Definitions

Internationalisation is a dynamic process where firms frequently change their strategies (Agndal & Chetty, 2007; Ruzzier, Antonicc & Hisrich, 2007) and modes of operation (Benito, Pedersen & Petersen, 2005). Johanson and Vahlne (1977) defined it as an ongoing process of evolution, where by the firm increases its foreign market involvement as a function of knowledge and commitment. Dunning (1988) defined internationalisation to be a pattern of investments in foreign markets determined by rational economic analysis. Beamish (1990: 77), defined internationalisation as: "...the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries." This proliferation of definitions and interpretations of internationalisation processes in the literature suggests a lack of a universally accepted definition of this multidimensional construct. Simply, it could be described as a process by which firms’ progressively increase their involvement in overseas markets.

The “Conservative-Entrepreneurial Dichotomy” of Owner-Managers

It has been argued that the barriers to internationalisation often reside within the firm (Evans, Bridson, Byrom & Medway, 2008). Yeoh and Jeong (1995) highlighting the “conservative-entrepreneurial” dichotomy of SME owner-managers stated that proactive entrepreneurial owner-managers pursue overseas opportunities more aggressively than conservative owner-managers who are passive and reactive. Cambra-Fierro et al. (2009) have also found the owner-managers of exporting firms to be more positive in seeking information on export markets and allocation of financial resources to export activities than the inexperienced OMs of non-exporting firms. Past research has attributed the poor performance of non-exporters to their low expectations and less aggressive strategies (Craig et al., 1987).

Innovativeness, risk-taking and proactiveness are three dimensions that determine entrepreneurial orientation of owner-managers (Naman & Slevin, 1993). Entrepreneurial owner-managers, who are creative, seek new solutions to problems, develop innovative new products, enter new markets and conduct organisational activities using new processes and technologies (Okpara, 2009). These non-conventional, owner-managers tend to be lateral thinkers who think outside the box and quickly adapt to changing environments (Timmons & Spinelli, 2004). In the face of uncertainty these managers take risks in pursuing new opportunities. They introduce new products to new markets in anticipation of future demand (Kropp, Lindsay, & Shoham, 2006). The above characteristics imply the inherent willingness of entrepreneurial owner-managers to act opportunistically. They are aggressive and proactive in the pursuit of export market opportunities. These managers track emerging market trends, assess their businesses capabilities and relentlessly pursue overseas markets. In contrast their conservative counterparts in non-growth businesses are passive and reactive in decision making.

The divergent behaviour of the two groups of owner-managers described above emphasise the important influence of their interpretation of the firm and its environment in strategic decision making. In dynamic environments entrepreneurial owner-managers act in accordance with their own vision and impressions of the macro-environment (Andersson, 2000). Conservative owner-managers on the other hand frame their perceptions of market opportunities after calculation and rational analysis of market facts and data. This study therefore investigated
how the perceived differences of export barriers between owner-managers of “growth” and “non-growth” businesses impact the export activity of SMEs in Sri Lanka.

Theories and Models of Internationalisation

Internationalisation is a phenomenon that has captured the attention of many with diverse interests (Lu & Beamish, 2001; Ruzzier et al., 2007). Past studies that discussed the expansion of economic activities of SMEs beyond the country’s national border have presented the market (Dunning, 1988; Mahoney & Pandian 1992), firm (Johanson & Vahlne, 1990), and entrepreneurship (Andersson, 2000) perspectives of small firm internationalisation. The market perspective has its roots in economics, and the firm perspective in stage growth models. The entreprenrepreneurship perspective suggests that internationalisation of a business is triggered by an individual who is the entrepreneur.

Behavioural (or process) approach and the economic approach are the two dominant streams of theories found in the literature on internationalisation process (Andersson, 2000; Hermannsdottir, 2008). The important aspects of understanding behavioural approach of internationalisation are individual learning and the entrepreneur (Andersson, 2000). Uppsala model (Johanson & Vahlne, 1977), Ahroni’s decision making model, and Innovation-Related Internationalisation are well known theories that are extensively used in the literature to explain the behavioural approach. These theories suggest a planned approach to internationalisation process which involves strategic decision making at the managerial level over time. The contributions of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977; 1990) to the concept of stage growth, the assumptions about market commitment and market knowledge, formed the starting point of Uppsala model. It suggests that the process of internationalisation takes place incrementally. According to this model, to lower risk, firms initially enter markets that are “psychically” closer using indirect exports as an entry mode. Consequent to the lack of market knowledge and contacts, taking small steps in resource commitments, these firms expand overseas activities gradually whilst learning experientially. At the next stage these expand operations penetrating similar markets. Sufficient market knowledge gained over time through experience enables further commitment to other foreign markets that are “psychically” more distant. On acquiring even greater market knowledge firms increase the resources committed to overseas markets in the form of equity investments, establishing sales operations and starting offshore manufacturing. The pace of movement of these businesses from domestic to overseas production is influenced by the effectiveness of the incremental learning process and the firm’s behaviour in the internationalisation process. Critically assessing the Uppasala model, Rialp, Rialp, Urbano and Vilant (2005) state new ventures that internationalise rapidly do not follow the incremental learning and gradualist expansion advocated in the Uppasala tradition. This has been explained as due to the revolutionary technological, social, and economic changes that are taking place in many industries worldwide and the emergence of more skilful owner-managers (McDougall & Oviatt, 2000; Oviatt & McDougall, 1997).

