SMEs Internationalization From Developing Countries

Challenges and Barriers

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Thesis in Industrial Management and Business Administration, 15 credits

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Acknowledgement

It has been an intensive period of ten months learning, not only in the scientific arena but also on a personal level. Writing this thesis had a big impact on us. We would like to reflect on the people who have supported and helped us so much throughout this period.

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SUMMARY

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Authors: Kalyani Pillalamarri and Mohamed Mekki.

Supervisor: Prof. Henrik Florén.

Title: SMEs Internationalization From Developing Countries- Challenges and Barriers.

Research Background: Small and medium-sized enterprises (SMEs) play a major role in the development of the nation's economy by providing employment and creating the economic growth. The management of the companies that are going international considers different motives before taking the step into the international market. The internationalization process involves risks and uncertainty significantly effected by challenges and barriers to SMEs from developing countries.

Research Purpose: The purpose of this study is to describe the challenges and barriers that SMEs face in developing countries when going international. Furthermore, the following research questions are addressed.

Research Questions:

What are the challenges and barriers faced by SMEs in the developing countries when they go international?

Method: Qualitative research method has been applied, the primary data used is collected through observations and interviews and the secondary data based on information from annual reports, websites and publications.

Conclusion: Our study found that the internationalization process for the SMEs from developing countries faces many barriers and challenges and the effect of motives influencing challenging and barriers. Furthermore the study utilizes three case studies to analyze the above aspects.

Keywords: SMEs, developing countries, motives, challenges, barriers internationalization.
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<th>Full Form</th>
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<tbody>
<tr>
<td>EFIC</td>
<td>Finance for Australian exporters</td>
</tr>
<tr>
<td>ENSR</td>
<td>European Network for SME Research</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>GNP</td>
<td>Gross national product</td>
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<tr>
<td>HDI</td>
<td>Human Development Index</td>
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<tr>
<td>LTA's</td>
<td>Long Term Agreements</td>
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<tr>
<td>MEDC</td>
<td>More economically developed country</td>
</tr>
<tr>
<td>OECD</td>
<td>The Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer</td>
</tr>
<tr>
<td>PRINCE 2</td>
<td>PRojects IN Controlled Environments</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UPS</td>
<td>Uninterruptible power source</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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</table>
1. Introduction

The chapter discusses the research topic, background information; state the purpose, problem area, and research questions. Furthermore, this chapter presents the structure of our study.

1.1 Background

Several researchers and scholars have researched internationalization of SMEs. Johanson & Vahlne (1977), Karagozoglu (1998), Freeman (2002) paid much interest on SMEs on diverse facets of their businesses and especially during internationalization process. SMEs play a vital role in the main source of the economic development in developing and developed countries.

In the process of internationalization, SMEs face many challenges and barriers to expanding and sustain in the international market. In terms of the authors, barriers are termed as factors that can be seen in micro level. Here, authors are keen to present that these barriers are inside the organization that can be solved Example: Bureaucracy. Authors meant to say, challenges are the factors stated at the macro level, which has a direct impact on the organizations that are not easy to avoid like government policies.

Besides, motives have a significant impact on internationalization of SMEs on their future business growth and gain profit. Karagozoglu (1998) shows that opportunities in foreign markets and inquiries from foreign buyers were the top two motives for internationalization. Insufficient domestic sales compared to R&D costs were also a significant motive (Karagozoglu & Lindell, 1998). According to Freeman (2002) in the pre internationalization stages, SME managers use information to achieve relevant knowledge to start the internationalization process (Freeman, 2002).

Long ago, academics explained internationalization with the help of many different models such as the Uppsala model, born global and other models. Out of which Uppsala model is introduced in (1977) by Johanson & Vahlne, which is also stated as one of the famous models for internationalization theories. Besides that, the concept of born global phenomenon is another model that presents the internationalization process for the SMEs in 1993 by the Australian Manufacturing Council (Rennie, 1993).

Classic internationalization theories, with few exceptions Johanson & Vahlne (1997) are based on sequential, or stage, processes of internationalization with increased resource commitment offer little guidance for SMEs, which are challenged by resource constraints and are therefore inhibited when competing with multinational enterprises (Etemad, 2004). Researchers have tried to explain the internationalization process effectively over existing theories and developing new theories of international business that results in explaining why and how SMEs go international and produced the network theory and the international entrepreneurship theory (eg: Carson (2004), Moller and Halinen (1999), Zahra and George (2002),
McDougall and Oviatt (2000)).

The term internationalization can be defined in different ways from different prospective. Beamish (1990) defined internationalization as "the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries" (Beamish, 1990, p. 77). Later, Calof & Beamish (1995) defined internationalization as "the process of adapting firms’ operations (strategy, structure, resource, etc) to international environments" (Calof & Beamish, 1995, p. 116).

Today, the above theories are applied in both developing and developed countries for the SMEs entering new markets during the process of internationalization. With respect to the internationalization theories, one should have a basic knowledge of the below key concepts. The developing/developed countries classification became common in the 1960s as a way to easily categorize countries in the context of policy discussions on transferring resources from richer to poorer countries (Robson, 1970).

Developing countries are called as less developed countries or underdeveloped countries, is a nation with an underdeveloped industrial base, and a low Human Development Index (HDI)\(^1\) relatively to other countries (Sullivian, 2003).

On the other hand a developed country, industrialized country, or "more economically developed country" (MEDC), is a sovereign state that has a highly developed economy and advanced technological infrastructure relative to other less industrialized nations.

Most commonly, the criteria for evaluating the degree of economic development are the gross domestic product (GDP)\(^2\), gross national product (GNP)\(^3\), the per capita income, level of industrialization, amount of widespread infrastructure and general standard of living (Definition, 2010).

**SME's in Developing Countries**

SMEs are a fundamental part of the economic structure in developing countries, and they play a crucial role in fostering growth, innovation and prosperity (Dalberg, 2011). Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint (Dalberg, 2011). According to the World Bank Group Report (2013), SMEs face many challenges in day-to-day operations and policies to jumpstart economic growth and promote job creation have been among the top priorities of many developing and developed economies due to the financial crisis (World Bank Group Report, 2013).

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\(^1\) The Human Development Index (HDI) is created by the UNDP (United Nation Development Program) it's a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. http://hdr.undp.org/en/content/human-development-index-hdi

\(^2\) Gross Domestic Product (GDP) is the broadest quantitative measure of a nation's total economic activity (GDP = Consumption + Government Expenditures + Investment + Exports – Imports).

