

# Factors Influencing the Process of Internationalization of Small and Medium Enterprises (SME'S)

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**Abstract-** The internationalization process of small and medium-sized enterprises (SMEs) is influenced by a variety of factors. A growing economy creates more opportunities for SMEs to expand their businesses internationally, as it indicates a higher demand for goods and services in international markets. SMEs need to consider the political and economic stability of their target markets before entering them. They need to have a thorough understanding of the political situation, economic growth prospects, and exchange rates of the target country to ensure their success in the international market. The present study aims to study the factors influencing the process 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 Process, Factors, Descriptive Research Design.

## I. INTRODUCTION

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. This was supported by **NikAbHalim Abdullah (2011)**, that due to progressive regional economic integration and World Trade Organization (WTO), globalization has come together with the trade openness and liberalization in trade and tariff barrier.

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 (**AzunaHasbullah, 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**).

In general, according to (**Daniels et al.2009**) internationalization is the process of increasing involvement in the international operation and, defined the internationalization as the process of adapting firms

operations that include strategy, structure and resources (**Calof& Beamish, 1995**) to international environments.

The internationalization process of small and medium-sized enterprises (SMEs) is influenced by a variety of factors. These factors can be classified into external and internal factors, and they can impact the success of SMEs in foreign markets. Below are some of the key factors influencing the process of internationalization of SMEs: Political stability, economic growth, and exchange rates are some of the external factors that can influence the internationalization process of SMEs.

Political and economic conditions refer to the external environment of a country in which SMEs operate. These factors can have a significant impact on the internationalization process of SMEs. Political stability is one of the most critical factors that affect the internationalization of SMEs. The political situation in a country can have a direct impact on the ability of SMEs to enter international markets. Unstable political conditions, such as political unrest, wars, and conflicts, can create a risky business environment and discourage SMEs from expanding globally.

Economic growth is another important factor that influences the internationalization process of SMEs. A growing economy creates more opportunities for SMEs to expand their businesses internationally, as it indicates a higher demand for goods and services in international markets. Moreover, favorable exchange rates can also boost the internationalization of SMEs by making their products and services more affordable for foreign customers **Liu (2016)**. Therefore, SMEs need to consider the political and economic stability of their target markets before entering

them. They need to have a thorough understanding of the political situation, economic growth prospects, and exchange rates of the target country to ensure their success in the international market.

## II. CONCEPT OF INTERNATIONALISATION

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.

## III. DEFINING 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.

One common approach is to use the number of employees as a key criterion. For example, the European Union defines small businesses as those with fewer than 50 employees, while the Small Business Administration (SBA) in the United States defines them as businesses with fewer than 500 employees. 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.

## IV. REVIEW OF LITERATURE

The strength of a firm's network relationships can also influence the internationalization process. **According to Anderson and Gatignon (1986)**, a firm's network relationships can provide it with access to resources, information, and opportunities that can facilitate internationalization.

Proponents of the network approach view internationalization as a natural development resulting from the process of establishing, improving, maintaining, and dissolving relationships with individuals and firms; **Johansson and Mattson (1988)**.

A firm's network of both local and overseas relationships is seen as a crucial form of capital as it can create trust, raise access to information, and increase the firm's ability to mobilize resources. As firms internationalize, the number

and strength of relationships in their network increases, bringing more benefits and helping them integrate further into GVCs.

With rapid technological advancement and globalization, there has emerged evidence that the internationalization process is accelerating a phenomenon the stage approach is inadequate in explaining. Though small, there have even been an increasing number of ventures that are global at start-up **Oviatt and McDougall (1997)**.

**According to Crain (2000)** Marketing behaviour in internationalization processes has to copy such development. But in many parts of the world, consumers have become more nationalistic, and they are spending more of their money on local drinks, foods and products.