Uppasala model is further criticised for overemphasising the problems associated with knowledge acquisition and down playing the importance of roles played by management. Ruzzier et al. (2007) argued that the internationalisation process of firm is determined by a number of other factors such as firm characteristics, resources and capabilities, owner-manager characteristics, and the foreign market conditions. Innovation related
internationalisation models too proposes a step-by-step process of development. Each step in the model represents a higher level of innovation than the preceding stages (Gankema, Snuif & Zward, 2000). This results from greater experience and/or higher involvement (Andersen, 1993). These differ from the Uppsala model as they are not deterministic and does not suggest a rigid stage growth process.

Recent challenge to stage theory has come from the network theorists. Network theory views internationalisation of a firm as a natural progression that follows from relationships with individuals and firms within the network. These networks influence the choice of markets and the entry mode decisions of the firms (Coviello & Munroe, 1995; Mtigwe, 2006). Mtigwe (2006) described networks as bridging mechanisms that facilitates firm internationalisation. Network theory emphasise the importance of external networks to the internationalisation of firms of all sizes. According to Hermannsdottir (2008) the internationalisation process of a firm is never a solo effort but a product of formal and informal network relationships. Xu, Huang and Gao (2012) emphasised the importance of institutional networks to firms performance in emerging economies. The relationships established within networks serve many different purposes. Some of these are: linking activities, tying resources, reduction of cost of production, reduction of transaction costs, development of new knowledge, and competency development (Gluckler, 2006; Mort & Weerawardena, 2006). Most of the benefits accrued from networks is a result of efficient, cost-effective, instant, communications amongst employers, employees, customers, suppliers and business partners. Net works are a powerful mechanism that facilitate rapid exchange of information that allow businesses to take well informed decisions through collaboration.

Economic approach assumes the availability of complete information and the selection of optimal solution through rational decision making. Dunning’s eclectic theory is one of the best known examples of economic approach. This theory proposes that a firms entry into a foreign market and the choice of its entry mode is dependent on the combination of ownership, location and internalisation specific advantages. The ownership advantages such as access to tangible and intangible assets and the skills within the firms compensate for “liability of foreignness”. To sustain its competitive advantage firms reinvest in these assets continuously. Firms gain location specific advantages by carefully selecting foreign countries to situate its production. The key criteria used in selecting offshore locations are government incentives and the ability to reduce transaction costs. The benefits of retaining assets and skills for internal use are referred to as internalisation advantages. Reduction of transaction cost is a key benefit of internalisation advantages. Dunning (1988: 45) likened the above three advantages to a three-legged stool and stated that “each leg is supportive of the other, and the stool is only functional if the three legs are evenly balanced”.

Peng (2011) proposed a different view in answering the question “what determines the success and failure of a business in the global market place?” It was argued that the answer to the above question is embedded in the two core perspectives the “institution based view” and “resource based view” (Peng, 2011). The “institution based view” emphasised the impact and influence of the knowledge of a country’s formal and informal institutions that govern firms’ behaviours which enables them to emerge as winners in highly competitive environments. These include laws, values, cultures and norms (Peng, 2011). Those SMEs that are uninformed of these formal and informal rules of the game are unlikely to be successful in penetrating the markets overseas. To this extent the institution based view contributes to predict the success and failure of SMEs based on a firm’s awareness and its capability to
adapt to the dictates of the governing rules in the environments in which they operate. This clarifies the influence of selected external factors on a firm’s internationalisation process. Additionally, the “resource based view” which focuses on a firm’s internal factors explains the overwhelming influence of the rare and inimitable firm-specific resources on its performance. Furthermore, the capabilities of firms play a dominant role in overcoming the competitive threats and the vulnerability caused by liability of foreignness. In successful SMEs such unique and enviable resources and the knowledge of formal and informal rules resides mainly within the innovative entrepreneurial managers. It allows the SMEs to imitate, innovate, and outclass competition and become successful businesses.

**Barriers to Exports**

Exporting is a strategy that is well suited for SMEs to internationalise their businesses in view of the inherent resource constraints. However, the successful export activity of a number of SMEs has been hampered by numerous barriers internal and external to the organisations. These are different forms of obstacles and restrictions that interfere with the operational activities of a business. SMEs are more vulnerable to the effects of these barriers than their larger counterparts. Larger businesses employing numerous approaches overcome these barriers. Some examples are: diversifying operations, achieving economies of scale, using in-house trading or export departments, and strongly lobbying governments for more favourable laws and regulations (Fliess & Busquets, 2006). On the contrary, the SMEs struggle to venture into the first stage of the internationalisation process (ie. exports) due to resource limitations and the lower threshold to absorb risks of failure. Past studies have also found the developing country exporter to be particularly plagued by “the country of origin barrier” (Tesfom & Lutz, 2006).