\(^3\) Gross national product (GNP) is a broad measure of a nation's total economic activity. GNP is the value of all finished goods and services produced in a country in one year by its nationals (GNP = GDP + Net income inflow from abroad – Net income outflow to foreign countries)
According to the World Bank (2009), SMEs as those enterprises with a maximum of 300 employees, $15 million in annual revenue, and $15 million in assets. However, The European Union (EU) in 2003 standardized the following factors that defining SME’s, these factors are limited and different from country to another (European Union, 2003).

Table 1 The SMEs definition

<table>
<thead>
<tr>
<th>Company Category</th>
<th>Employees</th>
<th>Turnover or Balance Sheet Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-Sized</td>
<td>&lt; 250</td>
<td>≤ € 50 m</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ € 10 m</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ € 2 m</td>
</tr>
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</table>

Source: Adapted from (European Union, 2003)

According to Dalberg report (2011), "SMEs in developing countries face a financing gap that undermines economic prosperity. They are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint" (Dalberg, 2011, p. 4; Report, 2011).

The united nation discuss that “SMEs contribute substantially to a stable economic environment and to the development of the economy. They need especially financial and consulting services, which help them to overcome difficulties during the start-up phase or to carry out their normal business activities” (Unctad, 2008, p. 89). For any firm going international there is some kind of risks and uncertainty, so in order to internationalize successfully both in developing and developed countries, SMEs should have a decent process for internationalization to enter new markets.

1.2 Problem Discussion:

SMEs in the developing countries face many challenges and barriers that effect internationalization process, Johanson and Vahlne (1977) argue that SMEs from emerging and developing countries faced difficulties in internationalizing and establishing a foothold in the international market due to lack of market and product knowledge and cultural differences (Johanson & Vahlne, 1997). Despite the challenges, there are other challenges and barriers that effect SMEs internationalization from country to country like infrastructure, political environment etc. Furthermore, in this thesis, we will mainly discuss the SMEs internationalization in the developing countries. Describe the important challenges; identify the entry barriers when entering new markets. Coviello and McAuley (1999) agreed that SMEs often suffer from their limited size and resources, and thus end up encountering numerous challenges in their efforts to enter the global market (McAuley, 1999; Coviello & McAuley, 1999).
Also the government role and policies in supporting SMEs are different in both developing and developed countries. (McIntyre & Dallago, 2003) Assure Those SMEs are not themselves sufficient for growth without the appropriate development of institutions and support structures. This support may be in a form of training, Tax, regulations and others factors that may affect in SMEs internationalization and hence affect at the contribution of the developing country’s economy.

With increasing economic development systems, internationalization and investments have become an inherent world change to the extent that developing nations have become even more dependent on activities of the developed nations of the world. Additionally, there has also been transference in power away from the nation state and towards multinational corporations. Internationalization involves the diffusion of ideas, practices and technologies. It is widely recognized that Small and Medium Size Enterprises (SMEs) form the strength of the private sector at all levels of developing countries. Greenan, Humphreys, and McIvor (1997) noted, “The contribution of small and medium-sized enterprises towards economic performance is now universally accepted as significant” (Greenan, Humphreys, & McIvor, 1997, p. 208). Impressive performance has partly contributed to the robust growth of the SME sector in developing countries like India and Sudan. Considering this fact, these countries have fascinated many global/international firms entering the market with superior products, for example, clothing, electronics, service sector and many other items. The high-quality products when competing with local firms, those firms get higher priority.

There are many barriers to SMEs in the developing countries when going international such as lack of finance, lack of knowledge about the local market, managerial skills and other barriers. A survey done by the World Bank in the year 2001 stated that regardless of size, country or region the main barriers of doing business are funds, regulation and taxes, policy instability, inflation, exchange rate, corruption, street crime and organized crime (Schiffer & Weder, 2001). We assume that some of the barriers depend on the motives. For example managerial urge could be a motive to go abroad, it is the manager’s commitment linked to desire and force that drive internationalization forward to enter the foreign markets (Bradley, 2002) but at the same time it is also an important barrier effecting SMEs.

1.3 Purpose & Research Questions:

The purpose of this study is to describe the challenges and barriers that SMEs face in developing countries when going international and analyze the impact of motives over barriers to SMEs to enter new markets. Furthermore, the following research questions are addressed.

*What are the challenges and barriers faced by SMEs in the developing countries when they go international?*

By answering the above research question, we identify the challenges and the barriers to fulfilling the purpose of this thesis. We contribute to promoting a better understanding of challenges that are related to previous research, also other challenges apart from the literature that differs from country to country.

Research shows that majority of small and medium enterprises in developing
countries are controlled by the owner/manager who takes all major company decisions. The entrepreneur owns limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited. Furthermore, management skills are weak, thus constraining the development of a strategic plan for sustainable growth. A study by King and McGrath (2002) recommends that those with more education and training are more likely to be successful in the SME sector. Greenwald and Kahn (2005) suggest that competitiveness of SMEs has been constrained by a range of well known and studied factors, which include size, limited managerial capacity and their inability to obtain information about the market (Greenwald & Kahn, 2005). Despite the few studies that have been conducted on SMEs, no study has addressed the scope that the challenges have affected the firms in their attempt to join internationalization and become competitive in the market place. This study was conducted to understand the extent of these challenges on SMEs in developing countries.

1.4 Thesis structure
This thesis is divided into six chapters, introduction, theoretical framework, research methodology, empirical findings, analysis and conclusions. The following figure gives a brief understanding of thesis structure.
Figure 1 Thesis structure
2. Theoretical framework

The theoretical framework of this thesis is divided into two parts; the first part discusses the general concept of the internationalization theories in Uppsala and born global models. The second part will discuss the challenges, barriers that are affecting SMEs in internationalization to answer our research questions more determinately.

2.1 Internationalization Theory

According to Calof and Beamish (1995), internationalization is the method of adapting organizations’ operations (resources, strategy, structure) to foreign environments (Calof & Beamish, 1995). For example, this process comprises the geographic distance of the foreign market that is entered; the different amount of activities in different countries and the intensity of integration of these activities. Firms go internationalization as a result of their customers migrating and competing with domestic firms who move abroad, while some companies go with the desire for success and progress. So due to the complication of the processes involved in the internationalization, many theories have been designed by different scholars to allow the ease of achievement of the international emerging markets for SMEs. The next section will discuss the two most commonly cited internationalization theories, the Uppsala model and international New Ventures, which is also known as Born Global.

