

## STUDY OF BARRIERS OF INTERNATIONALISATION OF SMALL AND MEDIUM ENTERPRISES SME S

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### ABSTRACT

Small Medium Enterprises (SMEs) has played an increasingly active role in the international markets in this recent year. SMEs must face new challenges in the era of globalization; they need a strategy for digitizing SME businesses that is oriented towards achieving market growth. The internationalization process is more complicated than just entering the international market, SMEs are still facing various barriers such as market knowledge, finance, supporting infrastructure, technology and innovation, human resources, competition, and government policies. This problem is caused by a lack of experience and information to introduce SME products to the international market. The present study aims to study the barriers of internationalization of SMEs. In the present research study, the researcher has used descriptive research design. To develop stable item attributes, adequate sample sizes are required. The sampling population include 473 SMEs.

Keywords: Small Medium Enterprises (SMEs), Internationalization, Challenges, Barriers.

### 1. INTRODUCTION

It is widely recognized that small and medium enterprises (SMEs) are important for the economic growth, based on data that more than 96% of all Asian businesses are SMEs, in addition to providing 30% in the private sector (Yoshino N, Taghizadeh-Hesary F. 2019). Small Medium Enterprises (SMEs) has played an increasingly active role in the international markets in this recent year. The SMEs has rapidly expanded its market to penetrate the international market which is using international diversification as an important strategic decision to achieve their growth (Masum & Fernandez, 2008). Nowadays, we can see that the business has developed and become global due to globalization. In catching up with globalization, it will be more convenient for the business and firm to involve in the international market. Besides, globalization did promote more of trade openness and liberalization in trade barrier and tariff between the countries.

SMEs advancing technology in their business seem to enter into a foreign market in positive progressive than those who are not. The Fourth Industrial Revolution is an overarching industrial transformation that covers every aspect of industries and economic activities. It also relates to every aspect of living. It is a total transformation of all sectors into the new system and changes the way we do business (Azuna Hasbullah, 2018). Significantly, the technological developments, advances in telecommunication and technologies have facilitated SMEs to become involves in the global market through reduction and cost and risk (Hashim, 2015).

### 2. DEFINITION OF INTERNATIONALIZATION

Internationalization refers to the process of expanding a business or organization beyond its national borders and engaging in global activities. The concept of internationalization has become increasingly important in today's globalized economy, as businesses seek to expand their reach and tap into new markets.

### 3. DEFINITIONS OF SMALL BUSINESS SECTOR

The small business sector is a key component of the global economy, encompassing a wide range of businesses that vary in size, scope, and sector. While there is no single, universally accepted definition of what constitutes a small business, there are several characteristics that are commonly used to identify businesses in this sector. In addition to size and revenue, other characteristics that are commonly associated with small businesses include independence, owner-manager control, limited access to resources, and reliance on personal relationships. These businesses are often seen as drivers of economic growth, innovation, and job creation, particularly in emerging markets and developing countries. Despite these variations, the small business sector in India plays a significant role in the country's economy, contributing to employment generation, income generation, and export earnings (Sanyal & Bhattacharya, 2021). Despite the lack of a universal definition, the small business sector remains an important part of the global economy,

and understanding its characteristics and contributions is critical to developing effective policies and strategies to support its growth and development.