SMEs are not smaller versions of large businesses. Even though they find unique ways to overcome size related issues, internal constraints such as limited capital, inadequacy of resources, managerial skills, and experience constraint their operations. Based on resource poverty it is logical to assume SMEs face a greater variety and a number of barriers than those encountered by large businesses. The substantially weaker resources, skills and competencies of SMEs as compared to larger businesses restraint their ability to overcome these barriers. Most SMEs initiate their internationalisation process through exporting. Due to resource constraints for a majority of SMEs this appears to be the only viable option to penetrate foreign markets. Expansion of sales in overseas markets results in export growth. The existence of numerous barriers to such activities is unavoidable. Leonidou (1995) defined the barriers to exports as those that hinder a firm’s ability to initiate, develop or sustain business operations in a foreign market. Arguably, Leonidou’s definition of barriers has greater applicability to developing countries for two reasons. The first is the greater range that confronts the SMEs of developing countries. The second is the higher perceived intensity of each barrier that has to be endured due to resource poverty.

Past research have identified the following as key internal and external barriers faced by the small businesses in developing countries: Some of them are: difficulties in accessing investment finance (Bianchi, 2009), inadequate financial resources (Cambra-Fierro, Vaquez-Carrasco & Ceteno, 2009; Richardson, 2011), shortage of working capital (Bangara et al., 2005), lack of managerial skills (Johanson & Vahlne., 1990), lack of managerial time (OECD, 2009; Lloyd-Reason & Deprey, 2009), inability to access advanced technology (Keeble et al., 1998), lack of technical skills (Chau & Pederson, 2000; Ibeh, 2004), fear of intense
competition (Leonidou, 1995; Richardson, 2011), organisational and operational problems (Hamill & Gregory, 1997), lack of knowledge of potential markets (Suarez-Ortega, 2003), limited information (Leonidou, 1995), tariff and non-tariff barriers (Czinkota & Ronkainen, 2010), inadequate negotiation skills and marketing skills, inefficient decision making, and shortage of finance (Bangara, Freeman, & Kalfadellis, 2005). Also cited in past studies as internal barriers are limited international exposure (Evans et al., 2008), and industry knowledge of the managers (Ahmed et al., 2008; Lettice & Jaensson, 2004). Furthermore, Lettice and Jeansson (2004) found cumbersome export procedures to impede the internationalisation of SMEs in developing countries. Bianchi (2009) points out that language and cultural barriers affect the access of industry specific information, and consumer perceptions of branding, packaging and promotional messages.

Kume, Anderson & De Oliveira Junior (2001) highlighted the impact of non-tariff barriers which are often more severe on SMEs than on their larger counterparts. Due to smaller size SMEs cannot absorb the additional costs of these barriers such as home country compliance requirements that make their transactions unprofitable. The removal of such impediments broaden the opportunities for SMEs to increase their activity in foreign markets. Past research suggest that advances in technology allow SMEs to improve their export performance (Daniel, Wilson & Myers, 2002; Fillis, Johansson & Wagner, 2003; Hornby, Goulding & Poon, 2002). On the contrary, many of the SMEs in developing countries are unable to use these developments due to resource constraints (Smyth & Ibbotson, 2001). Barriers of this nature are not experienced by larger businesses (Stokes, 2000; O’Gorman, 2000).

Resource Poverty and OM’s “Human Capital”

An obvious challenge to the internationalisation of SMEs is their resource poverty. This compels the SMEs to spread their limited resources too thinly on the domestic and overseas markets. Past studies that investigated the disadvantages SMEs have to deal with in internationalising operations suggest that the “human capital” or the owner-managers’ personal factor, compensate for resources poverty and provide the differential advantage (Brush & Chaganti, 1998; Manolova, et al., 2002). The construct “human capital” has many dimensions. It refers to the less tangible value the owner-managers’ bring to the business as a result of knowledge and skills they have acquired from schooling, on the job learning, training and past experiences. The energy and enthusiasm people are willing to invest in their work and their commitment to realise their ambitions are the other attributes that are collectively embodied in human capital. This is considered an elusive, intangible asset of remarkable value to organisations.

The research that investigated the different dimensions of “human capital” and their association with the internationalisation process of SMEs has proliferated due to the increased recognition of the value of these businesses bring to the economic wellbeing of nations. Manolova, et al. (2002) examined the relative importance of four dimensions of “human capital” – demographic characteristics; perceptions of the environment; international business skills; and international orientation; on the internationalisation of small firms in the industrial technology sector. Dichtl, KoeglMayr and Mueller (1990) explored the construct “international orientation” and found it to comprise of four dimensions. They are: psychic distance; foreign language proficiency; overseas travel and risk tolerance. They have argued
that the “degree of international orientation of an owner manager” to be a feature that distinguishes between “growth” and “non-growth” businesses.