2.1.1 Uppsala model

The Uppsala Model of internationalization processes was first published in an international academic review in 1977 by Johanson & Vahlne then the authors have undertaken modifications over time. The Model consists of four approaches, which explains how the learning- and opportunity perception affect, and is affected by the current environment of the firm (Johanson and Vahlne, 1977). These four approaches in Uppsala model are market knowledge; market commitment; commitment decisions and current activities. They are interrelated to each other. As the years past, changes in the above four approaches are simplified and modified by researchers. The below figure illustrates the difference between the old and new approaches.
SMEs Internationalization from Developing Countries - Challenges and Barriers

Figure 2 Uppsala model

Source adapted from (Johanson and Vahlne, 1977); (Johanson & Vahlne, 2009)

State-Aspects

Johanson and Vahlne explained that “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 and Vahlne, 1977, p. 27)

Market commitment positions for those types of resources that are committed to a degree of involvement that results in making apt decisions for the managerial team. Two types of knowledge are to be considered in this aspect: objective knowledge transferred from one market to another, experiential knowledge, which is gained by experience, learning by doing or acting.

Change-Aspects

Change aspects are the results of the state aspects. Once the firm knows about the market, they can decide the way the firm will commit to that market and therefore be able to plan and execute the current activities needed to complete the cycle by committing to the market. According to Johanson and Vahlne (1977), commitment decisions and current decisions are considered in the change aspects in the orginal model, later reviewed as they are related to each other in 2009 (Johanson and Vahlne, 1977; Johanson & Vahlne, 2009)

In these models, internationalization is seen as a gradual process, in which a firm increases its commitment in foreign markets as it gains experiential knowledge (Johanson and Vahlne, 1977). The authors identified four stages of internationalization theory that’s included four successive steps in the international expansion process of the firm as shown in the figure below. These stages are:

No regular export activities
Export via independent representatives (agents)
Sales subsidiary
Overseas production/manufacturing.
2.1.2 Challenges and barriers from U-model prospective

Uppsala model made a great contribution to understanding how firms go international but authors have criticized Uppsala model, whether this model can be generalized to all the industries. This model is not applicable for service industries. (Reid, 1983; Axin & Matthyssens, 2002) The model does not explain about how firm resources and market characteristics can be determined with respect to choices and changes in export structure. The importance of manager’s role, psychic and physical distance, and business environment and culture differences in the decision making of internationalization have also been neglected. For example, India could consider Sweden as a profitable market, so the firm will hire experienced managers who are familiar with Swedish culture to reduce risks and uncertainty.

Forsgren (2002) analyzes how the process of learning is conceptualized in the model. U-model was built up based on the fact that lack of knowledge of foreign markets is the first barrier to gain internationalization (Forsgren, 2002).

2.1.3 Born Global: Concept and Definition

The term "born global" was presented with in order to SMEs that have effectively contributed in overseas businesses by exporting services and products started out within few years of the firm establishing. According to Wright (2005), most of the Born Global literature is based on ‘developed’ countries contexts even though firms are bound to emerge from any markets that are open to internationalization trade (Wright, 2005).

There are numerous different definitions of born global companies (Jones, Coviello & Tang, 2009). Born global can be defined as "a business organization that, form inception, seek to derive significant competitive advantage from the use of resources and the sale of output in multiple countries (Oviatt & McDougall., 1994)

(Knight & Cavusgil, 2004)) Also define born global as "small technology oriented companies that operate in international markets from the earliest day of their establishment". (Rennie, M, 1993) Describes born global as competing on quality and value that is created through innovative technology and product design.

Many scholars argued that born global SMEs mainly tend to be found in high technology industries, several authors have stated that it is not always true. (Rennie, M, 1993) Has asserted that born global companies are not related to a particular industry or sectors of the economy. (Oviatt & McDougall., 1994) Have further stated that born global SMEs are appearing in various industries. (Madsen & Servais, 1997) Stated that the phenomenon of born global is not limited to high technology industries as it may come from various industries.
Recently it may be exposed that many companies do not follow the traditional ways regarding internationalization or becoming worldwide. This concept was first introduced in a report by Australian McKinsey and Co. (1993), which challenged the traditional process of internationalization, that report classified into two types of companies (traditional exporters & Born global) which aroused similar concepts of researches such as International Entrepreneurs (Jones, 1999)'International New Venture' (Oviatt & McDougall, 1994).

"Born global firms play an important role in the international business context.Advancing technology aids firms in possessing sufficient information about their international market (Oviatt & McDougall., 1994) given born global firms much attention to the process of the internationalization, the ability to diversify their portfolios and minimize the risk possibility after they internationalize with limited assets and resources. So, it will be important to recognize that what sources are required in order to support this firm's to get over this resource’s limit as well as examine the main characteristics of this theory.

2.1.4 Born Global SMEs characteristics

It's useful to identify the characteristics of born global SMEs from the different point of views to fully understand the problems that SMEs deal with and how they are capable of overcoming these types of challenges. Tanev Stoyan (2012) identify eight characteristics of born global especially in the technology sector but it can be applicable for all industries and we chose the following six characteristics to be more generalized, as the other two characteristics are mainly applicable for technical industries (So the two characteristics are to be ignored) (Stoyan, 2012)

Lack of resources

Essentially, one of the most important characteristics of born global firms is the Lack of resources (Knight & Cavusgil, 2004; Oviatt & McDougall, 1994)It is a natural trait for a start up to lack financial resources, and it makes young companies operate in a different way compared to MNEs or more mature SMEs. Not only financial resources that born global do not have, they also lack knowledge on the international markets. Most of them overcome this problem with having close relationships and strategic alliances and reach markets through their networks.

Managers & founders

The other factor that has a large influence on born global firms is the background of the founder: their educational background, previous professional and international experience affects the decisions made regarding the internationalization of the firm. The founder of a born global company does not see borders as an obstacle but an opportunity to exploit (Madsen & Servais, 1997). The skills of top management teams have been found important for a more dynamic form of internationalization, particularly in the knowledge-based sectors (Andersson & Evangelista, 2006)

Higher activity inside global marketplaces

Born-global firms begin exporting their products or services within a couple of years after the establishment and may export a quarter or more of their total production.
Most of them advance through subsequent stages of internationalization, collaboration with foreign partners, or undertaking direct foreign investment (et.al R., 2001).

**Emphasis on differentiation strategies**

Born-global companies often embrace differentiation strategies simply by establishing differentiated types and also remarkably exclusive unique products and services that targeted specific niche market areas, which might be also smaller for the large firms. “People and firms increasingly demand specialized and customized products, and niche markets have become an important source of opportunities for small firm” (Cavusgil & Knight, 2009, p. 12).

**Using overseas distributors**

Most born-global firms expand internationally through exports by engaging in direct international sales or leveraging the resources of independent intermediaries located abroad. Many of them rely on external facilitators to organize international shipments. Exporting and leveraging independent intermediaries enables flexible international operations including the ability to enter or withdraw from foreign markets relatively quickly and easily. More experienced born-global firms appear to adopt additional strategies, such as joint ventures and foreign direct investment (Cavusgil & Knight, 2009).

