
Barriers in the Internationalization Process of the Emerging SMEs: A Desk Study from Bangladesh Context

Akhter Jahan

University of Science & Technology Chittagong, Chittagong, Bangladesh

Abstract

Different barriers and challenges are faced by small and medium-sized enterprises (SME) since the beginning of their internationalization process in different countries. In developing countries, like Bangladesh, SMEs face challenges due to the dependence on less educated managerial staff for strategic formation and external support for internationalization process. However, SMEs in developed countries also face challenges due to low incentives for internationalization and high bank interest rate. Furthermore, the growth of SMEs in any country depends upon the availability of resources and support of external organizations. SMEs are considerably small compared to large organizations and they do not have enough resources to survive in the international market. In developing countries, SMEs face more hurdles because of less availability of resources and external support for their internationalization process. At the initial stage of the internalization process in Bangladesh, SMEs need more financial resources to make investment in capital-intensive projects and educated management for strategic formation. However, SMEs in developed countries are in their initial stage thus requiring financial resources on low interest rates as well as guidance to find representatives in the international market. The external organizations in both markets should support SMEs in meeting challenges and overcoming the barriers in their internationalization process.

Keywords: Internationalization; SME; Barriers; Challenges; Bangladesh

1. Introduction

For sustainable economic development prospects of the countries, involvement in international business and upgrade of activities of domestic companies are very important. This is especially because of today's increasingly liberalized and globally interdependent world,

where not many companies can seek refuge within their domestic markets, which are themselves exposed to foreign competition. In line with other trends of globalization, small and medium-sized enterprises (SMEs) are increasingly involved in international business. Not only do they account for a significant share of exports, but also import and link up to global production networks. As they attempt to internationalize, SME often encounter substantial barriers. These barriers are complex and can be either internal factors of a particular firm or external factors emanating from the larger business present in the environment in which SMEs operate. In addition, the obstacles include trade policy barriers. The present study is an endeavour to identify the barriers and challenges of internationalization process of emerging SMEs from the perspective of Bangladesh.

2. Background of the Study

Small and medium enterprises (SMEs) are critical to the economic welfare and social development, particularly in income generation, employment creation and poverty reduction (Abdullah, 2002; Aziz & Mahmood, 2011; Syed, Ahmadani, Shaikh, & Shaikh, 2012). The role of SMEs is more important in developing countries, compared to in developed countries due to its low capital requirement and labour intensity (Ng & Kee, 2012). To support the contribution in economic development, SMEs need to first ensure their growth. Although, there are several other options such as local expansion, new product developments, overseas market operation; internationalization has long been regarded as the engine of growth for the SMEs (Peng and Delios, 2006). Internationalization of SMEs has several impacts on the SMEs, for example, higher sales (Lee, Kelley, Lee, & Lee, 2012), more profit (Chelliah, Sulaiman, & Yusoff, 2010), market expansion (Smolarski & Kut, 2011), improved reputation (Beamish, 2006) and better knowledge (Zahra & Hayton, 2008).

It is required to understand the process that the firms go through starting right from their decision of being international to their planning process, their initial actions during their first stages of internationalization, their mobilization of internal resources in order to succeed with these initial entries into international markets, their usage of internal firm strengths and utilizing the external opportunities, minimizing their internal weaknesses, manoeuvring against external threats in order to minimize their effects. It is also necessary to understand the progress after the internationalization activities begin, such as understanding which form of entry method

(exporting / licensing / joint venture / direct investment) the firm uses in their entry into foreign markets. This study will also give an in-depth view on the activities and actions of SMEs for internationalization and present a framework for firms, helping them with their own internationalization activities.

3. Objectives of the Study

The main objective of this study is to have an in-depth research on the behaviour of SMEs to overcome the barriers that they face in their internationalization process. In order to accomplish this task, several research questions will be sought which will explain the process of internationalization in SMEs step by step and highlight the factors and their reactive and proactive responses to the barriers.

4. Research Question(s)

In accordance to the interest of this study, following research questions have arisen:

RQ1: Which models are used by Bangladeshi SMEs in their internationalization process?

RQ2: What is the influence of external organizations on key element affecting the internationalization process of Bangladeshi SMEs?

RQ3: What are the strategies adopted by SMEs in Bangladeshi market to overcome their barrier of internationalization process?

5. Literature Review

5.1 Concept of Internationalization

Internationalization is a synonym for the geographical expansion of economic activities over a country's border. The growth of the firm provides a background to internationalization and to some degree; the concepts of internationalization and growth are intertwined (Buckley & Ghauri, 1993). However, some features are unique to internationalization or at least, there are significant degrees of difference between domestic, national and international growth.

In a network context, Johanson and Mattsson (1993) described internationalization as a "cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives of the firm" (p. 306). This view, however, seems somewhat fragmented as it focuses exclusively on relationships. Assuming that

SMEs operate within their natural context, the view of Johanson and Vahlne (1990) developed from Johanson and Mattsson (1993) appears more promising when they define internationalization as, a “process of developing networks of business relationships in other countries through extension, penetration, and integration” (p.20). Some of the different definitions of internationalization are presented in Table 1.