Past studies have identified the “entrepreneurial orientation” of the owner-manager as another factor that influences the internationalisation process of an enterprise (Andersson, 2000; Wang, 2008). A positive link between owner-managers’ “entrepreneurial orientation” and export performance has been established in recent studies (Hult et al., 2003; Ibeh, 2004; Kickul & Gundry, 2002). Some regard the founders’ prior “international experience” as a key factor that determines the speed of internationalisation of a business (Autio & Sapienza, 2000; Oviatt & McDougall, 1997). Others suggest that it is a factor that influences the speed of entry into a foreign market (Oviatt & McDougall, 2005). Extant research have also found the owner-managers’ “international exposure” (Ahmed et al., 2008; Lettice & Jeansson, 2004) to influence the internationalisation process of a business. The dimensions international orientation, international exposure, and international experience are so closely interrelated and overlap each other it is safe to state that the presence of one dimension in indicative of the presence of other two.

The unique advantage small businesses have on a number of highly competitive and less glamorous sectors reside on the personal factors of owner-managers (Brush & Chaganti, 1998). Past studies that examined the influence of different dimensions of the construct “human capital” on export performance of SMEs have identified a number factors that influence this outcome (Aaby & Slater, 1989; Coviello & McAuley, 1999; Leonidou et al., 1998; Manolova, et al., 2002; Reuber & Fischer, 1997). Brush and Chaganti (1998) stated that these factors might have provided the SMEs the “differential advantage” that was required to overcome the disadvantages of resource constraints. Leonidou et al. (1998) stressed the need for a systematic exploration of the influence of each personal factor representing the construct “human capital” on the internationalisation process of small businesses.

Recent research emphasise that the barriers that impede exports do not on their own prohibit export growth of a business (Leonidou, 2004). In a study of barriers to exports, Barrett and Wilkinson (1985) suggest that it is the idiosyncratic characteristics of the OMs, the businesses and the environment that triggers these latent barriers and make them operative. If this is the case, it means that, while some businesses grow in a particular environment, the others may fail to register any growth in the same environment. Leonidou (2004) also claims that two businesses operating under similar conditions will also not necessarily perceive these barriers to impact their businesses the same way. This implies that owner-managers of different businesses facing identical barriers may perceive these differently.

Understanding how owner-managers of SMEs perceive the barriers to internationalisation is of paramount importance as their perceptions effect their penchant to expand export activities. It is also known that the intensity of perception of barriers can vary based on the stage or the degree of internationalisation of the business (Katsikeas & Morgan, 1994). According to Manolova et al. (2002) perception is a determinant of internationalisation. Andersson (2000) lending support for this view propose that the influence of an owner-manager’s perceptions of the macro factors is greater than that of factual data in the selection of internationalisation strategies. It is thus agreed that owner-managers perceptions of barriers to internationalisation influence the decision to expand operations into overseas markets.
A number of studies have investigated the combined impact of an array of OMs personal attributes on the performance of SMEs (Aaby & Slater, 1989; Coviello & McAuley, 1999, Leonidou et al., 1998; Reuber & Fischer, 1997). These that examined the influence of disparate constructs on internationalisation process lacked a common conceptual thread that linked them together (Leonidou et al., 1998; Manolova, et al., 2002). An area that has not received adequate investigation is the influence of owner-manager’s perceptions of barriers to exports on the internationalisation process. This study therefore examines the influence of a specific dimension of owner-managers’ human capital – “perceptions of internal and external barriers” – on the export performance of SMEs. The findings are useful to guide the development of policies, procedures and business support services to remove the negative perceptions that discourage the proactive behaviour of entrepreneurial owner-managers in developing countries. Therefore the research question: “What impact does the owner-managers’ perceptions of internal and external barriers have on the internationalisation process of SMEs in a developing country?”

Methodological Approach

Following positivist methodology the study used a quantitative approach in this study. The focus was on the emerging entrepreneurial small businesses that have been in existance between 13 to 60 months. The defining characteristic of these emerging entrepreneurial businesses is that they have survived the most hazardous first twelve months after founding. This is a period during which many “start-ups” perish as a consequence of resource poverty and the liability of newness. The exploratory research conducted at the commencement of this study included a literature review, 15 personal interviews and a pilot test. After analysing the results of the preliminary personal interviews and the literature a questionnaire was developed. It included 36 barriers that impede export activities in the SMEs (Appendix 1). These represented four different categories of barriers. Fourteen of them were intended to measure the environment type of barriers in the home and host countries. Eight of them were intended to measure the barriers to day-to-day operations of a business. Another eight were intended to specifically measure the barriers related to marketing and six to measure information related barriers such as access to data from the overseas markets. The questionnaire was pre-tested amongst five expert academics and five practitioner OMs of small businesses. The OMs evaluations of the identified barriers were then examined from a descriptive perspective. To that effect the following three research objectives and four hypotheses were defined.

The objectives were: (1) To understand the extent of export growth among SMEs
(2) To identify the differences in OMs’ perceptions of the impact of identified barriers to exports, and,
(3) To examine the pattern of relationships between the identified barriers.