**Present across most industries**

Many born global firms are technology firms. However, recent evidence suggests that the born global phenomenon is widely spread beyond the technology sector (Moen, 2002).

For example, in Denmark (Madsen & Servais, 1997) have found born global firms in industries such as metal fabrication, furniture, processed food, and consumer products.

**2.1.5 Uppsala model vs Born Global**

Compared to traditional firms and their way of internationalization process that follow the stages of the Uppsala model, born global firms are more innovative since born global firms are technology-based firms. Johanson & Vahlne (1977) mentioned that firms with large resources internationalize, but born globals prove them wrong as they actually lack resources. On the other hand Uppsala model also suggests that firms need to enter homogenous foreign markets in order to learn them easier, while the markets born globals enter are the most volatile ones (McDougall & Oviatt, 1994).

Regarding the physical distance, Johanson & Vahlne (2009) mentioned that’s, the firm’s relationships create less uncertainty regarding physical distance. Others say, however, that physical distance is not important for born globals because of the background of the founders. They have previous experience and international knowledge that lowers the uncertainty of international markets.
2.1.6 Challenges and Barriers from Born Global Perspective

Freeman, Edwards and Schroder (2006) summarizes born global firms undergoes sequential restrictions for its basic description of being small that face a rapid international exposure immediately after the establishment. Thus resulting in the lack of economies of scale, lack of resources financial and knowledge as well aversion of risk taking. In that case, the use of partnerships and alliances and relating the use of innovative technology help the company fight those setbacks (Freeman, Edwards, & Schroder, 2006).

According to Hollensen (2011), firms during internationalization experiences some kind of barriers like export initiation (insufficient finances, insufficient knowledge about foreign markets, lack of management commitment) and barriers to the process of exporting (market, commercial and political risks). The literature mentions the market risks: comparative market distance, competition, differences in product usage and specifications, cultural differences, difficulties in finding the right distributor, and complexity of shipping services. Commercial risks: exchange rate fluctuations, payment delays, bankruptcy, refusal to accept the product, delays and damage in the export distribution, difficulties in obtaining export financing. Political risks (Hollensen, 2011): foreign government restrictions and tariffs, foreign exchange controls, lack of governmental assistance, the high value of domestic currency, confusing import regulations, the complexity of trade documentation and political turmoil (Hollensen, 2011). For example, The Indonesian government has continuously reduced trade barriers and created a more transparent trade and investment environment through the deregulation policy in order to increase its international trade (Soesastro, 1989).

2.2 Significance of Internationalization Theory

According to the definition of internationalization mentioned before, different researchers and scholars have developed theories on the internationalization process over many decades, due to the complexity of the processes; involved several theories have been designed to enable the easy achievement of this process. SMEs from different countries and industries have different approaches and strategies to carry on their local as well as international business. However, internationalization theories play a vital role in describing the process when SMEs plan to go international. It can be said that there is no precise theory to use in internationalization process but the mixture of different kind of theories makes the procedure easier. From the two theories discussed in this thesis, there are many variables that influence the internationalization process.

In Uppsala model, the four core concepts: market commitment, market knowledge, current activities and commitment decisions. These four concepts divided into state aspects and change aspects. The above four concepts are interlinked as well as dependent on each other's presence as stated below.

"Market knowledge and market commitment are assumed to affect decisions regarding the commitment of resources to foreign markets and the way current activities are performed.” Market knowledge and market commitment are, in turn, affected by current activities and commitment decisions (Johanson and Vahlne, 1977, p. 27).
On the other hand compared to Uppsala model, born global firms are characterized by having experienced managers or founders, thus it is reasonable to assume that Born Global’s reduce risk perception of internationalization due to the improved knowledge level of senior management that results in the speed of internationalization. Hence, it is not necessary to improve the knowledge about foreign markets as traditional companies; this process is a time consuming one, which is why the speed of traditional companies is slow. “A Born Global company uses a wide array of channels to increase its presence and speed in international markets (Gabrielsson & Kirpalani, 2004).

Carlson administrated on how to handle uncertainty due to lack knowledge by shaping the internationalization firm in investment behavior in a particular manner; also foreign decision process is focused. The firm decides to internationalize should intend to handle the risk by trial and error method by slow and moderate assets of information about the foreign markets. He argues once the firm has passed the cultural barriers and had its first experience of foreign operations, it is generally willing to overcome one market after another (Carlson, 1993; Hadjikhani, 1997). Carlson’s theory laid the foundation of this theory and later known to be Uppsala Internationalization Process Model. Foreign risk and control over the foreign markets need to be included in the business model of the firms that internationalize. Incremental decision-making should be adapted to handle the risks and the information is acquired through foreign investment. The firm can retain the control over the foreign venture through incremental behaviour and moderately grow its knowledge to perform business in different foreign entry markets (Johanson and Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975).

We attempt to apply more than one theory of the internationalization process of the SMEs: discuss the challenges and barriers from the prospective of each theory in order to build a fundamental knowledge because it is not possible to explain the process with one single model. Uppsala and Born Global are two different schools of thoughts, the Uppsala school concept is developing a home market first to gather experience to go abroad while in Born Global, we do not need to develop a home market at the start due to the increased level of knowledge. Though the two theories are from different schools, based on the SMEs type both the theories are important, according to their criteria depending on the type of SMEs approach.

2.3 Entry Modes

The authors discuss Entry Modes especially to have a deeper understanding the challenges and barriers affecting through entry modes. Challenges and barriers are identified from the way a firm enter into the foreign market. There is a wide range of effect on challenges and barriers with respect to entry modes.

According to Hill (2007), there are three basic entry modes that management should consider before going international: Which market: the one presence more attractive to the firm, seeking a balance between benefits for the firm, costs and risk (Hill, 2007).

Hollonson S (2007) defines entry mode as an international market entry mode is an institutional arrangement necessary for the entry of company’s products, technology
and human capital into a foreign country/market and defines six modes for entering foreign markets explained in the figure below (Hollensen, 2011):

**Figure 4 Foreign market entry modes**

Source: (Hollenson, 2008)

### 2.3.1 SME Entry Modes Selecting

Choosing the right entry mode strategy might be far-reaching consequences on the future performance and survival of the firm (Ekeledo & Sivakumar, 2004). Couturier & Davide (2010) also argued that finding the right market and choosing the right mode of entry are critical and strategic decisions for company top management (Couturier & Davide, 2010).

**Foreign Direct Investment (FDI)**

As defined by World Bank, “Foreign direct investment is the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payment” (World Bank Group Report, 2013).

It is one of the best ways of entering a foreign market; the importance of FDI is increasing. Firms are always in search of a profitable area for investment and provides with an opportunity to analyze the foreign market situation, systems, etc. It's not only involving in earning profits but also contains long-term relationships and management of activities in future but has risks with the management of resources.

