

# A Literature Review: Challenges of Internationalization in Small and Micro Enterprises Medium (SMEs)

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## **Abstract.**

*This article aims to find out the challenges faced by SMES in entering international markets. The methodology in writing this article is literature review. And limited to articles related to field studies. The search results found several articles with the specified keywords. Some of the challenges faced by SMEs in entering international markets in several countries such as Fiji, Nigeria, India, Nepal, Bangladesh, Finland and Sweden in entering international markets include access, both access to limited knowledge of international markets, access to finance, geographical conditions, and several other challenges. It is hoped that this article will provide benefits for finding solutions in facing the challenges of SMEs in facing the international market.*

**Keywords:** *Challenges, Internationalization and SMEs.*

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## **I. INTRODUCTION**

Trade liberalization and technological advances have created new challenges in domestic and international markets. SMEs make a significant contribution to economic development, although there are many large companies with technological advances. In the global economy, both in developed and developing industries, SMEs also make a significant contribution to the economic development sector around the world. SMEs are considered as the most dynamic business and play an important role in building human welfare in any country. According to recent evidence, SMEs provide 90% of economic activity and provide about 60% of employment (Munro, 2013). The involvement of SMEs in international markets can be seen by the increasing role of SMEs in export activities. Internationalization is the process by which a company improves and builds its future either directly or indirectly by conducting economic activities in other countries. According to Calof and Beamish (1995) in (Paul et al., 2017) define internationalization as a process of adapting company activities to the international environment. Internationalization is also defined as the means by which companies take their operations across borders (Goncalves & Smith, 2019). Some experts say it is very important to separate the definitions of internationalization and export. Internationalization is defined by Johanson and Vahlne as activities carried out in stages in increasing their involvement in international economic transaction activities, while Etemad says it is a company activity that is different from usual (Kahiya, 2020).

While exporting is an economic activity by selling production results in the form of goods and services by being directly involved using the resources they have or by involving other parties (Leonidou et al., 2010). Thus we can see that traditionally the export of goods and services has been the driving force for internationalization. Export activities are one of the most widely used means of internationalization. Another way to internationalize a company's operations is to enter into partnerships. Partnering or acquiring and leveraging corporate networks beyond borders ensures exchange of knowledge and technology is one way to achieve internationalization. Other drivers of internationalization are globalization, economic change, and also technological advances (Mtigwe, 2006). According to Lee et al., in (Narayanan, 2015) that by internationalizing SMEs will be able to maintain the continuity of their business and be able to survive in the local market and be able to compete with other companies. By participating in the internationalization

market, companies can reduce volatility in their business because they carry out economic activities not only in one country, but also in various countries (Meredith, 1984). From a country's economic perspective, internationalization can also increase technological progress, add foreign exchange sources, boost the economy, help create new jobs, and also improve living standards in the country (Arteaga et al., 2010).

Knowledge about the international market and who is involved in it for companies that are just entering the international market is still very minimal. So they prefer the simple way of exporting (Narayanan, 2015). Increased knowledge makes companies eventually take on much more complex forms of internationalization such as establishing branches or subsidiary companies. Currently, large companies no longer apply because they already have access to various types of information and resources needed (Karajz, S., & Gubik, 2014). Exporting does not require large capital for investment, as well as smaller financial risks than investing directly. Exports for some SMEs in developing countries are not considered as an option (Al-Hyari et al., 2012). There are many obstacles and doubts from small companies to get involved in exports, thus avoiding to export (Leonidou, 2004). Based on his approach, Leonidou classifies the obstacles faced by companies as internal and external (Figure 1). All causes related to the internal structure of the company are internal obstacles and all problems that are outside the company are considered external (Merino et al., 2015).