The proposed hypotheses were:

Hypothesis 1: There are significant differences between OMs of “growth” and “non-growth” businesses in their perceptions of barriers related to information;
Hypothesis 2: There are significant differences between OMs of “growth” and “non-growth” businesses in their perceptions of barriers related to operations;
**Hypothesis 3**: There are significant differences between OMs of “growth” and “non-growth” businesses in their perceptions of barriers related to marketing;  
**Hypothesis 4**: There are significant differences between OMs of “growth” and “non-growth” businesses in their perceptions of barriers related to business environment.

**Method**

To be consistent with the SME definition of Department of Census and Statistics (DCS) in Sri Lanka this study used 20 employees as the dividing measure between SMEs and large businesses. After selecting a descriptive research design data was gathered using a mail questionnaire survey. The questionnaire was mailed to OMs of 1500 SMEs that were randomly selected from DCS database along with a reply paid return envelop. After 30 days a reminder letter was send with a reply paid envelop enclosed. Respondents were asked to rate the listed barriers on their perceived severity on a five point scale. The end points were marked 1= Not at all severe and 5= Extremely severe. A total of 456 completed questionnaires were returned over a period of three months. The analysis used univariate, bivariate and multivariate techniques. The overall response rate was 30.4%. The response rates from the participant SMEs in the 16 industries varied from 28.3% to 34.2%. Two other SME studies conducted in Sri Lanka had response rates of 30.1% (ADB/Sri Lanka, 2003) and 26.2% (Wijewardena, De Zoysa, Fonseka, & Perera, 2004). These figures suggest that the potential for non-response bias is minimal.

The unit of analysis was total export revenue of the SME. This was used because the emerging SMEs investigated in the study were engaged in export of either one product or a number of products belonging to a particular product line. A factor analysis was employed to determine a fewer number of underlying factors or latent variables that sufficiently described the barriers to internationalisation. T-tests were used to determine whether significant differences exist in the perception of barriers investigated between owner-managers of “growth” and “non-growth” businesses.

**Results of the Study**

The respondents were asked to indicate the total number of years of export experience at their current and previous businesses. The mean experience was 1.8 (SD =0.62) indicating the limited experience of owner-managers of the export activities and the procedures. The measure of export growth used was increased revenue of external trade. This was the difference in export sales between the 13th month and the time of the survey. At the time of the survey only 21.6% of the sampled SMEs were engaged in export activity. Of these businesses only 16.4% had achieved export growth. A majority (83.6%) were “non-growth” businesses. The severity ratings given for barriers investigated had mean values ranging from 3.012 to 4.476 confirming their high impact. The high mean values for operational and marketing barriers signalled deficiencies in financial and non-financial resources and employee competencies in SMEs. These are internal barriers to exports.
### TABLE 1 – Factor Analysis of Barriers to Exports

<table>
<thead>
<tr>
<th>Factors and items</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Informational barriers</strong></td>
<td></td>
<td></td>
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<tr>
<td>Lack of reliable data on market potential</td>
<td>0.8045</td>
<td></td>
<td></td>
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<tr>
<td>Difficulty to access market data</td>
<td>0.7036</td>
<td></td>
<td></td>
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<tr>
<td>Lack of information on contact persons</td>
<td>0.4623</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Lack of information on how to contact</td>
<td>0.5437</td>
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<tr>
<td><strong>Factor 2: Operational barriers</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Limited production capacity</td>
<td></td>
<td>0.7343</td>
<td></td>
<td></td>
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<tr>
<td>Lack of staff with experience in exports</td>
<td></td>
<td>0.4584</td>
<td></td>
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<tr>
<td>Lack of time for OM to deal with exports</td>
<td></td>
<td>0.5128</td>
<td></td>
<td></td>
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<tr>
<td>Shortage of funds to finance and export operation</td>
<td></td>
<td>0.6231</td>
<td></td>
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<td><strong>Factor 3: Marketing barriers</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Inability to develop high quality new products</td>
<td></td>
<td>0.6652</td>
<td></td>
<td></td>
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<tr>
<td>Inability to meet packaging standards</td>
<td></td>
<td>0.5021</td>
<td></td>
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<tr>
<td>Unfamiliar distribution channels overseas</td>
<td></td>
<td>0.4254</td>
<td></td>
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<tr>
<td>High transport, insurance and warehousing costs</td>
<td></td>
<td>0.5286</td>
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<tr>
<td>Difficulty in managing advertising and promotion</td>
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<td>0.5383</td>
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<td><strong>Factor 4: Environmental barriers</strong></td>
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<tr>
<td>Language barriers</td>
<td></td>
<td></td>
<td>0.5134</td>
<td></td>
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<tr>
<td>Poor support from home country government</td>
<td></td>
<td></td>
<td>0.5343</td>
<td></td>
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<tr>
<td>Tariff and non-tariff barriers</td>
<td></td>
<td></td>
<td>0.5187</td>
<td></td>
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<tr>
<td>Cultural difference in business practices</td>
<td></td>
<td></td>
<td>0.4217</td>
<td></td>
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<tr>
<td>Corrupt bureaucratic practices in the home country</td>
<td></td>
<td></td>
<td>0.7231</td>
<td></td>
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<tr>
<td>Lack of advanced technology in the home market</td>
<td></td>
<td></td>
<td>0.6415</td>
<td></td>
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<tr>
<td>Lack of low interest finance in home market</td>
<td></td>
<td></td>
<td>0.8126</td>
<td></td>
</tr>
<tr>
<td><strong>Eigenvalues</strong></td>
<td>1.85</td>
<td>1.87</td>
<td>1.94</td>
<td>6.87</td>
</tr>
<tr>
<td><strong>Percentage variance</strong></td>
<td>8.4</td>
<td>7.2</td>
<td>10.6</td>
<td>43.1</td>
</tr>
<tr>
<td><strong>Cronbach’s alpha</strong></td>
<td>0.67</td>
<td>.71</td>
<td>0.73</td>
<td>0.82</td>
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<tr>
<td><strong>Communalities &gt; 0.7</strong></td>
<td></td>
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<tr>
<td><strong>Loadings &gt; 0.4 entered:</strong></td>
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</table>