**Joint Venture**

The term Joint Ventures can be defined as “two or more organization reaching a commercial agreement to co-operate in achieving a common goal” (Lopez-Navarro, 2013, p. 31). According to OECD report, "A joint venture is an association of firms or individuals formed to undertake a specific business project (such as producing a specific product or doing research in a specific area” (OECD report, 2008, p. 51).

A Steier (2001) stress that one of the threats associated with Joint Venture is the lack of control. One of the partner or firms manages their way and do not continue
cooperation in the joint venture due to lack of control that results in the partner to be a competitor (Steier, 2001).

According to Kirby & Kaiser (2003), Joint Ventures is a successful entry mode, particularly for small medium sized companies with limited knowledge about the new foreign market (Kirby & Kaiser, 2003).

**Licensing**

According to Chen & Messner (2009), “licensing provides a method for profiting from a foreign market without committing sizable funds and taking rampant international construction risks” (Chen & Messner, 2009, p. 20). In other terms licensing is an important aspect for firms to avoid risk with less capital; to increase profits and revenues with an increase in the business opportunities

**Exporting**

Exporting is the simplest and most common way of going international, Johnsson and Tellis (2008) defined “export as firm’s sales of goods and service produced in the home market and then sold in the host country through an entity in the host country” (Johnson & Tellis, 2008, p. 2). Many firms begin their expansion as exporters and later on switch to another mode for serving a foreign market. It can be divided into direct and indirect export depending on the number and type of intermediaries (Johnson & Tellis, 2008).

**Franchising**

Franchising involves longer-term, franchising is the purchased legal access in which a firm can use another firm business activities as selling the goods or services under the same name.

According to Hill (2007), “The firm selling the franchise will receive a royalty payment, which is related to the franchisee’s revenues.” There is an advantage of franchising such as reducing risk, costs in a host country in a short period of time, at a relatively low cost and risk (Hill, 2007, p. 492). One of the disadvantages when using franchising approach is the quality control where the consumers are always expecting the same kind of attention when they go to the different part of the franchise around the world.

**Outsourcing**

According to Belcourt (2006), “outsourcing occurs when an organization contracts with another organization to provide services or products of a major function or activity” (Belcourt, 2006, p. 270).

Outsourcing is not only for firms but also applied for sub departments and many other activates, Greer (1999), state; “the expectation that outsourcing will cut costs is consistent with the strategic management view of competitive resource allocation. This perspective holds that all activities unrelated to strategic core competencies should be outsourced since economies of scale allow specialized vendors to provide services at lower costs” (Greer, Youngblood, & Gray, 1999, p. 88).
Different Studies have mentioned that the cost reduction can play a vital role in outsourcing as well as lack of skills and information but it's not certain that outsourcing could lead to cost saving, firms should put in their consideration as there is a cost of monitoring the performance of the contractors and could lead to being more expensive rather than reducing the overall cost.

2.4 SMEs General Internationalization Challenges

Scholars and researchers identified many challenges that affect the internationalization process of SMEs. Carneiro (2008) confirmed that there are extensive list of challenges that influence internationalization process like SMEs characteristics: size, age, experience, sources & financial resources; managerial characteristics: age, experience and attitude and environmental characteristics: market, technology, competitors, networks, regulation (Moreira, Carneiro, & Selada, 2008).

Hutchnison (2006) also include that age and experience of managers also have a direct impact on the firm’s ability to internationalize (Hutchinson, 2006).

In this study, we will examine the challenges that are observed and adapted from Uppsala model and born global theories. These models help us in better understanding about the basics of internationalization also to answer the first research question. The authors expect to find the following important challenges and barriers in the developing countries. The following figure illustrates these challenges:

Figure 5 Internationalization challenges

Adapted and modified from (Hutchinson, 2006; Cateora & Graham, 1996)

2.4.1 SME characteristics

SME characteristics of internationalization challenges are categorized into three types from literature and the authors have identified other factors.

Age of the SME

Carr (2010) explores that “Firms age to gain experience and build their resources in domestic markets, which can allow them to better handle the shocks created by internationalization” (Carr, Haggard, Hmieseski, & Zahra, 2010, p. 2). Barron (1994) also agrees that firm’s age positively impacts higher survival rates in international
markets because of more developed organizational capabilities and resources of established firms (Barron, West, & Hannan, 1994).

**Size of the SME**

“Firm size has been proposed not only as a factor influencing internationalization but also as a distinguishing factor between internationalized and non-internationalized firms” (Ruzzier, 2014, p. 56). On the other hand, some authors argued that the size affects at the first stage of internationalization only that has no relation with the exportation for an example ‘size of the SME was only important during the first phase of internationalization and would cease to be significant thereafter (Lefebvre, Lefebvre, & Prefontain, 1999).

**Financial resources**

Lack of financial resources may prevent the ability of SMEs to identify the international opportunities also may delay the SMEs process of going abroad to exploit the international markets that they have identified. Smallbone and Wyer (1995) state that the lack of availability of finance can be an important constraint for small firms in trying to develop an international orientation (Smallbone & Wyer, 1995). Failure to expand the business in particular with the international ventures can be linked to an actual lack of money or failure to adequately use the available financial resources (Papulova & Papulova, 2006).

**2.4.2 Managerial characteristics**

According to OECD (2002) report, limited managerial skills and knowledge about internationalization have remained critical constraints to SME internationalization (OECD report, 2008). Many Difficulties arise from limited managerial knowledge which effects directly on SMEs internationalization process. However, there have been diverse definitions of market knowledge. For example Johanson and Vahlne (1977) perspective about market knowledge is, “information about markets, and operations in those markets, which is somehow stored and reasonably retrievable – in the mind of individuals, in computer memories, and in written reports” (Johanson & Vahlne, 1997, p. 26).

Uppsala model also assumes that the lack of market knowledge is an important obstacle to the development of international operations (Johanson & Vahlne, 1997).

In terms of Leonidou (2004), “many SMEs have problems with employees who are required to carry out additional export duties. Human resources issues arise from employee’s lack of specialized knowledge and expertise to deal with such export business tasks. This problem could arise due to inadequate training about export business issues” (Leonidou, 2004, p. 286). But SMEs often cannot afford to hire experienced staff to prepare, equip and manage their international operations. Although they usually need expertise in technical, legal, marketing, e-commerce and supply-chain management to be successful, they cannot afford to get this help (OECD report, 2008, p. 195).

Therefore, the firm with the better financial resources can develop the skills and knowledge of their management team that reflects to the firm in an indirect way. Also
the personal attitude of the managers or the management team and their experience within the small firms are reasons for the SMEs to move internationally.