Traditionally, there has been a lack of long-term financial resources and intangible assets, such as inadequate skills and unprofessional managerial attitudes, a lack of human resources, a lack of innovation, technological capabilities, a lack of knowledge regarding foreign market information and a lack of opportunity information. business limits the internationalization process of SMEs (Ruzzier et al., 2006). Compared to large companies, SMEs are generally not ready enough to enter international markets and in order to maintain their sustainability, SMEs tend to choose the entry mode (Tang et al., 2017). The existence of higher risks and uncertainties will even cause losses (Rahman et al., 2017) causing SMEs to try to find ways to overcome this (Ji, J., & Dimitratos, 2013). Entry mode options with lower resource commitment are preferred for SMEs in the early stages of internationalization. Since handling and arbitrating between various formal and informal regulatory alternatives can increase transaction costs and increase inherent risks (Clausen, 2014) the choice of mode of entry MSMEs initially tend to engage in indirect exports first and gradually increase the level of entry modes especially after they experience difficulties in the domestic market (Jansson & Soderman, 2012) in (Wu & Deng, 2020).

The extant literature also mentions the key role that knowledge plays in supporting the process of internationalization of companies (Del Giudice, M. and Della Peruta, 2016). Knowledge has been proposed as an asset to enhance a company's capacity to operate in international markets (Vahlne & Johanson, 2006), and is assumed to play an important role in today's globalized world because it significantly contributes to creating and sustaining competitive advantages in international markets (Santoro et al., 2018). When starting operations in foreign markets requires companies to face uncertainty and risk. To overcome this condition, companies must generate and control different resources and capabilities (Haapanen et al., 2016). In fact, companies develop competencies and routines to successfully manage operations in their home market, but these are often not fully appropriate when operating in foreign markets (Kumar, 2009). Previous literature on the internationalization

process (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988) indicated that knowledge is one of the most important elements of internationalization and suggested that firms must acquire specialized knowledge of foreign markets to be successful abroad. Lack of knowledge of foreign markets turns out to be an important obstacle to the development of international operations (Johanson and Vahlne, 1977, P. 23) in (Magni et al., 2022). Knowledge has also been identified as an important element for the internationalization of small and medium enterprises (SMEs) such that internationalization process theory places the generation and acquisition of knowledge as critical to influencing the internationalization of small firms (Del Giudice, M. and Della Peruta, 2016).

There are several theories related to the internationalization of companies as in the article written by (Paul et al., 2017), including the product life cycle theory, the Uppsala model, the Network approach, the global model and other theories. The product life cycle theory according to Vernon (1966, 1971, 1979), the process of internationalization of companies follows the product life cycle. Companies usually introduce new products only in their domestic market to find out how the product will perform and eventually expand their offerings, starting with exports and then venturing into foreign direct investment and reverse exports. The Uppsala model postulates that companies go through a process of stages towards internationalization (eg, Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Welch & Luostarinen, 1988; Welch & Wiedersheim-Paul, 1980). According to Johanson and Vahlne (1977), The company pays more attention to psychic distance, thus, starting the process of internationalization by selecting foreign markets that meet this criterion. Psychological distance is known as the sense of distance because of different factors such as language, culture, and political systems, these factors may interfere with the flow of information between companies and markets (Johanson & Wiedersheim-Paul, 1975). Even though the Uppsala model was developed based on the internationalization process of relatively large companies, it is also useful for analyzing the challenges and opportunities for SMEs exports in (Paul et al., 2017).

The network approach according to Mitgwe (2006) highlights the importance of networks that bridge the internationalization of companies. Johanson and Vahlne (2009) say that companies are in a network in dealing with other companies. Such a relationship leads to an exchange of information that facilitates the process of internationalization. Networks are considered an important source of market information when knowledge is often acquired overtime when there is no link with the host country. The network approach emphasizes using the information a company owns and acquires over a period of time and brings all parties involved closer by establishing relationships with customers, industry (including suppliers and distributors), regulatory and public bodies, as well as other market participants. Relationships are made based on mutual trust, knowledge, and commitment between the company and the parties mentioned above. Given limited resources and market forces, the internationalization process for SMEs is significantly different from that of established multinational corporations. SMEs, usually rely heavily on their network relationships when they try to internationalize (Musteen et al., 2014). The INV and global start-up approach model is an alternative view that some companies internationalize from the start, and such companies are referred to as International New Ventures (INVs) (McDougall, Shane, & Oviatt, 1994; Oviatt & McDougall, 1994) or 'Born Globals' (Knight & Cavusgil, 1996; Madsen, Rasmussen, & Servais, 2000; Madsen & Servais, 1997; Renni, 1993) in (Paul et al., 2017). INV is defined as a business organization that, from its inception, seeks to gain a significant competitive advantage from the use of resources resulting in the sale of output in a number of countries (Oviatt & Phillips McDougall, 1993).