Table1: Definitions of Internationalization

Author(s)	Definitions of internationalization
Beamish (1990, p.77)	"process where firms start by increasing their awareness of the direct and indirect influences of international transactions on their future, before moving on to establish and conduct transactions with other countries"
Andersen (1997, p.27-42)	"the process of adapting an exchange transaction to international markets"
Naidu, Cavusgil, Murthy, & Sharkar (1997, p.115)	"Internationalization is a gradual process whereby a firm develops a network of global trade relationship"
Javalgi, Griffith, & White (Javalgi et al., 2003, p.186)	"a process through which a firm moves from operating in its domestic marketplace to international markets"

Source: Compiled from various authors

Based on the above definitions, this study defines internationalization as a process through which a firm moves from operating in its domestic market place to international markets by adapting the firms operations such as strategy, structure, and resources, to the international environment.

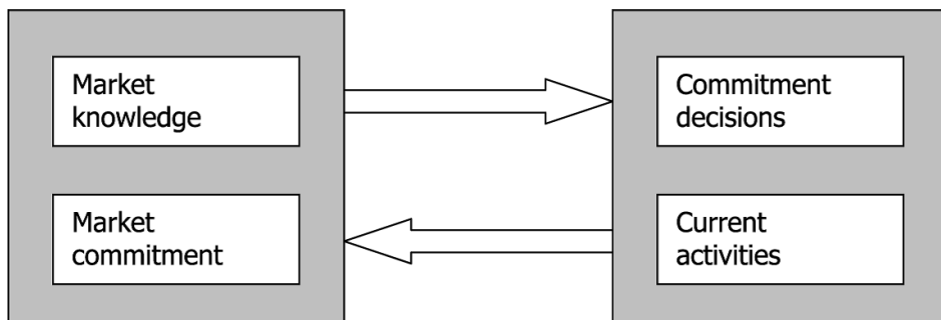
5.2 Internationalization Model/Theories

5.2.1 Uppsala Internationalization Process Model (U-model)

According to Mitgwe (2006), the research on the firms' internationalization process centres on the U-Model. The theoretical framework for this theory was first developed by

Johanson and Wiedersheim-Paul (1975) in their study of four Swedish firms, in which they have observed that when firms internationalize, they move along in a series of incremental steps which they termed as “establishment chain” or “step by step”. In 1977, Johanson and Vahlne refined and established the model. The theory focuses on four aspects that firms should face while going abroad: (1) market knowledge; (2) market commitment; (3) commitment decisions and (4) current activities. These are divided into stage and change aspects that interact with each other in what seems to be a cycle, given as follows:

Figure 1: Uppsala Model, state and change aspects (Johanson & Vahlne, 1977)



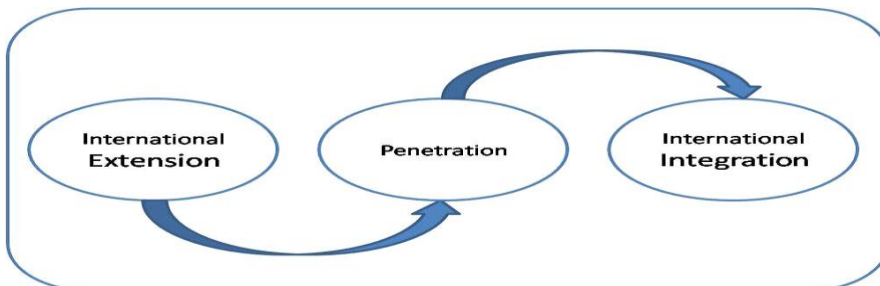
Source: Johanson and Vahlne (1977)

The state aspects are the resources committed to the foreign market: market knowledge and commitment decisions that would affect the firm’s opportunities and risks (Johanson & Vahlne 1977). Market commitment stands for those resources which are committed. Market knowledge helps the managerial team to make decisions. There are two main types of knowledge: objective knowledge, which can be transferred from one market to another on the other hand, there is experiential knowledge, which is gained by experience and learned by doing or acting. The changed aspects are the results of the state aspects. Once the firms know the market, they can decide the way they will follow, and will be able to plan as well as execute the current activities needed to complete the cycle by committing to the market. The basic assumption of the Uppsala Model is that, market knowledge and market commitment affect both the commitment decisions and the way the current decisions are performed and this, in turn, changes the market knowledge and commitment. The amount of knowledge of the foreign markets and operations is influenced by the amount of commitments of resources in foreign markets, and vice-versa (Johanson & Vahlne, 1977).