#### 4. REVIEW OF RELATED LITERATURE

According to Ball & Mc. Cullouch (1996) most of the International business conducted by the organizations is concerned with the tariffs and the taxes levied on corporations. The prices of its stock tend to rise, and it can be a better customer for suppliers of its components and raw materials. International organizations have more taxes and more countries to consider, as a result more risky at the same time organizations can save taxes too. According to Lemak & Aruthanes, (1997) adaptation is costly and may not be a profitable strategy, particularly in markets where differentiation is difficult, e.g. industrial or commodity products. Supporters of the adaptation approach believe there is no one best way to manage and that in order for an organization to be effective it must adapt to its business environment. The foreign language proficiency has been positively associated with export development since this skill may help to establish social and business contacts abroad, improve communication and interaction with foreign customers, assist in understanding foreign business practices, and facilitate effective planning and control in overseas markets, Leonidou et al. (1998). According to Zou and Stan (1998), classifying the international determinants into internal and external factors is theoretically justified as the two categories correspond to different theoretical bases: resource-based theory and industrial organization theory, respectively. Axinn, C.N., & Matthyssens, P. (2001) Though, the limitations of existing internationalization theories are explored in terms of speed of internationalization, physical distance, entry mode range, portfolio logic, learning from experience, underestimating the stakeholder's values and probably most of the theories were focused on manufacturing firms than the service oriented firms. Berry, Rodriguez & Sandee (2001), Resource poverty leads to more constraints for SMEs in their operations. Limited financial resources mean that SMEs must be careful with their investment and spending. In terms of capital spending, most investment is aimed at supporting core business functionalities. New technology investment for the core business is difficult let alone for supporting technologies such as IT. According to Dhanaraj & Beamish (2003) Trade agreements can facilitate the internationalization of SMEs by reducing trade barriers and promoting free trade. These agreements create a level playing field for SMEs and provide them with increased access to new markets and customers. Dziembala (2005) & Lackenbauer (2004) show that the European consumer typically holds her own cultural values, both, economic and sociodemographic factors. These factors can cause often very strong economic-social disparity. According to Gupta et al. (2005) most of the SMEs face problems in obtaining the financial capital necessary to become competitive and achieve economic growth. Obtaining loans is a challenge because bankers perceived lending to SMEs to be risky due to poor repayment records and low market credibility. According to Mohibul and Fernandez (2008) SMEs rely heavily on their networks for many activities when internationalizing, particularly in obtaining market knowledge and looking for opportunities. Galkina, T., & Chetty, S. (2015) For SMEs, effectuation and the network relationship formed by the entrepreneur influence the internationalization decision to enter into the foreign market where the firm has the possibility to expand their business. According to Agarwal & Ramaswami (2018) Export promotion policies, such as export financing and export credit insurance, can help SMEs mitigate the risks associated with entering new markets. These policies provide SMEs with financial assistance to compete in foreign markets and reduce the costs of doing business. According to Kim & Jang (2018) Intellectual property protection policies can help SMEs protect their patents, trademarks, and copyrights when doing business in foreign markets. This protection can provide SMEs with a competitive advantage and reduce the risks associated with entering new markets. Revindo MD et al. (2019) study considered various barriers of internationalization for SMEs like: Tariff and non-tariff, Human resource and information, Procedural, Distribution, Business environment. Chandra A. et al. (2020) emphasized on the internal and external barriers of internationalization in development country which includes the following:

- (a) Internal Factor: Human capital, Managerial capability, Product quality, Resource poverty
- (b) External Factor: Market conditions, Currency risk and transactional, Government, Socio-cultural

According to Westerlund M. (2020) SMEs must face new challenges in the era of globalization; they need a strategy for digitizing SME businesses that is oriented towards achieving market growth. According to Darmayanti et al. (2021) the internationalization process is more complicated than just entering the international market, SMEs in Indonesia are still facing various problems such as market knowledge, finance, supporting infrastructure, technology and innovation, human resources, competition, and government policies. This problem is caused by a lack of experience and information to introduce SME products to the international market.

#### 5. OBJECTIVE OF THE STUDY

To study the barriers of internationalization of SMEs'.

## 6. RESEARCH METHODOLOGY

Research methodology is a means to describe how a researcher plans to conduct their investigation. It is the research's blueprint and planning document. A technique used for an ordered organisation of facts and principles is called methodology.

## 7. RESEARCH DESIGN

The present study aims to study the barriers of internationalization of SMEs. In the present research study, the researcher has used descriptive research design.

## 8. SAMPLE DESIGN & SAMPLE SIZE

A population is divided into strata based on a certain feature that is known for each sampling unit in the population, and samples are then separately chosen from each stratum in this sample design.

Sample Size: To develop stable item attributes, adequate sample sizes are required. The sampling population of proposed research will include 473 SMEs.

## 9. DATA COLLECTION METHODS

### Primary Data

In the present study the primary data has been collected from the SMEs Entrepreneur, government officials, and policy makers.