The underlying factors were determined using principal component analysis with varimax rotation. Items with communalities less than 0.7 were excluded from analysis. As anticipated factor analysis yielded four categories of barriers. These were labelled as informational, operational, marketing and environmental barriers. Four factors identified are presented in Table 1. KMO test statistics greater than .8 indicate that the distribution of values is adequate for conducting factor analysis. Bartlett’s test significance value <.05 indicate the data is approximately multivariate normal and therefore suitable for factor analysis. The suitability of data for factor analysis was further examined using Anti-image matrices. Small partial correlations in the lower part of the Anti-image matrices table suggested an underlying structure to the data indicating its suitability for factor analysis. KMO values for each item greater than .5 in the anti-image matrices confirm the suitability of the items subjected to factor analysis. The Cronbach’s alpha for the 38 item measure was 0.8052. The reliability of the four factors identified was examined by calculating the alpha coefficient (Cronbach, 1951) for items loading on each factor. These ranged from 0.67 to 0.82 representing acceptable reliability (Table 1).
To facilitate the interpretation of the results of factor analysis, only the variables with loadings greater than 0.4 are presented in Table 1. The four factors selected had eigenvalues larger than 1.0 and these explain 69.3% of the total variance (Table 1). Factor 1 comprised of four variables. They are: lack of reliable data on market potential, difficulty to access market data, lack of information on contact persons, and lack of information on how to contact. As these variables are related to ease of access of information on foreign markets factor 1 was labelled as “informational barriers”. It accounts for 8.4% of the total variance (Table 1). The four variables in factor 2 are more aligned to the operational dimension of exports and therefore this factor is labelled as operational barriers. The four variables - limited production capacity, lack of staff with experience in exports, lack of time for the owner-manager to deal with exports, and shortage of funds to finance export operations explain 7.2% of the total variance (Table 1). Factor 3 is marketing related. It is labelled marketing barriers and consists of five variables (inability to develop high quality new products, inability to meet packaging standards, unfamiliar distribution channels overseas, high transport, insurance, and warehousing costs and difficulty in managing advertising and promotion) that explains 10.6% of the total variance (Table 1). Factor four labelled the environmental barriers explains 43.1% of the total variance (Table 1). Table 2 show the results of the T- tests. Hypotheses 1, 2 & 3 were accepted in relation to 2 (Lack of reliable data on market potential, Difficulty to access market data), 3 (Lack of staff with experience in exports, Lack of time for OM to deal with exports, Shortage of funds to finance exports), and 2 (Inability to meet packaging standards, Unfamiliar distribution channels overseas) of the barriers investigated. Significant differences were found to exist between “growth” and “non-growth” businesses in the perception of seven of the barriers investigated. Hypothesis 4 was rejected with respect to all 7 barriers examined. There were no differences between owner-managers of “growth” and ‘non-growth” businesses in their perception of environmental barriers.