5.2.2 Network Theory

The Uppsala Model has been challenged by the network theorists in recent years, whose fundamental argument is that, modern high-technology firms do not exhibit the incremental process, rather they achieve a faster internationalization through the experience and resources of network partners (Mitgwe, 2006). All firms in a market are considered to be embedded in one or more networks via linkages to their suppliers, subcontractors, customers and other market actors (Johanson & Mattson, 1988). The Network theorists see firm's internationalization as a natural development from network relationships with foreign individuals along with firms (Johanson & Mattson, 1988). Therefore, the networks are a bridging mechanism that allows for rapid internationalization (Mitgwe, 2006). The emphasis of the network approach is on bringing the involved parties closer by using the information that the firm acquires by establishing close relationships with customers, suppliers, industry, distributors, regulatory and public agencies as well as other market actors. The first step a firm must follow in order to internationalize is, the understanding of the market where it operates, its environmental conditions as well as their relationships (Madsen & Servais, 1997). After having some penetration, firms can gain international integration by using the network and getting involved with other firms in various countries (figure 4).

Figure 2: The Stages within Selected Incremental Internationalization Models



When the firm follows these activities (figure 4), the relationships are formed by gaining access to the market and its resources. The resources in the network are controlled by the firms itself, as well as other actors involved.

5.2.3 Innovation-Related Internalization Model

Drawing on the behavioural perspective, innovation related internationalization models posit the concept because the models emphasize innovation (Andersen, 1993). As highlighted in

figure 2. The models developed by Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981) and Czinkota and Johnston (1981) involve various stages and types of entry mode. Andersen (1993) argues that the models are closely associated with the Uppsala model but all models except for Cavusgil's (1980) focus on exporting as the mode of entry. The Cavusgil (1980) model conforms to the Uppsala model, although it includes other more advanced and complex foreign entry modes. In addition, the model strongly suggests the firm's specific factors and managerial characteristics are the most influential determinants in a firm's internationalization (Cavusgil, 1980).

5.2.4 Other Stage Models

Other selected stage models including Moon and Lee (1990), Rao and Naidu (1992), Crick (1995) and Leonidou and Katsikeas (1996) propose less number of stages when compared to the innovation-related internationalization models. All outlines three stages except for Rao and Naidu who proposes four stages adding sporadic and regular involvement. Moon and Lee (1990) studied the internationalization process of the Korean Electronics industry and distinguished three stages: the lower stage, middle stage and higher stages of export involvement. On the other hand, Crick differentiates between non-exporters, passive exporters and active exporters, whereas Leonidou and Katsikeas (1996) refer to pre-engagement, initial and advanced stages of export in their model.

5.2.5 Application of Incremental Model to SME Internationalization

The practical application of the incremental models and in particular the Uppsala model, have been examined in many studies. One prominent example is the review of SME's internationalization empirical studies conducted by Coviello and McAuley (1999) between 1989 and 1998. Of the sixteen articles reviewed, thirteen (81%) utilized the stage models in their studies, indicating that the incremental approach was the most commonly applied theoretical framework (within that period). Some studies (Bodur & Madsen, 1993; Chetty & Hamilton, 1996) strongly support the incremental approach others (Bell, 1995b; Zafarullah et al., 1998) are fervently opposed to it, yet others (Gankema, Snuit, & Van Dijken, 1997) claim there is mixed support for the model. Bell's (1995 b) review of small software firms found total disregard for the stages of internationalization. Bell found some firms which started to export even before

selling domestically thus, concluded that industry type and trends were key determinants of the internationalization process. Even though Gankema et al. (1997) partially supported the incremental model, they found that some SMEs leapfrog the stages, confirming Hedlund and Kverneland's (1993) earlier findings. Similarly, a recent large cross sectional study involving 677 firms located in Norway, Denmark and France also, found the internationalization process is not consistent with the premises of the stages models (Moen et al., 2002). Consequently, alternative approaches to SME internationalization need to be considered.

5.2.6 Rapid Internationalization Models

Rapid internationalization models emerged due to evidence that many firms avoid incremental patterns in their internationalization process and claim that firms should go into international markets right from their birth (Bell, 1995 a; McKinsey et al., 1993; Oviatt et al., 1994). This perspective is associated with many concepts, such as Born Global (Rennie, 1993), International New Ventures (Oviatt et al., 1994), Global Start-ups (McDougall et al., 1994), Born International (Majkgård & Sharma, 1999), High Technology Start-ups (Jolly, Alahunta, & Jeannet, 1992), Instant Internationals (Preece, Miles, & Baetz, 1999) and Virtual Instant Global Entrepreneurs (Katz, Safranski, & Khan, 2003).

