exceeded GDP of small nations and the factors responsible were growth and development in telecommunication and travel during war (Pugh & Plath, 2003).

During the late 1970s focus of research shifted from exporting to internationalisation. Root (1978), argued exporting is only one among the alternatives to access new markets. Until the mid-1980s, internationalisation was viewed as an incremental process. In the late 1980s

and 1990s network perspective was proposed by IMP scholars. Resources based view and knowledge based view emerged in the year 1990s. The concept of International New Ventures (INVs) growth was observed by McDougall et. al. (1994). Mid 1990s, rapid internationalisation was on rise. The following figure gives timeline of the internationalisation process evolution. (McNaughton R. B. & Bell J. D., 1999).

**Fig. 2**



Internationalisation plays an important role in strengthening the economy with the help of providing employment and earning revenue from the imports and exports (Reddy Y.V. & Naik S.S, 2011). Smolarski and Wilner, 2005, have talked about the importance of internationalisation of SMEs as it is profitable for long term and for monetary commitment. Kamakura et al., 2012 have given importance to technology and overseas managerial ties in order to obtain sustainability in global markets. For the family owned business to reduce the agency problem, strategically tying up with other international firms can be useful as it will take care of shortage of resources and reduce the costs (Fernandez and Nieto, 2006).

For going international there are many factors which motivate a firm to go global. In a study conducted for Irish hotels, the study shows competitive advantage and organisational capability form the motives to go international (Gorman C. & McTiernan, 2000) One of the main factor is the attitude of the decision maker to go international which has been derived from the theory of planned behavior (Sommer, 2010). Another aspect is the personal network which help a firm to go international (Ciravegna, Lopez and Kundu, 2013). There are few moderating effects which affect internationalisation of the firm both positively and negatively among which, educational level and international experience effect positively and age of the CEO effect negatively. Another such attribute for firms to go international is information processing (Hsu W., Chen H.

& Cheng C., 2013).

There are managerial determinants like intention, propensity and intensity which affect the small and medium enterprises to go international (Ortega S., Alamo-Vera F., 2005). Factors also include international business skills, international orientation, perception of environment, demographic characteristics influences the internationalisation of small firms. Among which environmental perception is highly influential when comes to internationalisation of the firms (Manolova T. et.al, 2002). Another study shows environmental dynamism contributing factor for a firm to go international (Andersson S., Gabrielsson J. & Wictor I., 2004). Each of the firms has their own reason or motive to go international. Along with the motive there is also a need for firms to go international. As mentioned by Rowden (2001), firms to go international is mainly due to three factors- saturated domestic markets, more of foreign competitors entering domestic market causing more competition and for gaining competitive advantage by going overseas. Once a firm decides to go international the path to go international needs to be known.

Literature has shown various methods to go international. Exporting, Licensing, franchising, joint venture and wholly owned subsidiary are the modes of entry selected by the firms to go international. Internationalisation for small firms is done through stages as developed by Dollinger,1995 which is mentioned by Rowden (2001) Passive exporting, export management, export department, sales branches, and production abroad, transnational. There have been motivations and barriers which are mentioned in various research works are leading to internationalisation. Firm's size, manager's attitude, manager's education (Ortega & Alamo-Vera, 2005), marketing competency, organisation performance, entrepreneurial orientation, technological opportunities (Fills), foreign culture and language (Wilson) are few motivational factors for a firm to go international. Similarly, there are a few inhibitors which firms face to go international. Few of them are inaccessible markets, intense competition, communication issues, lack of marketing knowledge (Korsakiene & Tvaronaviciene, 2012), Lack of network (Sharma, Blomstermo, 2003). In one the research studies conducted, the drivers and inhibitors are stated which has been classified according to the various countries in European continent. Major factors found from the study are Resources, networks, clusters, policies, Market competitive conditions, sectors (Ratten et.al., 2007).

### **III. Research Method**

With the growing interests the field of internationalisation, it was decided to conduct a study with the factors which led the small and medium scale industries to go global. The papers taken into the consideration were from the period post 1990s to 2018. Some concepts on

internationalisation were taken from earlier study.

Papers from following journals were identified-

International business review, Journal of Business Research, Journal of International Business Studies, Journal of Small Business Management, Journal of World Business, Journal of business economics and management, International Small Business Journal, Journal of Small Business and Enterprise Development, Journal of International Entrepreneurship, International Journal of Entrepreneurial Behavior & Research, Journal of general management.

Also major part of the paper goes in the studies of identifying factors for an SME to go international.

The Major motivations and barriers have been explained in the table below.