Discussion

Significant differences were observed between “growth” and “non-growth” firms, in relation to the informational barriers “lack of reliable data on market potential” and “difficulty to access market data”. Results of cross-tabulations show these two barriers are rated more highly by the OMs of “non-growth” than those of “growth” SMEs. Of the non-growth businesses 76% rated lack of reliable data on market potential as a significant barrier to make a commitment of exports. Only 27% of growth businesses rated it as a major barrier. Difficulty to access market data was rated as a significant barrier by 78% of the non-growth businesses, whilst only 26% of growth businesses rated it similarly. This suggests that while “non-growth” firms struggle due to lack of information on market size and other market characteristics “growth” firms have found some success in gaining access to vital information. The resource-based theorists (Barney, 1991; Wernerfelt, 1984; Zou & Stan, 1998) have presented “information” as a unique resource that enables a firm to improve it efficiency and effectiveness. Therefore, based on the findings of this study, there are grounds to argue that the difference in the perception of information barriers between “growth” and “non-growth” businesses casts light on their differential performance.
Significant differences were also found between “growth” and “non-growth” SMEs in relation to three operational barriers and two marketing barriers (Table 2). Results of cross tabulations show that a higher percentage of “non-growth” businesses found lack of staff with experience in export (68%) and shortage of funds to finance exports (78%) to be significant barriers to growth. Fewer “growth” firms (34% and 38%) perceived the above operational barriers to have a significant impact on their growth. A similar result was obtained for “lack of time for owner-managers to deal with exports”. These measures refer to the managerial and firm specific capabilities and the resources of the SMEs which determine their export performance. From a theoretical perspective, the findings are consistent with the resource-based view (Barney 1991; Wernerfelt, 1984) and the organisational capability perspectives (Madhok, 1997) that reported linkages between firm performance and managerial capabilities and firm specific resources. Additionally, the above result supports past research that found the SMEs’ perception of barriers to operations diminish as they grow in foreign markets (Vozikis & Mescon, 1985). It appears that as ambitious and persevering OMs of growth SMEs who find ways to overcome the confronted barriers and prevail over them with time perceive these as less intimidating. On the other hand the inward looking OMs of non-growth SMEs continue to perceive these as severe barriers that are impossible to breach.

**TABLE 2 – T-test: Variation in Perceptions of Barriers to Exports Between Owner-Managers of “Growth” and “Non-growth” SMEs Engaged in Exports**

<table>
<thead>
<tr>
<th>Barriers to Exports</th>
<th>Barrier</th>
<th>t-tests</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of reliable data on market potential</td>
<td>I</td>
<td>54.32</td>
<td>p&lt;.05</td>
</tr>
<tr>
<td>Difficulty to access market data</td>
<td>I</td>
<td>23.26</td>
<td>p&lt;.05</td>
</tr>
<tr>
<td>Lack of information on contact persons</td>
<td>I</td>
<td>2.84</td>
<td>n.s.</td>
</tr>
<tr>
<td>Lack of information on how to contact</td>
<td>I</td>
<td>3.26</td>
<td>n.s.</td>
</tr>
<tr>
<td>Limited production capacity</td>
<td>O</td>
<td>2.54</td>
<td>n.s.</td>
</tr>
<tr>
<td>Lack of staff with experience in exports</td>
<td>O</td>
<td>16.34</td>
<td>p&lt;.05</td>
</tr>
<tr>
<td>Lack of time for OM to deal with exports</td>
<td>O</td>
<td>12.49</td>
<td>p&lt;.05</td>
</tr>
<tr>
<td>Shortage of funds to finance exports</td>
<td>O</td>
<td>54.76</td>
<td>p&lt;.05</td>
</tr>
<tr>
<td>Inability to develop high quality new products</td>
<td>M</td>
<td>2.54</td>
<td>n.s.</td>
</tr>
<tr>
<td>Inability to meet packaging standards</td>
<td>M</td>
<td>32.61</td>
<td>p&lt;.05</td>
</tr>
<tr>
<td>Unfamiliar distribution channels overseas</td>
<td>M</td>
<td>38.26</td>
<td>p&lt;.05</td>
</tr>
<tr>
<td>High transport, insurance and warehousing costs</td>
<td>M</td>
<td>2.04</td>
<td>n.s.</td>
</tr>
<tr>
<td>Difficulty in managing advertising and promotion</td>
<td>M</td>
<td>3.06</td>
<td>n.s.</td>
</tr>
<tr>
<td>Language barriers</td>
<td>E</td>
<td>2.08</td>
<td>n.s.</td>
</tr>
<tr>
<td>Poor support from home country government</td>
<td>E</td>
<td>0.03</td>
<td>n.s.</td>
</tr>
<tr>
<td>Tariff and non-tariff barriers</td>
<td>E</td>
<td>4.63</td>
<td>n.s.</td>
</tr>
<tr>
<td>Cultural difference in business practices</td>
<td>E</td>
<td>3.08</td>
<td>n.s.</td>
</tr>
<tr>
<td>Corrupt bureaucratic practices in the home country</td>
<td>E</td>
<td>0.42</td>
<td>n.s.</td>
</tr>
<tr>
<td>Lack of advanced technology in the home market</td>
<td>E</td>
<td>0.83</td>
<td>n.s.</td>
</tr>
<tr>
<td>Lack of low interest finance in home market</td>
<td>E</td>
<td>3.68</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

n.s = not significant,  I = Informational, O = Operational, M=Marketing, E= Environmental
A greater number of “non-growth” firms found inability to meet packaging standards (59%) and unfamiliar distribution channels overseas (72%), to be barriers to exports than “growth” businesses. The corresponding proportions for growth businesses were 22% and 33%. The overall quality of products, its presentation and the width and depth of distribution are important components of competitive advantage. Competitiveness in distribution management and competencies in product development lead to superior export performance. These findings strongly underline the critical importance for non-growth SMEs to develop competitive capabilities in the above two dimensions to improve their performance.