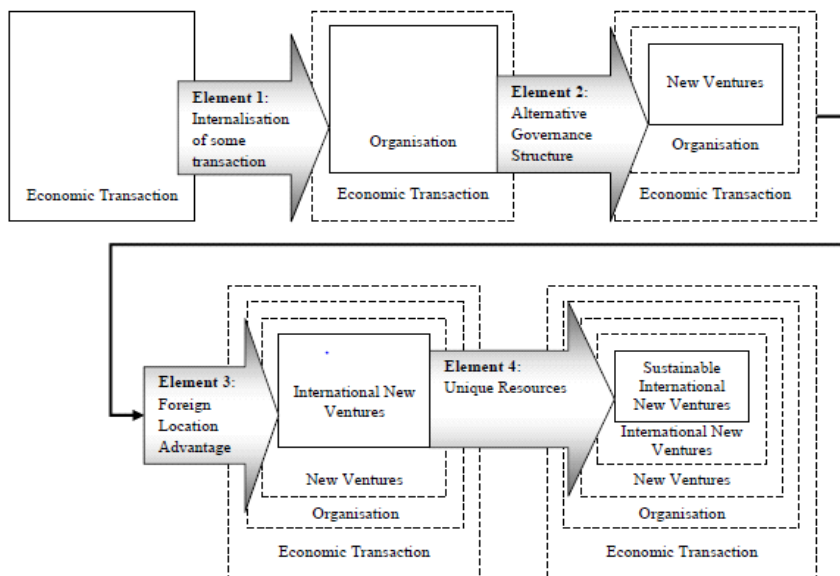
The rapid models are identified by the total turnover speed or pace of internationalization and the scope. Born Globals, International New Ventures or Global Startups are proposed as having at least 25 percent of foreign sales in their total turnover and operate in international market within 3 years of inception (Jones & Dimitratos, 2004b; Rasmussen, Servais, & Madsen, 2007). Other characteristics include starting international activities before the beginning of operations, engaging in international activities when there are opportunities to add value or relying on formal and informal network entry modes. In addition, firms can be actively engaged in a wide number of regions in the world, disregard physical and cultural distances and have key personnel who possess high levels of international orientation, skills, experience and high levels of confidence (Van der Sijde, Wakkee, & Kirwan, 2004).

Despite, the many concepts associated with the Rapid Internationalization models the most prominent ones are Born Globals and International New Ventures (Hammoudi, 2005). These two form the core concepts of the Rapid Internationalization models which are discussed next.

5.2.6.1 International New Ventures

An International New Venture (INV) is defined "as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt et al., 1994, p.49).

Figure 3: Four necessary elements for sustainable new ventures



Source: Adapted from Oviatt & McDougall(1994, p. 54)

The INV model integrates transaction cost analysis, market imperfections and internalization theories and this model, shown in Figure 3, consists of four necessary elements for sustainable new ventures.

Element 1: "Internalization of some transaction" which describes how the firm internalizes some transactions due to lack of resources;

Element 2: "Alternative governance structures" where the new ventures are distinguished from established firms because abundant resources are available. In monitoring vital resources, the firms may go for hybrid structures (licensing, franchising or networking) rather than taking an internal handling approach;

Element 3: "Foreign location advantage" refers to the cross border movement of the firms' economic transaction where the INVs find advantages to relocate transferable resources. This moves the INVs one-step higher from new ventures. At this stage, the INVs are perceived

to possess unique resources, providing a competitive advantage to operating in foreign markets;

Element 4: “Unique resources” such as excellent and diverse knowledge are created. This creates sustainable competitive advantage for becoming “sustainable international new ventures”.

According to Oviatt and McDougall (1994), this model has three focused issues: 1) “how”, which refers to the coordination of value chain activities; 2) “where”, that concerns the number of countries involved; and 3) “when”, which implies that age or timing of overseas “ventures is prominent for firms” internationalization. Significantly, the timing and speed into foreign market entry are the distinct features between the incremental and rapid internationalization models (Antoncic & Hisrich, 2000). Zahra (2005) agrees and suggests that “age at internationalization is assumed to have important implications for company’s successful expansion, survival and performance” (p. 21). Nonetheless, Zahra (2005) raises concern over the focus on “age”. Zahra (2005) also argues that it is difficult to determine the exact launch time of firms, rather it is the firms’ goals, resources and connection with others that are essential in determining the time to internationalize.

5.2.6.2 Born Global

Gabrielsson (2005) posits that Born Global is similar to International New Ventures because they emerge due to cutting edge technology and access to a borderless marketplace. The Born Global firms start internationalizing immediately; sometimes, circumventing domestic operations or working concurrently with domestic operations, or directly after start-up (Bell et al., 2000; Luostarinen & Gabrielsson, 2004). The emergence of Born Global firms is due to the global economy, where to survive against the forces of globalization, SMEs are advised to seek for overseas markets (Jones et al., 2004b).

Besides, the issues of globalization, factors such as the huge demand for globally customized products, growth of international value-chains and global networks and MNCs seeking for global outsourcing, advances in technologies have contributed to the emergence of born global firms. According to Madsen and Servais (1997) successful Born Global depend on experience, ambition and motivation of the founders, corporate governance, the structure of the organization, market internationalization, technology and the environment. Although, the Born Global firms may have limited resources and little experience in international business, they

usually offer niche products targeted at global markets and possess entrepreneurial knowledge-intensive skills which enables them to offer value-added products and services (Gabrielsson & Al-Obaidi, 2004).

5.2.7 Resource-Based View

The resource-based view (RBV) initiated by Penrose (1959), has received extensive interest in the SMEs' internationalization literature (Fillis, 2001; Prahalad & Hamel, 1990). The RBV has two main principles; resources are not homogeneously spread across firms and that resources cannot be transferred between firms without incurring costs (Shepherd et al., 2005). Firm resources are defined as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991, p.101).