Some of the factors that help companies enter the international market are new market conditions, technological developments (Batra et al., 2015), managerial and entrepreneur team skills (Landau et al., 2016) and international network relations (Madsen & Servais, 1997). SMEs with innovative products or services gain a competitive advantage over other companies, in turn helping them in the internationalization process from the start. This occurs when a foreign market has a need for a particular type of innovative product or service. According to (Knight & Cavusgil, 1996) global birth can make a small company from the start operating in several international markets and trying to achieve competitive advantage based on technology. In addition (Cavusgil & Knight, 2015), highlights the ability of globally born companies to innovate in ways that create new knowledge and capabilities, to deploy unique resources, capabilities regardless of their asset savings, orientate to effective international markets and have high international entrepreneurial orientation ability. This article will discuss the challenges of internationalization in Micro, Small and Medium Enterprises (SMEs).

Writing this article using the literature review method taken from the data base *Scencedirect and Emerald Insights* Scopus indexed *open access*. This article is expected to provide a scientific contribution related to the challenges of internationalization in Micro, Small and Medium Enterprises (SMEs).

## II. METHODS

The method of writing this article is with a literature review. By collecting, understanding, analyzing then concluding according to the topic to answer research questions. The stages carried out in this method are by: First; formulate the problem, in this article the formulation of the problem is how to challenge the internationalization of MSMEs. The second stage is searching for literature; Literature searches were taken from online databases namely Scencedirect and Emerald Insight which are open access. By using the keywords challenges, Internationalization and SMEs. The search was limited to the publication year of the last ten (10) years, namely from 2013 - 2023. After searching the literature, the next step was to determine the inclusion criteria. The inclusion criteria are those that meet the criteria for articles which are results written in English and indexed by Scopus. Based on the inclusion criteria, the next step is to select literature according to the questions determined research determined 4 (four) articles. The articles that write about the challenges of internationalization in MSMEs can be seen in the table below:

No	Title of Article and Journal	Writer's name	Year
1	Internationalization challenges for SMEs: evidence and theoretical extension (European Business Reviews)	<a href="#">Ashna Ashwini Chandra</a> , <a href="#">Justin Paul</a> , <a href="#">Meena Chavan</a>	2020
2	Prospects and challenges of entrepreneurship internationalization on the competitiveness of SMEs (Asia Pacific Journal of Innovation)	<a href="#">Gbemi Oladipo Olaore</a> , <a href="#">Bimbo Onaolapo Adejare Ekpenyong</a> , <a href="#">Ekpenyong Udofia</a>	2020
3	Reverse Globalization by Internationalization of SME's: Opportunities and Challenges Ahead (Procedia-Social and Behavioral Sciences)	<a href="#">Binod Anand</a>	2015
4	Tackling business model challenges in SME internationalization through digitalization (Journal of Innovation & Knowledge)	<a href="#">Wiebke Reim</a> , <a href="#">Pirjo Yli-Viitala</a> , <a href="#">Juha Arrasvuori</a> , <a href="#">Vinit Parida</a>	2022

After selecting the literature, then conducting an in-depth analysis of theselected articles by collecting the findings and in accordance with the research questions in this article.

## III. RESULTS AND DISCUSSION

From the selection of existing literature over a period of 10 years, there are 4 (four) articles related to the challenges of internationalization in SMEs. The article written by (Chandra et al., 2021), uses a qualitative methodological approach, with multiple case studies to study many cases precisely to understand the differences and similarities between cases and to analyze data in the same industry or across industries to predict the results contrast or similar (Yin, 2003). This study has the aim of analyzing the barriers to internationalization of SMEs within Pacific Island countries (PIN) in this case in Fiji and to develop a theoretical framework that can serve as an initial platform for future research. Data collection through semi-structured interviews 30, with 1 hour face-to-face time used to test propositions and present initial findings. Respondents were SMEs from four administrative divisions in Fiji. Central, North and West Division, because it has a high population density, diverse population groups and a high concentration of SMEs and is more economically developed. Participants were then randomly selected from major cities in the region. This research examines the internationalization challenges facing Fijian SMEs through interviews in sectors such as food and beverages, cosmetics, clothing, textiles and leather. Other sectors have low involvement in international trade due to the competitive challenges they face.