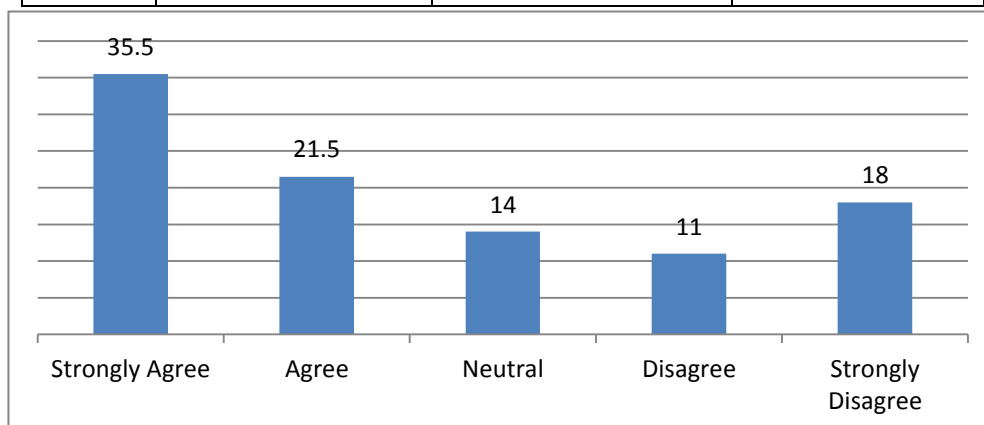
### Secondary Data

The researcher has used following sources for collection of secondary data: Reports and Publications, Various Research Journals, Magazines, Newspapers and Websites.

## 10. ANALYSIS REGARDING BARRIERS OF INTERNATIONALISATION OF SME'S

**Table 1:** Response to the question “Do you agree that lack of financial resources is a significant barrier to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	167	35.5
2	Agree	102	21.5
3	Neutral	66	14
4	Disagree	52	11
5	Strongly Disagree	86	18
	Total	473	100

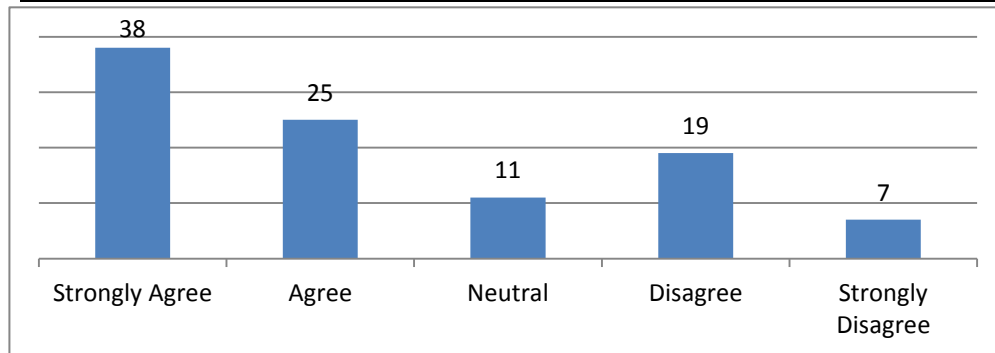


**Figure 5.1:** Response to the question in percentage “Do you agree that lack of financial resources is a significant barrier to internationalization for SMEs?”

Analysis: The figure 5.1 reveals that majority of respondents were agreed that lack of financial resources is a significant barrier to internationalization for SMEs, few of them were neutral whereas mostly the respondents felt that lack of financial resources is not the barrier to internationalization for SMEs.

**Table 5.2:** Response to the question “Do you do you agree that lack of knowledge and expertise in foreign markets is a significant barrier to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	180	38
2	Agree	118	25
3	Neutral	52	11
4	Disagree	89	19
5	Strongly Disagree	34	7
	Total	473	100

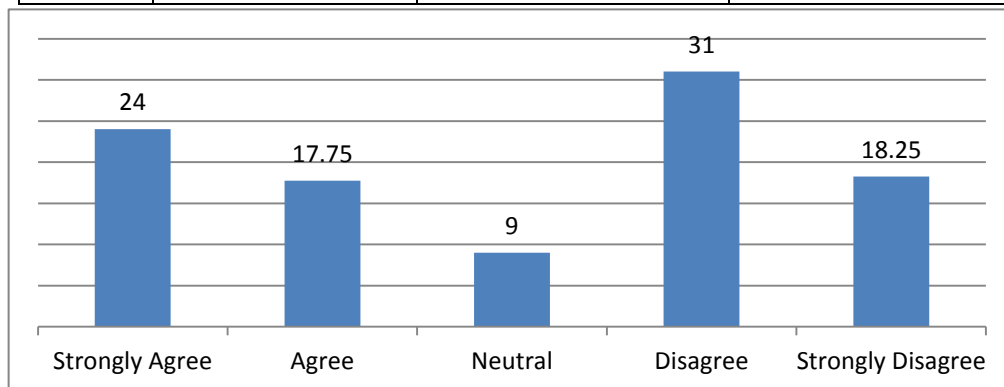


**Figure 5.2:** Response to the question in percentage “Do you do you agree that lack of knowledge and expertise in foreign markets is a significant barrier to internationalization for SMEs?”