Amit and Schoemaker (1993) argue that the superior performance of a firm is the consequence of having rare, imperfectly imitable and non-substitutable resources and capabilities (Barney, 1991). The tangible resources of a firm are observed through its financial strengths, facilities, employees, and other visible possessions, while the capabilities are the intangibles that may be perceived from work ethics, cultures, networking with others for information and business support, an international entrepreneurial orientation, and the level of knowledge as well as learning within the firm (Westhead, Wright, & Ucbasaran, 2001). These resources and capabilities are unique, making them difficult for competitors to reproduce, which gives a competitive advantage in the international arena (Bell, Loane, Njis, Nijs, & Phillips, 2007). It is debatable whether unique resource can drive SMEs to perform at international levels.

Applying the resource-based view concept of being valuable, rare, imperfectly imitable and non-substitutable to international joint ventures (IJVs) in Bangladesh, Ainuddin (2000) identified that resource attributes, such as technical expertise, local business networks, marketing skills and product reputation significantly increases a firm's performance at the international level. Despite, the study examining various foreign IJVs operating in Bangladesh, not the local small IJV firms operating abroad, the findings provide insights into internationalization issues in Bangladesh.

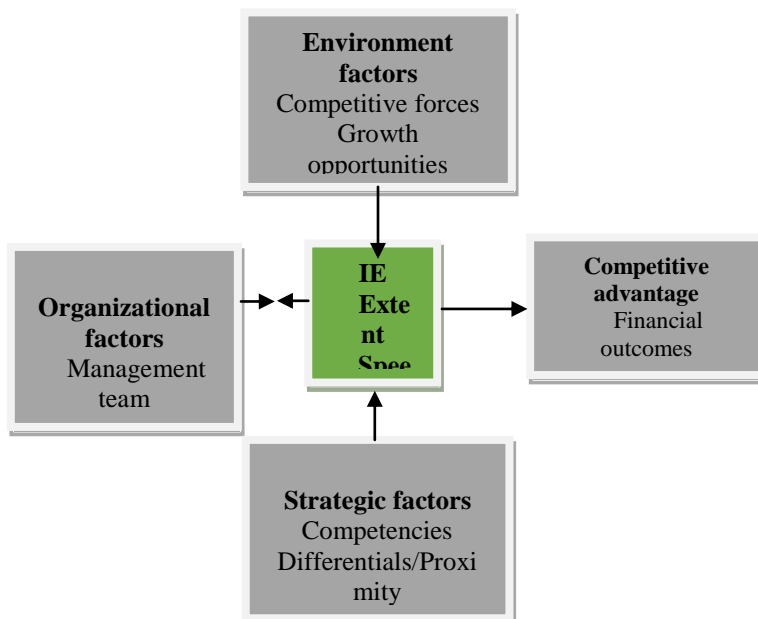
The resource-based view is linked to other internationalization perspectives because it "allows one to see the possible linkages between the learning aspect of gradual approaches,

networks, and ownership aspect of OLI paradigm" (Roolaht, 2002, p.38). This indicates that the RBV is applicable to the incremental approach, networks, and the rapid approach to internationalization. The next and final discussion on approaches to internationalization is the latest perspective, international entrepreneurship theory.

5.2.8 International Entrepreneurship Theory (IET)

According to Zahra and George (2002), the term "international entrepreneurship" first appeared in a short article by Morrow in 1988. Morrow (1988) suggested that advancements in technology, declining cultural barriers and increasing cultural awareness have opened once-remote foreign markets to all kinds of companies; small firms, new ventures as well as established companies. "Soon after that, McDougall's (1989) empirical study comparing domestic and international new ventures paved the way for academic study in international entrepreneurship" (McDougall & Oviatt, 2005, p. 537). McDougall and Oviatt (2000, p. 903) introduced their definition of international entrepreneurship as a "combination of innovative, proactive and risk seeking behaviour that crosses national borders and is intended to create value in organizations".

Figure 5: Integrated Model of International Entrepreneurship



Source: Zahra and George's integrated model of IE (Zahra et al., 2002, p.267)

Zahra and George (2002) claim previous studies on internationalization have concentrated on: the extent and degree of internationalization (the percentage of sales a firm generates from foreign markets); the speed of internationalization (the first time a firm commits to foreign market entry from the date of establishment); and the scope of internationalization (the number of foreign markets entered). However, other factors, such as the internal factors and external factors, ability to recognize opportunities, capacity to create competitive advantages and strategic factors have been neglected (Zahra et al., 2002). Therefore, Zahra et al. developed an integrated model of international entrepreneurship (IE) based on the environment, organization and strategic factors, as illustrated in Figure 5.

The integrated model demonstrates the moderating effect of the extent, speed and scope of IE towards creating competitive advantage. This model shows that many interrelated factors contribute to SME international ventures, although the model does neglect networking.