**Knight & Liesch (2002)** emphasize that the process of internationalization of information and its translation into relevant knowledge is a fundamental step in order to accomplish as internationalization project whatever its form or its localization. The second way of reducing uncertainty is the engagement of the firm in an action-based international expansion permitting to develop an international competence incrementally and cumulatively.

**According to Zahra and George (2002)** entrepreneurial orientation is a critical factor that can influence the internationalization process of SMEs. This refers to the degree to which an entrepreneur is willing to take risks, be innovative, and pursue opportunities. SMEs that are more entrepreneurial are more likely to engage in internationalization activities. The availability of resources, such as financial capital, human capital, and technology, can influence the internationalization process of SMEs.

**Chetty and Campbell-Hunt (2004)** found that firms with greater resource availability are more likely to engage in internationalization activities. At the beginning, firms will export to geographically close markets before venturing into distant and culturally different markets. This is supported by large survey on Finnish firms in the 1960s and 1970s and beyond; **Rutashobya and Jaensson (2004)**. The major factor influencing an incremental or a gradual process of foreign market entry is uncertainty with distant or culturally different markets, and the fear to invest resources where market knowledge is limited. Psychic distance appears to be the major hindrance, and is minimized through experiential learning and market commitment in foreign markets.

**According to Doole and Lowe (2005)** the social and cultural influences on international market are immense. Differences in social conditions, religion and material culture all effect consumers' perceptions and patters on buying behavior. In relation to the International marketing culture can be defined as: The sum total of learned beliefs, values and customs that serve to direct consumer behaviour

in a particular country market. Government support, such as financial incentives, export assistance, and trade agreements, can also influence the internationalization process of SMEs. **Leonidou et al. (2007)** found that government support was positively related to the internationalization activities of SMEs.

**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 have the possibility to expand their business.

**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.

## V. OBJECTIVES OF THE STUDY

To study the factors that can influence the process of internationalization of SMEs’.

### 1. 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.

### 2. Research Design:

The present study aims to study the factors that can influence the process of internationalization of SMEs’. In the present research study, the researcher has used descriptive research design.

### 3. Sample Design & Sample Size:

- **Sample Design:** 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.

## VI. DATA COLLECTION METHODS

### 1. Primary Data:

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

### 2. Secondary Data:

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

## VII. ANALYSIS REGARDING FACTORS THAT INFLUENCE THE PROCESS OF INTERNATIONALISATION OF SME’S

Table 1. Response related to factors that influence the process of internationalization of SME’s (In numbers)

S. No.	Questions	S	A	N	D	SD
1	Do you agree that market size is important factor that influence the process of internationalization for SMEs?	175	183	16	62	37
2	Do you agree that growth potential is important factor that influence the process of internationalization for SMEs?	166	157	28	79	43
3	Do you agree that competitive advantage is important factor that influencing the process of internationalization for SMEs?	171	178	21	58	45
4	Do you agree that technological capabilities and innovation are important factors influencing the process of internationalization for SMEs?	198	163	22	56	34
5	Do you agree that availability of financing options for internationalization is an important factor influencing the process of internationalization for SMEs?	151	144	36	86	56
6	Do you agree that the presence of strategic partnerships and alliances is an important factor influencing the process of internationalization for SMEs?	185	193	31	45	19
7	Do you agree that level of entrepreneurial orientation of the firm is an important factor influencing the process of internationalization for SMEs?	161	170	24	71	47

**1. Multiple Correlation Analysis:**

Multiple Correlations among the factors influencing the process of internationalization of SME's.