Analysis: The result reveals that majority of respondents agreed that lack of knowledge and expertise in foreign markets is a significant barrier to internationalization for SMEs. Few respondents were neutral whereas almost one fourth of respondents clearly disagreed to it.

**Table 5.3:** Response to the question “Do you agree that cultural differences and language barriers are significant obstacles to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	113	24
2	Agree	84	17.75
3	Neutral	42	9
4	Disagree	147	31
5	Strongly Disagree	87	18.25
	Total	473	100

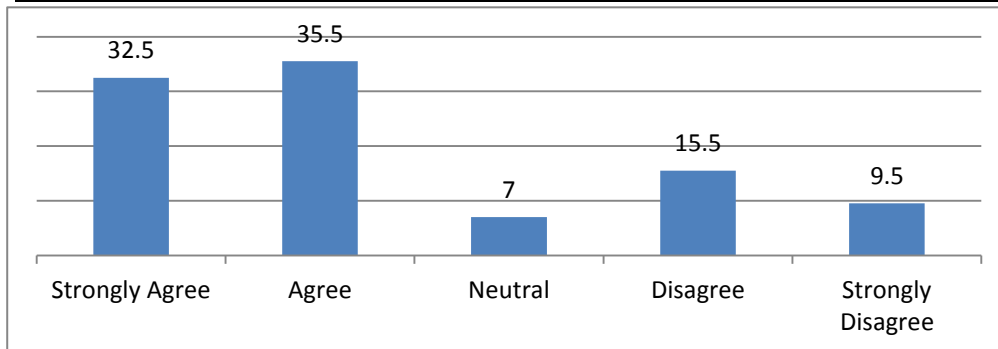


**Figure 5.3:** Response to the question in percentage “Do you agree that cultural differences and language barriers are significant obstacles to internationalization for SMEs?”

Analysis: The result found that mostly the respondents were agreed that cultural differences and language barriers are significant obstacles to internationalization for SMEs, some of the respondents were neutral whereas almost half of the respondents were not agreed that to any barrier regarding the cultural differences and language barriers.

**Table 5.4:** Response to the question “Do you agree that limited access to distribution channels and networks is a significant barrier to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	153	32.5
2	Agree	169	35.5
3	Neutral	32	7
4	Disagree	74	15.5
5	Strongly Disagree	45	9.5
	Total	473	100

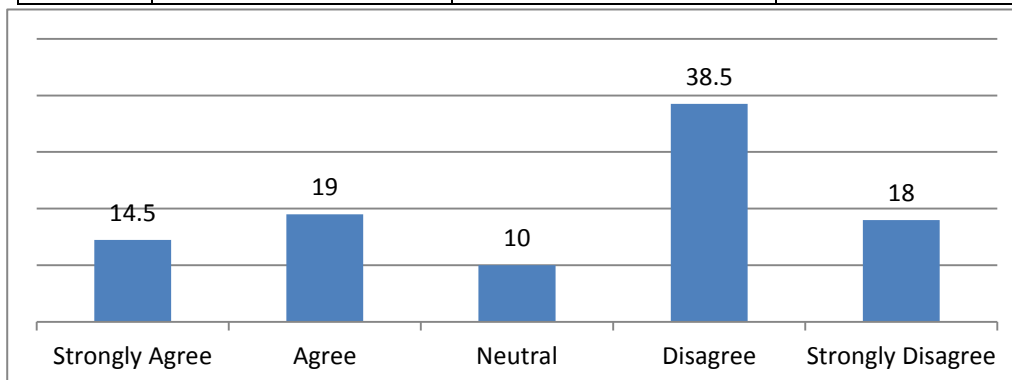


**Figure 5.4:** Response to the question in percentage “Do you agree that limited access to distribution channels and networks is a significant barrier to internationalization for SMEs?”