Jones and Dimitratos (2004b) argue that two aspects influence the IE perspective: (1) the network relationship, and (2) advancements in the internet, communication and technology (ICT). The network relations can emerge through informal and formal interactions between the firm's human capital (Boojihawon, 2004). This suggests that knowledge, information and even equipment can be shared and transferred (Shepherd et al., 2005). The IE view suggests international opportunities are exploited through adoption of internet and ICTs (Georganas, 2004). This means marketing and communication channels switch from contact through people to contact via the internet. This form of communication is unique and can support many-to-many communication at once, with broad coverage (Prashantham & Berry, 2004a).

The IE firms can capture international markets by developing new goods and services (Kumar et al., 2005) and by being the pioneer to develop and launch the products (Evangelista, 2005). However, understanding the environment, which include the domestic and foreign market conditions such as technology, related industries, government and other supporting institutions, trade associations and educational institutions, can influence the pace of an SME becoming an international player (Etemad & Chu, 2004).

5.3 Firm's Foreign Market Entry Mode

There are three basic entry decisions that management has to consider before going international (Hill, 2007):

a. Which market: the one being more attractive to the firm, seeking a balance between benefits, costs and risk.

b. When to go abroad: or timing of entry can be described either as first-mover or later entrants. First movers are those firms that go to an international market before anyone of his kind/industry enters a foreign market. Later entrants are those firms that go abroad after other firms have done so. Both first and later entrants have advantages and disadvantages. First movers are able to be pioneers in the market, but at the same time they can experience high costs, whereas later entrants can just copy first movers, avoiding risks they have already taken and having less cost on their proceeding. Nevertheless, the first movers will have more competence in the selected market.

c. The scale: a firm can enter on a large or small scale depending on the involvement of commitment they (the firm) are willing to have. Entering on a large scale implies rapid entry and involvement of significant resources. The small entry allows a firm to learn from the market chosen with less exposure to the market itself.

According to Kotler & Keller (2006), firms adopt four approaches to enter in the international market.

Exporting: The most common way firms adopt to enter in the international market is exporting activities. The firms sell their product in foreign country to expand their business globally. According to Kotler and Keller (2006), firms can adopt direct and indirect approaches to start their exporting activities. In case of direct exporting activities, firms handle its export activities by itself and establish a network of their representative in the international market. While in indirect approach strategies, firms do not handle its export activities by itself, rather the company works through independent intermediaries.

Licensing: The second entry mode firms adopt to start their internationalization process is through licensing. Firms do not sell their product by itself but issue license to a local company to use its manufacturing process, trademark etc.

Joint Venture: The third entry mode firms use to enter in the international market is via joint venture. Company makes partnership with foreign company to share the ownership and control of the firm.

Direct Investment: The last method according to Kotler & Keller (2006) firms use to enter in the international market is by making direct investment in the host country. Firms can

start its own production facilities in the host country by purchasing a local company or by building its own production plant.

5.3.1 Factors Influencing Entry Mode and Market Selection

According to Root (1994), internal factors like products, resources and commitment are important to determine the foreign entry mode, if the products are highly differentiated and export entry mode is favoured, but if the products are intensively technological then contractual entry, such as with licensing is preferred. External forces, like the home country and foreign market characteristics, environmental and production factors also affect the entry mode chosen for targeted countries. Both internal and external forces, influence the choice of foreign market selection and entry mode. Koch (2001) argues that these forces can be mixed and are interrelated. Koch proposes a holistic model for market entry and market selection known as the MEMS model, as shown in Table 2.

The model indicates that internal factors, such as the strategic orientation and objectives, strongly influence the stages of internationalization and these are linked to external factors like market competitiveness and probable risk. External factors, like the host countries business environment and the feasibility of certain industries are affected by the companies experience and measures to handle risks. When deciding which markets to enter, both external and internal factors rely on sufficient and reliable information.

Table 2: The Forces and Factors Influencing Market and Entry Mode Selection

Forces	Factors for Market Selection	Factors for Entry Mode Selection
Internal	Stage of internationalization Company strategic orientation Company strategic objectives Overseas market selection experience Company international competitiveness Calculation methods applied	Company size / resources Market locus of control Experiencing in using MEMS Management risk attitudes Market share targets Calculation methods applied Profit targets
External	Country market potential Competitive significance of the market	Characteristics of overseas country Business environment Industry feasibility/viability of

	Anticipated overseas market risks	MEMS Popularity of individual MEMS in the overseas market Market growth rate Image support requirements Global management efficiency requirements
Mixed	Own / Accessible resources Networking Similarity / Proximity of overseas market Market portfolio congruity Expansion sequence optimization	Competitiveness, capabilities and skills required/available for each MEMS Sufficiency and reliability of information inputs

Source: Based on Koch's MEMS model (2001, p. 352 & 353 in Figures 1 & 2)

This table concludes that interrelated forces affect market and entry mode selection, and demonstrates the complexity and dynamism of internationalization (Koch, 2001). This concurs with Johanson and Vahlne's (1990) suggestion that the internationalization process is a mixture of strategic thinking, strategic action, emergent developments, chance and necessity.