2.4.3 Environmental characteristics

The process of SMEs internationalization is closely related with environmental characteristics such as Technology, Competitors, Networks and Regulations that consider as external factors that may affect the internationalization process for the SMEs.

Technology

Technological knowledge is knowledge about the technology upon which firms products are developed. Conceptually, international knowledge is broader than technological knowledge. However, Chetty (2012) argued that both types of knowledge are experiential (Hutchings & Chetty, 2012).

In the developing countries increasing technology capabilities are driven for the SMEs to internationalize to know-how in order to gain or to remain a competitive advantage, on the other hand, can be an obstacle or a barrier that may affect the speed of the internationalization process especially in the developing countries. Thus, the technology factor has a negative and positive affect in the internationalization process.

Competition

Kirzner (1997) identifies competition as the dynamic, driving force for discovery in the market process that lead us to the identification of conditions required for entrepreneurial discovery. "Competition is the process through which knowledge is discovered and communicated" (Kirzner, 1997, p. 48).

To compete in the international market, one should have the knowledge-how, many scholars assumed that competition without perfect knowledge is imperfect "competition presents the process through which knowledge is discovered and communicated" (Kirzner, 1997, p. 48).

Networks

From the literature, networks factor may have positive or negative effect concerning with internationalization process. Uzzi (1997 suggested that "when firms rely too much on social networks, it may lead to excessive reliance on the relationship to achieve specific goals. When a firm relies heavily on networks, it loses the competitive advantage" (Uzzi, 1997, p. 57).

Another negative effect of networks is the lack of new information into networks because the ties to the same network partners mean that there are few links to members outside the network who can potentially contribute innovative ideas (Uzzi, 1997, p. 58). But most of the scholars and researchers agreed that business networks have a strong relationship and positively effect on SMEs internationalization process. "The existence of cross-border weak direct or indirect ties can positively and
significantly moderate the speed of venture internationalization” (Oviatt & McDougall, 1994, p. 545).

**Regulations**

In the developing countries, regulation could be a very important factor or one of the barriers that may affect the internationalization process for the SMEs and need to be more flexible. For example, the Indonesian government has continuously reduced trade barriers and created a more transparent trade and investment environment through the deregulation policy in order to increase its international trade (Soesastro, 1989).

Bureaucratic rules and procedures are the other important factor that effect on SMEs internationalization in the developing countries as well as customs fees for export and import. Bureaucratic rules are designed to make it difficult for imports to enter a country. Restrictive administrative instruments may be used to benefit local producers even though they hurt consumers, who are denied access to possibly superior foreign products (Hill, 2007). The other aspects are fees for import certificates or other administrative processing, import taxes, exports and import licenses, other documents, and the physical arrangements for getting the products from the port of entry to the buyer’s location mean additional costs.

**2.4.4 Other Challenges:**

However, our field of study is concentrated in developing countries, therefore we have to reflect on other challenges of developing countries that effect at SMEs internationalization process. For example, the controversial political environment leads to unexpected decline of the business within no time as well as the disadvantages of SMEs from knowledge-how and advanced technology, such as lack of logistics systems and transportation facilities and low product quality which may affect also in pricing exclusively in developing countries.

The financial crisis and the changes of monetary policy play a vital role in the process of internationalization that not only effect SMEs but also multinational corporations (MNCs). The infrastructural challenges, like the transportation, the domestic market and the governmental support are necessary for SMEs to go abroad; the government support should not only rely on loans and direct financing but also encourage investment capabilities and laws.

The geographical location is considered to be great importance for internationalization process especially for importing and exporting procedures as an example with respect to the transportation. The reason behind choosing the market geographical location for internationalization and differences from distant and neighboring countries should be one of the reasons to choose the market entry. SMEs nowadays, change the production lines in other countries that may get a cheap labor cost and others because of the lack of space.
Risk taking is necessary for businesses and risk management requires a specific knowledge; due to the lack of finance especially in the developing countries, the SMEs usually do not have managers with deep knowledge, lack of experience and training about risk management that could be an important factor that effect in the internationalization process. The risk is also associated with the export and import procedures, cost assessment, company strategy and other approaches concerning with SMEs internationalization.

Language and culture are the significant challenge in the internationalization process that create a distance between the home country and the country intend to go internationalize, which influence the choice of entry mode for managers or founders for the SMEs that intend to go international.

_All the above challenges may have an indirect influence on the internationalization process. These challenges are not exclusive in the developing countries; it may play some role in developed countries. We conclude that these factors are very important to understand the practical circumstances also related to the major challenge that are mentioned above effecting internationalization process in developing countries._

### 2.5 General Barriers to SMEs internationalization:

The main barriers to the internationalization process are the decision making concerning the process and planning: the planning and decision making in the internationalization process include both strategic and operational issues. Strategic issues, for example, are the choice of the target market, the branch, target customers, entry modes and timing for entry. Operational decisions concern the operations inside the target market, for example, the product positioning, implementation of the business model, pricing, promotion and choosing the distribution channel (Albaum, Strandskov & Duerr, 2002. p17).

A study of Rundh (2001) illustrates that “the main problems are raised because of the cultural aspect that means the physical distance between two countries with respect to the language and cultural differences represent the biggest barrier to the internationalization process” (Rundh, 2001, p. 323).

O’Cass and Julian (2003) Adapting to foreign market could be a barrier to internationalization that relates to product differentiation usage in foreign markets, the need to modify pricing and promotional policies according to the conditions of the foreign market and the need to adapt products to meet foreign customer preferences (O’Cass & Julian, 2003).

According to the product differentiation usage in different foreign markets, in international marketing, the product has to be adapted to a certain degree to accommodate certain target markets. This process also helps to find out how the product is used in the target markets. If the company does not have information on how differently product is used in the foreign market, the export venture could fail.
Thus, product differentiation could act as a barrier to internationalization (Cateora & Graham, 1996).