Analysis: The result clearly indicates that highly majority of respondents felt that limited access to distribution channels and networks is a significant barrier to internationalization for SMEs, few were neutral whereas one fourth were clearly stated that limited access to distribution channels and networks have not considered the barriers to internationalization for SMEs.

**Table 5.5:** Response to the question “Do you agree that regulatory and legal barriers, such as tariffs and trade restrictions, are significant obstacles to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	68	14.5
2	Agree	89	19
3	Neutral	48	10
4	Disagree	181	38.5
5	Strongly Disagree	87	18
	Total	473	100

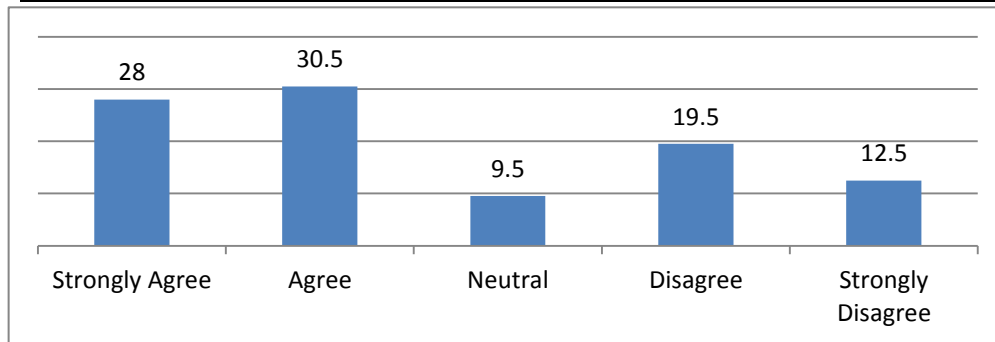


**Figure 5.5:** Response to the question in percentage “Do you agree that regulatory and legal barriers, such as tariffs and trade restrictions, are significant obstacles to internationalization for SMEs?”

Analysis: The figure 5.5 shows that almost one third of respondents agreed that regulatory and legal barriers to internationalization for SMEs, some of them were neutral whereas majority of respondents disagreed about it.

**Table 5.6:** Response to the question “Do you agree that lack of managerial experience in international markets is a significant barrier to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	133	28
2	Agree	145	30.5
3	Neutral	45	9.5
4	Disagree	92	19.5
5	Strongly Disagree	58	12.5
	Total	473	100

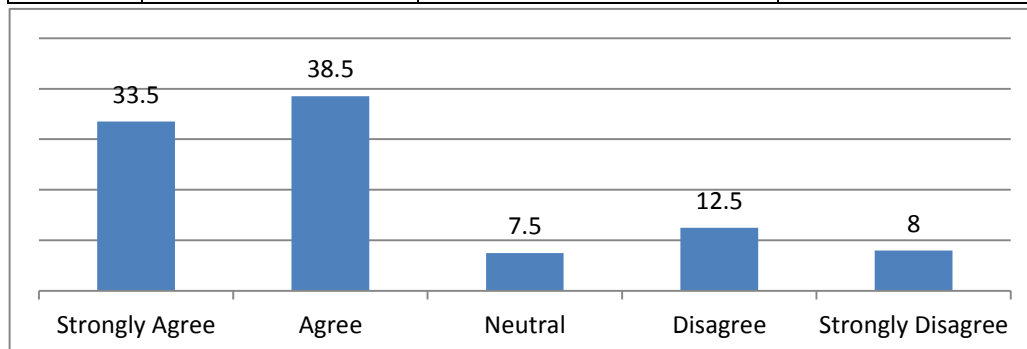


**Figure 5.6:** Response to the question in percentage “Do you agree that lack of managerial experience in international markets is a significant barrier to internationalization for SMEs?”

Analysis: The result reveals that majority of respondents were agreed that lack of managerial experience in international markets has been considered major barrier to internationalization for SMEs, few were neutral whereas almost one third of respondents were not considered lack of managerial experience in international markets as a barrier for SMEs.