6. Methodology of the Study

In this study, data are collected by using the interview technique and also with analysing the previous research. This is a way to gain trust and cooperation from the interviewees/respondents (Cavusgil, et. al., 1993). In a survey method, the interviewees may fall into confusion but in the interview the interviewer can help to reduce misunderstandings so the outcome becomes more realistic (Babbie, 1992). Some of the interviews are personal interviews and some of them are telephone and e-mail interviews. To collect the interview data, contact was made with more than 19 companies from Bangladesh.

7. Analysis and Findings

In this part of the study, data are analysed to identify the barriers that faced by SMEs in the initial stage of their internationalization process

7.1 Barriers to Internationalization

7.1.1 Internal Barriers to Internationalization

It focuses on the importance of internal competency and barriers to internationalization; especially from the manager's perspective engaging in international activities requires additional competencies, compared to strictly domestic activities. The competencies needed typically, encompass not only a different working language in relation to cross-border relations, but also knowledge about the foreign market conditions, laws and regulations, cultural differences among many other.

Several studies found that the international experience of the founder(s) or manager(s) increases the speed and is likely to cover both scenarios. In either case, the findings seem to indicate that an international mindset and experience of the managers is likely to promote the international activities of an SME.

For SMEs, the question of attaining sufficient internal resources for cross-border activities is more acute than for larger enterprises, since the costs of hiring people with the appropriate skills are proportionately greater for smaller companies. Large companies have more labour resources to draw from in the first place and they also often have more developed routines and capacities for recruiting, selecting and integrating new employees.

Table 3: Internal barriers to internationalization

Internal barriers to internationalization	Non-internationalized	Foreign Supplier – only form	Export –only form
No internal barriers	25%	35%	36%
High costs of the internationalization process	13%	18%	22%
Price of our products and services	8%	13%	19%
Insufficient skills or competence of staff	8%	12%	11%
Quality and/or specifications of our products and services	12%	15%	14%
Others	10%	14%	18%

Source: ENSR Enterprise Survey

The most cited barrier, for all groups of internationalized SMEs is the high costs of the internationalization process. These costs may include doing market analysis abroad, purchasing legal consulting services, translation of documents, adaptation of products to foreign markets, travel expenses, not to mention a higher business and financial risk which is shown above in Table 3.

7.1.2 External Barriers for Internationalization

This section deals with the external barriers encountered by the SMEs in their internationalization process. Perhaps, the most interesting feature is that almost a third of the internationalized enterprises perceive no external barriers but SMEs with foreign supplier are most likely to see no barriers. Moreover, when considering the other categories or barriers, it seems that the more complex the international activities undertaken by the SME are, the more often they perceive barriers. This indicates, that barriers are usually discovered, as the different types of international activities are developed.

Table 4: External barriers to internationalization

External barriers to internationalization	Non-internationalized	Foreign Supplier –only form	Export –only form
No external barriers	25%	42%	39%
Existing laws and regulations	9%	25%	32%
Lack of capital or finance	12%	26%	29%
Lack of support and/or advice	8%	22%	28%
Cultural and language differences	8%	14%	25%
Lack of information	11%	11%	24%
Others	12%	10%	14%
Never considered internationalization	60%		

Source: ENSR Enterprise Survey.

7.2 Lack of Support/Advice or Lack of Information

These are not very common barriers, as seen in Table 4. This may reflect the relatively widespread existence of policy measures directed towards informing and supporting internationalizing enterprises.

7.3 Existing Laws and Regulations as a Barrier

Laws and regulations are perceived more frequently as a barrier for SMEs with foreign subsidiaries or several forms of internationalization (24 %). On the basis of the ENSR Enterprise Survey, it can be concluded to an extent that the barrier is related to the differences in national regulations (lack of harmonization) or general lack of knowledge on legal regimes and it is the specific difficulties created by existing national regulations that constitute barriers to SMEs internationalization.

7.4 Shortages of Capital

In general, the shortage of capital is not seen as a major barrier by the SMEs as per ENSR survey. When asked in the ENSR survey about external barriers to internationalization, only a little more than one in ten companies mentioned 'Lack of capital or finance'.

7.5 Trade Barriers

Some external barriers for expanding international activities relate to trade barriers. These include trade policy; EU-standards, national trade protection (national policy or 'voluntary trade marks'); technical standards, national regulation on safety, consumer protection, etc.

8. Conclusion

The SME in the past had sought profitable networks, good contacts and like-minded suppliers. This research presents usable data stemming from past experience of a small firm that went through a gradual internationalization process. This study suggests that government export assistance programs which have long-term impact on SMEs' internationalization through building their human resources and capabilities to explore and succeed in international endeavours rather than the traditional way of looking narrowly on its direct effect on export performance.

