Exporting to Internationalise: Why Only a Small Percentage of Emerging SMEs From Developing Countries Succeed When a Large Majority Fail?

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Abstract Small and Medium Enterprises (SMEs), account for more than 95% of all businesses in many countries (Chiao, Yang, & Yu, 2006). These foster economic development and are significant contributors to employment and wealth generation (Etemad, 2004). An observed phenomenon is the increased momentum of internationalisation of SMEs in the developed world (Lu & Beamish, 2001). A concern however is the small percentage of the SMEs from developing countries emulating this trend. Also remain unexplained are: (1) What makes a small percentage of SMEs in developing countries to succeed in internationalising their businesses when the large majority fail? (2) What provides the differential advantage to the growth businesses? Therefore, this paper attempts to address the research question “What impact the owner-managers perceptions of internal and external barriers have on the internationalisation process of the SMEs in a developing country?” The data was gathered from owner-managers of SMEs using a mail survey. Export growth was used as the dependent variable in the study. The differential performance of “growth” and “non-growth” SMEs in foreign markets is elucidated in relation to the owner-managers perception of informational, operational, marketing and environmental barriers to growth. Significant differences were found between “growth’ and “non-growth” businesses in relation to the owner-managers’ perception of the above barriers investigated.

Key words: Theories of Internationalisation, Conservative-Entrepreneurial Dichotomy. Resource poverty and OM’s Human capital, Perceptions of Barriers to exports.

Introduction

SMEs are the engine of growth in an economy (Okpara, 2009). These represent a larger proportion of the total businesses in many countries. Indeed, the importance of these enterprises to increase the export earnings of a country is well recognised. Yet, the extant research suggests that SMEs are under represented in the international economy as a result of the impediments to market access (APEC, 2004). Hollenstein (2005) point out that the probability of internationalising the operations of small businesses is lower than that of larger firms due to resource constraints and regulatory barriers. A number of other factors too affect the participation of SMEs in the global economy. Few of these are: the conditions in the input and output markets, the skills and competencies of the employees, and the owner-managers’ entrepreneurial orientation (Kazem & van der Heijden, 2006).

In-spite of the above constraints in the last few decades a modest acceleration of SME internationalisation was apparent (Gjellerup, 2000). This has been assigned to the unprecedented changes that are taking place in the global market place (Cateora & Graham, 2007). Some of these are: the advances in information and transportation technologies; easing of trading restrictions following financial deregulation; the dismantaling of tariff and non-
tariff barriers; formation of multinational market regions, free trade areas, economic unions, political unions and regional economic blocks to encourage regional trade; and the formation of the WTO to resolve world trade issues. These changes have created new opportunities for SMEs and brought prosperity to exporting nations.

The opportunities in the reinvigorated global environment have been exploited largely by the market aware businesses in the developed world. Taking advantage of the advances in technology, telecommunications and infrastructure these SMEs have established additional links with new customers whilst strengthening their relationships with existing business partners. The high profits gained through increased volume of exports have encouraged these businesses to further invest in overseas markets and extend their lucrative growth cycles. However all SMEs are not winners. Some did not make attempt as they were apprehensive about their abilities to successfully cross national boarders. The barriers these businesses perceived as difficult to overcome made their internationalisation goals a non-reality. Many others have fallen on the way while crossing the international boundaries. Majority of these victims are the SMEs in developing countries.

Despite the demoralising impact of these barriers the success of trading activities of SMEs beyond the home market is crucial for the future growth of developing nations. Therefore the aims of this study are: (1) to examine the internal and external barriers that constraint the initial step of internationalisation of SMEs (ie. Exports) in a developing country (namely Sri Lanka) and the patterns of relationships in them, (2) to investigate the varying perceptions of these barriers between owner-managers of “growth” and “non-growth” SMEs, and (3) to determine the impact of “perceptions of internal and external barriers” dimension of owner-managers’ human capital have had on export growth of their businesses.

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**Figure 1: Proposed Conceptual Framework**

Barriers in the External Environment  
Barriers in the Internal Environment  
OMs Human Capital  
Measures of Export Performance

<table>
<thead>
<tr>
<th>Home Market barriers</th>
<th>Information barriers</th>
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<tbody>
<tr>
<td>Home government and industry barriers</td>
<td>Operational barriers</td>
</tr>
<tr>
<td>Host market barriers</td>
<td>Marketing barriers</td>
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<tr>
<td>Host government and industry barriers</td>
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Varying perceptions of barriers to exports

Growth

Non-growth
This paper commences providing the conceptual framework for the study. This is followed by the literature review which enables to contextualise the study within the existing body of knowledge of the key theories and models of internationalisation of SMEs, the differential impact of barriers on small and large businesses, and, the observed dichotomy of owner-manager profiles. It also elaborates the role of interplay between resource poverty of SMEs and owner-managers’ human capital in the development of export capable businesses. This follows a discussion of the methodological approach employed. The three research objectives and the four hypotheses tested in the study are then stated. Subsequently the method used to gather data and the findings of the study are presented prior to discussion and conclusion.

**Conceptual Framework**

The proposed conceptual framework (Figure 1) identifies the barriers in the internal and external environment and the owner-manager’s human capital as factors underpinning the export performance of SMEs. The set of barriers in the external environment encompasses the home and host market barriers and the specific barriers arising from the government and industry factors. The set of barriers in the internal environment is conceptualised to consist of three types of barriers. They are informational, operational and marketing related barriers. The above internal and external barriers are conceptualised to affect the export performance of SMEs depending on owner-managers’ perceptions of their impact on the internal operations of the firm. This is implied by the direction of the arrows in figure 1. The “growth-nongrowth” export performance dichotomy of SMEs is contemplated to result from the owner-managers’ varying perceptions of the internal and external barriers. The measure of performance used in the study is the growth in exports.

**Literature Review**

At the initiation the literature review presents a few definitions of the term “internationalisation” as reported in past studies. As can be seen from figure 2, the literature review consists of two parts – “theoretical framework” and the “focus of the study”. The discussion of the theoretical framework commences briefly explaining the “conservative-entrepreneurial” dichotomy of owner-managers and the firm characteristics which have implications for strategic posture of a business (Figure 2). Thereafter, a brief review of literature on behavioural and economic approaches to internationalisation is presented. This is followed by a discussion of the existing theories and models of internationalisation. Uppala model, Innovation related model, Network Theory, “born globals,” and Dunning’s Eclectic Theory, are then discussed to indicate the existence of many explanations to establishment of a business in an export market. The role of learning and knowledge on the internationalisation process and the shortcomings of the dominant theories are reviewed. Subsequently, in the section on “focus of the study” (Figure 2) the barriers to exports are discussed in the context of “large and small” businesses and the SMEs of “developed and developing” countries. This follows a discussion that explore the linkages between the resource poverty of of SMEs, the “human capital” of owner-managers, perception of barriers to exports, and the export performance of SMEs.