**Table 5.7:** Response to the question “Do you agree that competition from larger firms is a significant barrier to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	158	33.5
2	Agree	183	38.5
3	Neutral	35	7.5
4	Disagree	60	12.5
5	Strongly Disagree	37	8
	Total	473	100



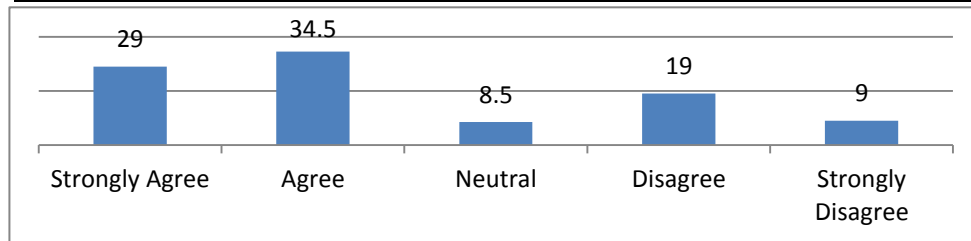
**Figure 5.7:** Response to the question in percentage “Do you agree that competition from larger firms is a significant barrier to internationalization for SMEs?”

Analysis: The result reveals that very high majority of respondents were agreed that competition from larger firms has been considered major barrier to internationalization for SMEs, few were neutral whereas almost one fifth of respondents were not considered competition from larger firms in international markets as a barrier for SMEs.



**Table 5.8:** Response to the question “Do you agree that political instability and economic risks in foreign markets are significant obstacles to internationalization for SMEs?”

S. No.	Components	No. of Respondents	Per cent
1	Strongly Agree	137	29
2	Agree	163	34.5
3	Neutral	40	8.5
4	Disagree	89	19
5	Strongly Disagree	44	9
	Total	473	100



**Figure 5.8:** Response to the question in percentage “Do you agree that political instability and economic risks in foreign markets are significant obstacles to internationalization for SMEs?”

Analysis: The result reveals that high majority of respondents were agreed that political instability and economic risks in foreign markets are the major barrier to internationalization for SMEs, few were neutral whereas mostly the respondents felt that political instability and economic risks in foreign markets are not the barriers in international markets for SMEs.

## 11. FINDINGS RELATED TO BARRIERS OF INTERNATIONALISATION OF SME'S

1. The result found that majority of respondents were agreed that lack of financial resources is a significant barrier to internationalization for SMEs, few of them were neutral whereas mostly the respondents felt that lack of financial resources is not the barrier to internationalization for SMEs.
2. The result reveals that majority of respondents agreed that lack of knowledge and expertise in foreign markets is a significant barrier to internationalization for SMEs. Few respondents were neutral whereas almost one fourth of respondents clearly disagreed to it.
3. The result found that mostly the respondents were agreed that cultural differences and language barriers are significant obstacles to internationalization for SMEs, some of the respondents were neutral whereas almost half of the respondents were not agreed that to any barrier regarding the cultural differences and language barriers.
4. The result clearly indicates that highly majority of respondents felt that limited access to distribution channels and networks is a significant barrier to internationalization for SMEs, few were neutral whereas one fourth were clearly stated that limited access to distribution channels and networks have not considered the barriers to internationalization for SMEs.
5. It was found that almost one third of respondents agreed that regulatory and legal barriers to internationalization for SMEs, some of them were neutral whereas majority of respondents disagreed about it.
6. The result reveals that majority of respondents were agreed that lack of managerial experience in international markets has been considered major barrier to internationalization for SMEs, few were neutral whereas almost one third of respondents were not considered lack of managerial experience in international markets as a barrier for SMEs.
7. The result reveals that very high majority of respondents were agreed that competition from larger firms has been considered major barrier to internationalization for SMEs, few were neutral whereas almost one fifth of respondents were not considered competition from larger firms in international markets as a barrier for SMEs.
8. It was found that high majority of respondents were agreed that political instability and economic risks in foreign markets are the major barrier to internationalization for SMEs, few were neutral whereas mostly the respondents felt that political instability and economic risks in foreign markets are not the barriers in international markets for SMEs.

## 12. CONCLUSION

The present research has focused on barriers of internationalization of SME's. For this the researcher has considered eight components in the present research which are as follows: lack of financial resources, lack of knowledge and

expertise in foreign markets, cultural differences and language barriers, limited access to distribution channels and networks, regulatory and legal barriers, lack of managerial experience, competition from larger firms and political instability and economic risks in foreign markets. According to the research study's findings, competition from larger firms and political instability and economic risks in foreign markets are considered the major barriers faced by the SMEs in internationalization.

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