The findings of the study support the argument that the perceptions of owner-managers of “non-exporting” and “exporting” emerging businesses on the potential impact of the barriers to export were diverse. This supports the view expressed by Leonidou (2004: 284) that “two firms at the same stage of export development will not necessarily perceive/or will not experience the same impact from obstacles”. This requires those who engaged in international marketing research to investigate the reasons for different perceptions to understand the true nature of the identified barriers. Results also suggest a serious impact of negative perceptions on the export activity of a large percentage of SMEs. By finding the reasons behind such perceptions international marketing researchers may be able to improve the performance and commitment of non-exporting SMEs in the foreseeable future.

The “growth” and “non-growth” businesses do not differ significantly in relation to their perception of language barriers and cultural barriers that leads to differences in business practices. Analysis of results also shows that the source of majority of environmental barriers is the conditions in the home market. The difference between “non-growth” and “growth” businesses in their perception of the severity of these barriers are insignificant (p>.05). This is an area of major concern for SMEs in both categories as it is beyond their power to instigate any corrective action to mitigate the negative impact of these barriers. The bureaucratic systems and the institutions in Sri Lanka that have not changed along with the free-market policy reforms cause delays and increase costs. This requires the policy makers to overhaul the existing administrative systems and remove the costly and stressful barriers resulting from bureaucratic inefficiencies and corruption. The statutory approval processes too require simplification.

Conclusions

The focus was the SMEs in a developing country. This study has made several contributions to the internationalisation of SMEs. First, it reviews and builds upon the previous theoretical models, constructs and factors that influence the internationalisation process of SMEs. Secondly, this study investigated the “growth- nongrowth” dichotomy of SMEs which has implications for a firm’s commitment to the internationalisation process. Past studies have paid sparse attention to this. Thirdly, this study investigated 38 barriers to exports and provided a more fuller explanation of the factors influencing the performance of SMEs in a developing country. It provided richer insights into the impact of home country environment into the performance of SMEs in a developing country. It compared the differences in perceptions of export barriers between OMs of “growth” SMEs and their counterparts in “non-growth” SMEs.

The study identified four factors that explain the patterns of relationships between the variables used in the study. Results shed light on the critical issues that discourage owner-
managers of SMEs and impede the progress of internationalisation of these businesses. The results reveal numerous factors that plague the entry and the growth of developing country SMEs in an overseas market. It was observed that those barriers that are perceived to adversely affect “non-growth” businesses may not be perceived to have the same level of impact on “growth” businesses. A distinctive aspect in the perception of these barriers is that OMs of both “growth” and “non-growth” businesses perceive the adverse conditions in the home environment to have a negative impact on their performance.

In addition to the condition in the domestic market environment this study also found the competency and resource based factors of SMEs to affect the export performance of SMEs in Sri Lanka. This information is useful to the practitioners and policy makers to initiate action necessary to facilitate improved performance of SME export activity. When exports suffer due to the presence of these barriers the enduring question the government and the policy makers need to answer in the future is “what could be done to mitigate the effects of these barriers to enable SMEs in Sri Lanka to make most of the potential contribution they can to the economy by internationalising their operations?” This strongly suggests the need for urgent policy interventions aimed at resolving the resource gaps that constraint the success of SMEs in foreign markets. The firm-level capabilities owner-managers perceive as critical export barriers are: limitations of production capacity; poor managerial skills; lack of low interest finance; non-availability of advanced technology; and poor language skills. Adoption of a systematic approach to address these issues through tailored government initiatives seems an appropriate solution.

References


Gjellerup, P. (2000). SME support services in the face of globalisation. Concerted action seminar on globalisation and SME support services. Opening address at the conference of Danish Agency for Trade and Industry, Copenhagen, Denmark, January.


APPENDIX 1 - LIST OF BARRIERS INVESTIGATED

Factor 1: Informational barriers
Lack of reliable data on market potential
Difficulty to access market data
Difficulty in communicating with overseas customers
Lack of information on contact persons
Lack of information on how to contact
Lack of understanding of how to access information

Factor 2: Operational barriers
Limited production capacity
The monstrous export paperwork
Lack of staff with experience in exports
Lack of time for OM to deal with exports
High cost of selling in overseas markets
Shortage of funds to finance and export operation
Uncertainty of ability to compete in foreign markets
Fluctuating exchange rates

Factor 3: Marketing barriers
Lack knowledge in export marketing
Lack of knowledge of export markets
Inability to develop high quality new products
Inability to meet packaging standards
Lack of knowledge on how to access foreign markets
Unfamiliar distribution channels overseas
High transport, insurance and warehousing costs
Difficulty in managing advertising and promotion

Factor 4: Environmental barriers
Language barriers
Different customer habits in overseas markets
Restrictions imposed by host country
Fear of loss of goods in transit
Uncertainties in the overseas market
Poor support from home country government
Tariff and non-tariff barriers
Cultural difference in business practices
Corrupt bureaucratic practices in the home country
Lack of advanced technology in the home market
Lack of low interest finance in home market
Firm unknown in overseas markets
Difficulties in finding a suitable agent
 Concerns over collection of money due from overseas customers