The interviews identified that the SMEs that were growing internationally were innovative firms with a high entrepreneurial orientation (EO) and previous experience of entrepreneurial work in trade. Demand for innovative products is low in Fiji due to the low standard of living of the local people and the high prices of their

unique products. SMEs that are not involved in global operations have not done so because of a lack of experience, awareness, information, capital and competence. Institutional and cultural distance from the host country is also a major factor, as is the lack of government support. Some of the challenges reported include access to finance, geographical location, limited knowledge of international marketing, lack of management competence (MC), rigid rules and regulations by agencies (FRCA, trade and Biosecurity Authority), high transportation costs, limited support from government for the industry and the lack of export policies and trade promotion. Fijian SMEs were unable to internationalize initially, and respondents stated that it usually takes between three and seven years to internationalize, although there have been exceptional cases of internationalization within six months with innovative products. Company B reveals that one of the reasons for its initial internationalization was due to competitive pressures in the local market, where it had to proactively develop and adapt new products for foreign demand and find alternative ways to deal with the competition.

This article, from (Olaore et al., 2020), examines the prospects for and challenges of internationalization on the competitiveness of SMEs in Lagos, Nigeria. The research is descriptive in nature and uses a questionnaire to collect data from SME owners in the state of Lagos. SMEs criteria the respondents have been operating for more than five years and have international business branches in other countries. The sample used was 300 respondents. The results of Hypothesis 1 reveal a positive and significant relationship between the competitive advantage of SMEs and internationalization strategies to achieve competitive performance. This finding is consistent with research from (Esposito, 2018) which revealed that most Nigerian companies tend to adopt the Uppsala model compared to the initial strategy of establishing global companies. Nigerian companies are more receptive to incremental and sequential approaches to regional internationalization. This study is equally in line with the results of research from (Adams et al., 2018) which also corroborates the statement stating that most Nigerian companies are more aggressive in establishing a regional presence, rather than achieving a global presence when regional operations are achieved. Second, Socio-cultural factors positively influence the competitive performance of SMEs in the country of origin due to foreign alliances. These findings contradict the results of (Adeleye et al., 2018) which reveal that socio-cultural factors have a negative impact on the competitive performance of SMEs. The study conducted by (Barungi et al., 2016) also supports the finding that socio-cultural factors play a major role in efforts to internationalize SMEs in Nigeria and the inability of SMEs to fully reduce these factors makes many SMEs in Nigeria stay ahead of the local only and undermine their internationalization efforts.

The third hypothesis reveals a significant relationship between IE and the value creation of Nigerian SMEs. The unpredictable nature of Nigeria's institutional environment, coupled with years of poor infrastructure, has become a big problem for local companies. Lack of infrastructure, problems of double taxation, insecurity, partial government regulatory agencies, bribery and corruption are some of the many problems that Nigerian companies face just to survive. This problem has also prevented many Nigerian companies from internationalizing. The next article is from (Anand, 2015), with a total of 343 middle and senior managers from 125 SMEs operating in the manufacturing industry in India, Nepal and Bangladesh, between 2012-2013, using a quantitative approach, and analyzed by program SPSS statistical package, the three proposed relationships were tested via regression analysis. Currently the challenges of globalization and trade liberalization have been present new opportunities and challenges for SMEs. Most SMEs in developing countries and emerging market economies are either less able or unable to take advantage of globalization and often face pressure in the domestic market from cheaper imports and foreign competition due to a lack of knowledge and financial literacy. SMEs increasingly see participation in international markets as critical to their survival, job creation and growth. But the development of global markets that are changing rapidly and are increasingly complex also puts considerable pressure on companies. SMEs play an important role in social economic development in emerging markets and their role needs to be strengthened further given their contribution to promoting equitable growth and job creation.