**Table 3: Motivation and Barriers**

Title of paper	Author	Motivation	Barriers
Internationalisation of Malaysian SMEs	Nik Ab Halim Nik Abdullah & Shahrul Nizam Mohd Zain	Increase in profit, Market Opportunity, Entrepreneur motivation, Business expansion, Market for product	Difficulties and uncertainties in making profit, Lack of experience, difficult to get network and customers, Cultural and language difficulties, Risk and uncertainty of foreign operations

<p>Paths to internationalisation among Small and medium sized firms: Global v/s regional approach</p>	<p>Sylvie Chetty &amp; Colleen Campbell-Hunt</p>	<p>Decision makers attitudes and motivation, Relationship of decision makers internally(employees) and externally various business partners), Determination and willingness</p>	<p>Resource limitation</p>
<p>The entrepreneurial firm internationalisation process in the Sothern African context: A comparative approach</p>	<p>Bruce Mtigwe</p>	<p>Management orientation, Financial ability, partnerships, Decision makers risk attitude, Foreign experience</p>	<p>Lack of finance, Lack of information, Domestic market focus</p>
<p>Dimensions of internationalisation of manufacturing firms in the apparel industry</p>	<p>Sylvie Chetty</p>	<p>firm characteristics (domestic market situation, organisation structure, finances),decision maker characteristics (age, education,work experience, profit perception), firm competency(technology, market knowledge,</p>	<p>trade barriers</p>



		planning)	
Examining SME Internationalisation Motives as an Extension of Competitive Strategy	Pett, Timothy L.	firm performance, manager's perception of the environment, firm's competitive strategy	
Nature of relationship between inter-national expansion and performance: The case of emerging market firms	Farok J. Contractor, Vikas Kumar, Sumit K. Kundu	firm size and age of firm	
Internationalisation and firm performance of SMEs: The moderating effects of CEO at- tributes	Wen Tsung Hsu, Hsiang-Lan Chen, Chia-Yi Cheng	CEOs education , CEO's international experience	CEO duality, CEO age
SME's internationalisation: firms and managerial factors	Sonia M. Suarez-Ortega and Francisca R. Alamo- Vera	Firm's size, manager's attitude, manager's education	manager's age

Small firm internationalisation: An investigative survey and future research direction	Ian Fills	marketing competency, organisation performance, entrepreneurial orientation	
Internationalisation of small firms: personal factors revisited	Tatiana S Manolova, Candida G. Brush, Linda F. Edelman, Patricia G. Greene	International business skills, Personal factors of managers (age, gender, education)	
Encouraging the internationalisation of SMEs	Karen Wilson	Willingness or ability of CEO or manager, commitment of the leader, experience of foreign culture and language, Leader's educational background, Knowledge of foreign competitor	External barriers: National & International administrative rules, trade barriers; Internal barriers: cultural differences, lack of information or skills, language barriers, access to finances

Further the internationalisation was analysed based on the various experts in the fields.

In Amazon Smbhav Summit, 2021, has mentioned the scope ecommerce has provided in the giving opportunity to go global (Kaushal, 2022).

As mentioned by Rajan Anandan, Managing Director of Surge and Sequoia LLP, has mentioned the shift from no usage of internet to millions using the internet. It was further mentioned

“Earlier one has to sell a product or launch a product, he or she has to go to the country set up an office and tie up with the retail partners and spend huge amount of money for warehousing, logistics, distribution. But now, with the internet there is not even a need to go to the country to sell a product”

Disha Katharani, cofounder of Imagimake mentioned there are a lot of advantages of selling online globally. “With going global by selling online there are many advantages- unlimited shelf space, easy access, consumer feedback, easy expansion in multiple targets” (Kaushal, 2022).

There have been many government policies introduced for improvement of Indian MSMEs.

- Indian export initiative was introduced in September 2021 which will help export exports to reach Rs. 2928000 target by end of FY22 and further help in pushing it to Rs. 73200000 crore by FY27.
- Budget allocation has been doubled for MSME for FY22.

There have been other developments for promoting growth of MSMEs. There have been companies like Google that have a pact with SIDBI for growth of SMEs. Similarly, HDFC Bank, Flipkart has various schemes in growth of MSMEs (“MSME Industry in Indian Market Share, Reports, Growth & Scope | IBEF”, 2022).

Based on the above schemes, the barriers can be worked on in order to go global and development of MSMEs.

#### **IV. Discussions and Future Scope**

The above table has mentioned the major motivations and barriers for an SME to decide to go international. Some key motivations as seen in the table are related to firms namely the size, employees. When analysing the factors identified we could divide the factors as competitors, new entrant advantage, firm related factor, all these can be aligned with porter’s model (Porter, 1991). The fact of going international by an SME is driven by its motivators and limited by the inhibitors. Only if the motivators are more will an SME consider going global. All such factors are forming the pillars for the integration happening at a global level and thus contributing to the economic factors. The study can be done by identifying each of the factors and conducting a longitudinal study for each of the factors also there can be cultural changes as per the country of the study, the cultural challenges too can be studied as per the country of origin as well as the country selected for going global (Hamilton et. al. 2008). This study is just the beginning in developing the pillars for internationalisation.

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