Table 2. Correlations for all pairs of data series (method=pearson)

Factors	Market size factor	Growth potential factor	Competitive advantage Factor	Technological capabilities and innovation factor	Availability of financing options for	Strategic partnerships and alliances factor
Market size factor	1	0.997	1	0.989	0.996	0.998
Growth potential factor	0.997	1	0.996	0.995	1	0.997
Competitive advantage Factor	1	0.996	1	0.988	0.995	0.999
Technological capabilities and innovation factor	0.989	0.995	0.988	1	0.995	0.987
Availability of financing options for	0.996	1	0.995	0.995	1	0.996
Strategic partnerships and alliances factor	0.998	0.993	0.999	0.987	0.992	1
Level of entrepreneurial orientation factor	1	0.997	1	0.987	0.996	0.997

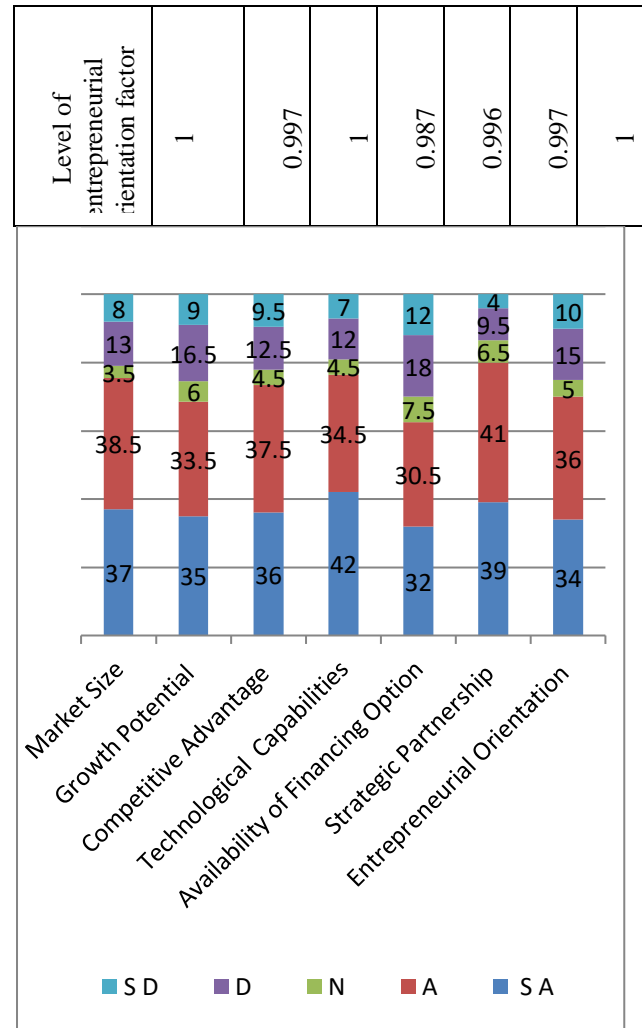


Fig 1. Response related to factors that influence the process of internationalization of SME's (In Percentage)

**VIII. RESULTS**

The result shows the high degree of correlation among all the factors which are stated above in the table. As the calculated value in table 5.13 and 5.14 shows positive correlation among all pairs of data series, so it is clear that there is no significant variance among all the factors which are considered in the process of internationalization of SME's.

**1. Findings Related to Factors that Influence the Process of Internationalisation of Sme's:**

Table 3. Table showing Rank Wise factors influencing the process of internationalization of SME's.

Rank	Factors	Average
1	Strategic partnerships and alliances factor	4.053
2	Technological capabilities and innovation factor	3.917

3	Market size factor	3.837
4	Competitive advantage factor	3.785
5	Level of entrepreneurial orientation factor	3.689
6	Growth potential factor	3.682
7	Availability of financing options for internationalization	3.522

## IX. CONCLUSION

### The study concludes several points which are as follows:

The present research has analyzed the factors that influence the process of internationalization of SME's. The several factors which were considered in the present research study are as follows: market size, growth potential, competitive advantage, technological capabilities and innovation, availability of financing options, presence of strategic partnerships and alliances, level of entrepreneurial orientation of the firm.

The study's findings indicate that, among all the above-mentioned considerations, respondents were more likely to believe that presence of strategic partnerships and alliances and technological capabilities and innovation considered being most significant factor that influence the process of internationalization of SME's.

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