### Table 2 Barriers to internationalization of SMEs

<table>
<thead>
<tr>
<th>Barriers To Internationalization</th>
<th>Most Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lack of entrepreneurial, managerial and marketing skills.</td>
<td>↓</td>
</tr>
<tr>
<td>2. Bureaucracy in procedures</td>
<td>↓</td>
</tr>
<tr>
<td>3. Flawed Approach to information and knowledge.</td>
<td>↓</td>
</tr>
<tr>
<td>4. Difficulties in obtaining financial resources /Lack of funds.</td>
<td>↓</td>
</tr>
<tr>
<td>5. Poor Accessibility to investment (Technology equipment and Know-How).</td>
<td>↓</td>
</tr>
<tr>
<td>6. Standardization discrepancies, Lack of Awareness of the importance of the quality.</td>
<td>↓</td>
</tr>
<tr>
<td>7. Differences in the range of product and service use.</td>
<td>↓</td>
</tr>
<tr>
<td>8. Language Barriers and cultural differences.</td>
<td>↓</td>
</tr>
<tr>
<td>9. Risks of selling abroad.</td>
<td>↓</td>
</tr>
<tr>
<td>10. Competition of indigenous companies.</td>
<td>↓</td>
</tr>
<tr>
<td>11. Inappropriate behavior of multinational companies against domestic companies.</td>
<td>↓</td>
</tr>
<tr>
<td>12. Complicated trade documentation including packaging and labeling.</td>
<td>↓</td>
</tr>
</tbody>
</table>

Source: (UNECE report, 2002, p. 6)

Rundh (2001) also mentioned other barriers like insufficient knowledge about the procedures of the internationalization of the international business, low demand in the foreign market, the high cost of transportation as well as competition (Rundh, 2001).

A survey done by the World Bank in the year 2001 stated that regardless of size, country or region the main barriers of doing business are funds, regulation and taxes, policy instability, inflation, exchange rate, corruption, street crime and organized crime (Schiffer & Weder, 2001).

### 2.6 Specific Barriers to SMEs Internationalization:

Internationalization of SMEs has been a subject researched in a very large numbers of views and it can be in many forms across national borders (exporting, international collaboration-joint venture, direct investment, licensing or any other forms). Many scholars have discussed the topic from totally different points of view and found that there’s not one single path for internationalization.

The globalization of large firms and service providers has provided increased opportunities for SMEs to participate in different parts of the value chain of those companies (OECD report, 2008) 2004.
New approaches provide more opportunities for SMEs to go overseas and many factors that enhance the competitiveness of these firms to compete in the international market. Many barriers and challenges still exist like differences in culture, lack of information, lack of skills, lack of networks, language barriers and lack of access to finance apart from market demands.

**High cost of the internationalization process**

According to the European Commission’s (2004), European Network for SME Research (ENSR) survey identified the most frequently cited barrier by SMEs to be the high cost of the internationalization process (European Union, 2003).

**International competition**

Other concepts and real barriers include the high competition from the international market. SMEs can survive and compete in the market also by collaborating with other large or small firms to increase their ability on succeed internationally.

According to OECD (2009) in a report: ‘Removing Barriers to SME Access to International Markets in several respects’ the study suggests that the following challenges that facing SMEs internationalization:

Shortage of working capital to finance exports: “Limitations in finance and related physical resources have continued to be highlighted as a leading barrier to the internationalization of SMEs.”

Inability to contact potential overseas customers the difficulty of gaining access to a suitable distribution channel in international markets” reported by a survey of Swedish exporters by (Rundh, 2007).

Lack of managerial time, skills and knowledge “A study of American and Canadian firms, for example, reported that managerial risk perceptions and lack of knowledge about international markets were major reasons for not engaging in international trade” (UPS, 2007).

During this research study, the authors expect to find a fascinating subject i.e., the authors assume to investigate motives behind challenges and barriers.

**2.7 Solutions**

To help the SME’s in the developing countries in the challenges mentioned above the UNCTAD⁴ suggested that they need a core competence in the following areas: automation, distribution, marketing, credit policy and management.

Automation means the use of advanced technology concerning the internal process as well as in the e-business area. All processes must be reviewed and adjusted to reach high efficiency and cost effectiveness.

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Distribution channels must be structured according to the needs of the customers and must provide access to tailor-made services. The branch network must be differentiated according to customer segmentation. A multi-channel management is needed.

Marketing must be based on an efficient “selling-culture”. Pricing must be in line with the risk structure. Product development especially must take into account the needs of SMEs.

The credit policy of the bank must be supported by credit scoring and rating tools. Retail banks in developing countries must modify those tools in accordance with their environments.

Top management needs a clear vision. In developing countries, the management must have a clear position in terms of the SMEs business and must support this field. It also has to cooperate with the government and the regulatory bodies to improve the situation for SMEs and their business.

“Apart from the literature, there are other challenges and factors that may be included like corruption, government regulations, complicated procedures, economic theories can’t be applied and many challenges. Theories may not lead to practical implications as they are assumed but help a firm to some extent. Aside of all theories and literature, there is a lot unseen or concealed in practical issues like wages, investment, labor etc., especially in the private sector. There is a slight edge cutting difference between the practical and theoretical assumptions.”
3. Methodology

This chapter outlines the research method that has been applied in this thesis and how the research was done, furthermore the process of collecting, organizing and analyzing the data in order to achieve the purpose from this study and explanation why this study is reliable and valid.

3.1 Research approach

There are two different kinds of research approaches: qualitative and quantitative researches. However, the researcher can combine both qualitative and quantitative methods. The differences between the two methods are how to deal with the data analysis, data collection and the research strategy depends on the purpose of the research. “There are differences between quantitative and qualitative research in terms of research strategy, and many researchers and writers on research methodology perceive this to be the case” (Bryman & Bell, 2011, p. 614)

Quantitative researchers approach have always a clear idea about what they are looking for by using statistical methods starts with the collection of data, which based on the hypothesis or theories by using a tool such as a questionnaire or survey to collect the data.

On the other qualitative research can be said to be made up of words rather than numbers and can be generated from variety of different methods including case studies, ethnographies, participant observation, interviews (semi-structured, open), questionnaires (structured or semi structured), focus groups, life/ career histories, discourse analysis and organizational stories (Fisher, 2007, p. 253). Several scholars explored the contrast between qualitative and quantitative researches, for better understanding the table below, summarize the main differences:

Figure 6 Quantitative and qualitative research

<table>
<thead>
<tr>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers</td>
<td>Words</td>
</tr>
<tr>
<td>Point of view of researcher</td>
<td>Points of view of participants</td>
</tr>
<tr>
<td>Researcher distant</td>
<td>Researcher close</td>
</tr>
<tr>
<td>Theory testing</td>
<td>Theory emergent</td>
</tr>
<tr>
<td>Static</td>
<td>Process</td>
</tr>
<tr>
<td>Structured</td>
<td>Unstructured</td>
</tr>
<tr>
<td>Generalization</td>
<td>Contextual understanding</td>
</tr>
<tr>
<td>Hard, reliable data</td>
<td>Rich, deep data</td>
</tr>
<tr>
<td>Macro</td>
<td>Micro</td>
</tr>
<tr>
<td>Behaviour</td>
<td>Meaning</td>
</tr>
<tr>
<td>Artificial settings</td>
<td>Natural settings</td>
</tr>
</tbody>
</table>

Source: (Bryman & Bell, 2011, p. 410)
3.2 Our Approach
There is no bad or good methodology, the choice of methodology is based on the purpose of the particular study and the researcher should take into account of his/her choice. The methodology can be only more or less appropriate under specific conditions of the research in order to reach the goal of the investigation (Hellevik, 1993).