9. Further Research

This research has only gone through the barriers of SMEs that they face in the initial stage of internationalization, but there are many more factors to think about in connection with SME's internationalization. Further studies need to be done to know how they can overcome the barriers with using these theoretical perspectives that allow for an analysis of various stages of an internationalization process

References

- Andersson, S. (2000). The internationalization of the firm from an entrepreneurial perspective. *International Studies of Management & Organization*, 30(1), 63-92.
- Andersen, O. (1993). On the internationalization process of firms: a critical analysis. *Journal of International Business Studies*, 209-228.
- Brush, C.G., Edelman, L. F. & Manolova, T. (2002). The impact of resources on small firm Internationalization. *Journal of Small Business Strategy*, 13(1), 1-17.
- Chetty, S.K. (1999). Dimension in internationalization of manufacturing firms in the apparel industry. *European Journal of Marketing*, 33 (½), 121-42.
- Eriksson, K., Johansson, J., Majkgard, A., & Sharma D.D. (1997). Experiential Knowledge and Cost in the Internationalization Process. *Journal of International Business Studies*, 28(2), 337-360.
- Etemad, H. (2001). Internationalization of SMEs: A Grounded Theoretical Framework and Overview. *Canadian Journal of Administrative Science*, 21(1), 1-21.
- Etemad, H. (2005). International Entrepreneurship: Aspects of Rapid Internationalization in SMEs. *Journal of International Business*, 3/2005, 145-186.
- European Commission, (2005). The new SME definition User guide and model declaration. *Enterprise and Industry Publications*, 5-50.
- Forsgren, M., (2002). The concept of learning in the Uppsala internationalization process model: a critical review. *International Business Review*, 11(3), 257-277.
- Gankema, H.G.J., Snuif, H.R., & Zwart, P.S. (2000). The internationalization process of small and medium-sized enterprises: an evaluation of stage theory. *Journal of Small Business Management*, 38(4), 15-27.
- Johanson, J., & Mattsson, L.G., (1988). Internationalization in industrial systems: A network

approach.

- Hood, N., & Vahlne, J-E., (Eds.), *Strategies in global competition*. (pp. 194-213). Croom Helm, London.
- Johansson, J., & Vahlne, J-E. (1977). The Internationalization Process of the Firm-A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8(1), 23-32.
- Johansson, J., & Vahlne, J.E. (1990). The mechanism of internationalization. *International Marketing Review*, 7(4), 11-24.
- Johansson, J., & Vahlne, J.E. (2003). Business Relationship Learning and Commitment in the Internationalization Process. *Journal of International Entrepreneurship*, 1, 83-101.
- Johansson, J., & Wiedersheim-Paul, F. (1975). The internationalization of the firm – four Swedish cases. *Journal of Management Studies*, 12(3), 305-322.
- Lindh, P. (2009). Emerging Markets: A Case Study on Foreign Market Entry in Laos; MBA thesis in marketing. Sweden: University of Gävle.
- Manolova, T.S., Brush, C.G., Edelman, L., & Greene, P.G. (2002). Internationalization of small firms. *International Small Business Journal*, 20, 9-31.
- Oviatt, B.M., & McDougall, P.P. (2005). Defining international entrepreneurship and modelling the speed of Internationalization. *Entrepreneurship Theory & Practice*, 29, 537-553.
- McDougall, P.P., Shane, S., & Oviatt, B.M. (1994). Explaining the formation of international new ventures: The limits of theories from international business research. *Journal of Business Venturing*, 9, 469-487.
- Mitgwe, B. (2006). Theoretical Milestones in International Business: The Journey to International Entrepreneurship Theory. *Journal of International Entrepreneurship*, 4, 5-25.
- Madsen, T.K., & Servais, P. (1997). The internationalization of born globals: an evolutionary process. *International Business Review*, 6(6), 561-583.
- Ruzzier, M., Hisrich, R. D., & Antoncic, B. (2006). SME internationalization research: past, present, and future. *Journal of small business and enterprise development*, 13.
- Smolarski, J.M., & Wilner, N. (2005). Internationalisation of SMEs: A Micro-Economic Approach. *Journal of Business Chemistry*, 2(2), 55-70.
- Suárez-Ortega, S. M., & Álamo-Vera, F. R. (2005). SMEs internationalization: firms and

managerial factors. *International Journal of Entrepreneurial Behaviour and Research*, 11(4), 258–279.

Westhead, P., Wright, M., & Ucbasaran, D. (2001). The internationalization of new and small firms: A resource-based view. *Journal of Business Venturing*, 16, 333-358.

Zahra, S.A., & George, G. (2002). International Entrepreneurship: The current status of the field and future research agenda. In Hitt, M.A., Ireland, R.D., Camp, S.M., & Sexton, D.L., (Eds.), *Strategic entrepreneurship: Creating a new mindset* (pp. 255-288). Oxford, UK: Blackwell Publishers.

Zahra, S.A., Ireland, R.D., & Hitt, M.A. (2000). International Expansion by New Venture Firms: International Diversity, Mode of Market Entry, Technological Learning, and Performance. *Academy of Management Journal*, 43(5), 925-950.