It is essential to increase the competitiveness of SMEs, which requires the creation of an enabling legal, regulatory and administrative environment, access to finance and a capable institutional structure and most importantly, human resources. To turn India into a major manufacturing hub like China, Indian SMEs must

embrace change so that they can survive and find a place for themselves in the global competitive environment. The most important change required is the attitude of stakeholders and the mindset of institutions engaged in small business development. Some effort must be made to take full advantage of the opportunities provided by globalization. By increasing efficiency and financial literacy. To carry out this mission, all stakeholders in SMEs development, i.e. government, RBI, banks, NGOs and other institutions such as SMEs associations and large industry associations must be prepared to provide an enabling environment for SMEs to take them to a higher level. Articles related to the challenges of internationalization in MSMEs were also written by (Reim et al., 2022), with the aim of analyzing how digitalization can help overcome business model challenges related to the internationalization of SMEs. The approach used in this article uses a qualitative method by conducting an exploratory case study of 29 SMEs that have an internationalization strategy and come from sparsely populated areas in Finland and Sweden.

This paper identifies business model challenges related to value creation, delivery, and capture during the internationalization process. Besides that, developed a framework that adapts digitalization activities to the challenges of business models. This study matches specific digitization activities with the business model challenges SMEs face when trying to enter international markets. The theoretical contribution of this paper is mainly related to the business model and digitization literature. This article also analyzes the business model challenges that arise from the internationalization of SMEs. Challenges for value creation, related to lack of knowledge regarding international markets, difficult international marketing conditions, and insufficient international value proposition. For value delivery, the challenges are related to international collaboration, limited resources for business development, and lack of competence and skilled employees for internationalization. As for value capture, the challenges are related to increasing international operating costs, and unstable income from international business activities. In addition, this article also identifies and matches digitalization activities with the business model challenges that SMEs face when trying to operate in international markets.

#### **IV. CONCLUSION**

Based on article searches taken from online databases, namely Scencedirect and Emerald Insight which are open access by limiting the year of publication of ten (10) year the last one is from 2012 - 2022. By using predetermined keywords, did not find many search results using these keywords. The author only found 4 articles that were open access. An article written by (Chandra et al., 2021), identifies that SMEs that are growing internationally are innovative companies with a high entrepreneurial orientation (EO) and have entrepreneurial experience. Lack of experience, awareness, information, capital and competence causes difficulties for SMEs to enter international markets. Some of the challenges faced by SMEs in Fiji include institutional and cultural distance from the host country which is also a major factor, as well as the lack of government support. Other challenges related to access to finance, geographic location, limited knowledge of international marketing, lack of management competency (MC), Rigid rules and regulations by agencies, high transportation costs, limited government support for the industry and a lack of export and trade promotion policies. Meanwhile in Nigeria, factorenvironmental and socio-cultural challenges Institutions become an obstacle for SMEs to enter international markets.

Most of the Nigerian companies were only able to achieve regional internationalization and none can be said to be fully capable of achieving so-called full internationalization. Whereas in India, Nepal and Bangladesh the opportunities and challenges for the internationalization of SMEs, related to the policy framework, access to finance and among the main problems identified are the absence of adequate and timely banking financing, limited capital, access to international markets and knowledge management. Enhancing the competitiveness of SMEs, requires the creation of an adequate legal, regulatory and administrative environment, access to finance and a capable institutional structure as well as human capital. In order to turn SMEs as agents of reversing globalization, Innovation and policy processes are essential. SMEs must embrace global changes in cultural norms so that they can survive and find a place for themselves in a global competitive environment. The most important change required is the attitude of stakeholders and the mindset of institutions engaged in small business development tasks. Efforts should be made to take full advantage of the opportunities provided by globalization. This can be done through increased efficiency and financial literacy.

In Finland and Sweden, the identification of challenges during the internationalization process includes how to create value, deliver, and retrieve value. The country has also developed a framework that adapts digitalization activities to business model challenges. This can be done through increased efficiency and financial literacy. In Finland and Sweden, the identification of challenges during the internationalization process includes how to create value, deliver, and retrieve value. The country has also developed a framework that adapts digitalization activities to business model challenges. This can be done through increased efficiency and financial literacy. In Finland and Sweden, the identification of challenges during the internationalization process includes how to create value, deliver, and retrieve value. The country has also developed a framework that adapts digitalization activities to business model challenges.

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