Since the purpose of this thesis is to analyze the challenges and barriers of internationalization process for SMEs in developing countries, we applied qualitative research approach to collect more information and describe the situation in the internationalization process because the qualitative approach is based on documented studies and interviews taking from the real world.

The purpose of a study can be classified into three major categories; they are, exploratory, descriptive and explanatory.

3.2.1 Exploratory
One vital aim of exploratory studies is to gain a better understanding of the problem since very little studies might have been done to comprehend the phenomenon. This study enables researchers to provide an ample view of the problem area. It also helps to suggest direction and feasibility for further research. “Exploratory studies are thus important for obtaining a good grasp of the phenomena of interest and for advancing knowledge through good theory building” (Sekaran, 1992, p. 95). It usually focuses on the ‘what’ not the ‘why’ questions.

3.2.2 Descriptive
Descriptive studies are often assumed in order to describe and learn about the characteristics of a certain group in organizations. The goal of a descriptive study is to describe relevant aspects of the phenomenon of interest (Sekaran, 1992). It often focuses on ‘how’ and ‘who’ questions.

3.2.3 Explanatory
Based on previous theories and knowledge an explanatory study is undertaken in order to explain the patterns related to the phenomenon of interest and to answer the research questions (Yin, 2003). The explanatory research uses theory and often focuses on ‘why’ questions.

3.3 Research Strategy
Saunders (2011) defined research strategy as “the general plan of how the researcher will go about answering the research questions” (Saunders, 2011, p. 600). According to Yin (2003), there are different research strategies from which the researcher may select: experiments, surveys, archival analysis, history and case studies. Each of the different strategies has advantages, disadvantages and different ways of collecting and analyzing data based on the following conditions according to (Yin, 2003):

The type of research questions posed.

The extent of control an investigator has over actual behavioral events.

The degree of focus on contemporary over opposed to historical events.
The above table illustrates the different aspects of research strategies.

To fulfill the purpose of the study, we found that this research attempt to adopt the case study research strategy as the suitable strategy to fulfill our research purpose.

3.4 Case Study
According to Yin (2003), "case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context" (Yin, 2003, p. 13).

In addition, the case study will always show different peculiarities and characteristics (Yin, 2003). If a study contains more than a single case then a multiple-case study is required. Yin (2003) describes "how multiple case studies can be used to either, predicts similar results (a literal replication) or predicts contrasting results but for predictable reasons (a theoretical replication)” (Yin, 2003, p. 47). Authors motive to choose multiple case studies is to emphasize wide knowledge about the comparison between literature and the practical aspects.

“If you are doing multiple case study research, you are likely to find that you will need some structure in order to ensure cross-case comparability” (Bryman & Bell, 2011, p. 473). Thus, this paper observes three case studies; it is obvious to choose the above strategies i.e., within the case and cross-case analysis to acquire and compare more data to answer our research questions. According to Yin (2003), findings are likely more concentrated in cross-case analysis than in single case (Yin, 2003).

3.5 Data collection
It is important to choose the suitable data collection method in order to enable us to answer our research questions. Mainly data can be divided into primary and secondary data. Primary data is collected through observations, interviews and secondary data has been collected and reviewed (Lewis, 2003).

One of the most important sources of case study information is the interview, which may take several types. According to (Fisher, 2007), there are three types of
interviews, which can be open, pre-coded and semi-structured. The first one: interview held as an informal conversation is called as an open interview. In contrast, the second one: as pre-coded interview questions are defined in advance and the process is flowing according to plan with a degree of control. And the third one semi-structured is a mixture of the above two patterns mentioned.

Our primary data collection approach in this thesis is semi-structured interviews while the secondary data was based on information deducted from annual reports, journals and publications. Therefore we have interviewed three SMEs, two of them have already internationalized and the other one meditates to going international. All questions were open and the conversation was a semi-informal way via phone calls, email and Skype, which allows us to gather much information's in order to understand and analyze the internationalization process in a practical way for SMEs with regard to the theoretical concepts that we have discussed.

### 3.6 Sample selection
We chose to perform our study on the companies TEC Co, Adroit Guide and LMC Co, last two of them are consulting companies. The selected companies for this study were based on following criteria:

- All the three companies are from developing countries.
- Small or Medium sized companies.
- Diverse Selection (Two companies are internationalized and one company in pre-internationalization stage).

The first criteria we set up were that the thesis is based in the developing countries. We also believe that it will be easy to get permission to contact these companies since the authors are from developing countries and have the experience in these industries. There are a variety of companies, that why we chose two companies that are internationalized to acquire more data and one is in the pre-internationalization process to understand pre-internationalized aspects.

In order to give the reader point of view of the interviews, we used online websites and social networking sites for the basic overview of the companies. Authors performed the interviews with the CEO of Adroit Guide (Case 1), Mr. Rajender Naware (Raj) through phone and video calls. For Adroit guide, the interviews have been shorter as the company wants to internationalize and still under process. For Case 2 Company, we performed the interviews with Mr. MA, the owner and director of TEC through phone interviews. The backgrounds are to be explained by authors intentionally in order to make the reader understand the overview how the companies choose the new market.

| Table 4 Companies and Respondents information |
|-----------------|-----------------|-----------------|
| **Case 1** | **Case 2** | **Case 3** |
| **Company Names** | Adroit Guide | TEC Co | LMC Co |
| **Name of** | Mr. Rajender | Mr. MA | Mr. Dirar |
The respondents and the companies’ information are illustrated above. We contacted the companies: Adroit Guide, TEC Co, and LMC Co through phone/emails/video calls. The authors have a good relationship with the CEO and directors of the three companies. Also, it is important to interview the right people who have the central position in the company to avoid the risk of lack of knowledge.

### 3.7 Reliability & validity

One of the basic principles when conducting research is the validity and reliability. According to Bryman & Bell (2011), the validity is the most important criterion of research. According to Carlson (1988), high validity depends on how appropriate is a method chosen. Reliability means that if someone will repeat the same research he gets the same result. Reliability and validity were highly taken into account; both primary and secondary data were collected in academic research approach. This study is in qualitative approach and the interviews are based on an individual conception but it’s hard to guarantee our findings, results and suggestions are right and can be applied to every firm. However in the qualitative researches the term reliability has not been so important as in a quantitative research (Seale, Gobo, Gubrium, & Silverman, 2004).

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Naware</th>
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<tbody>
<tr>
<td><strong>Respondent Position</strong></td>
<td>CEO</td>
</tr>
<tr>
<td><strong>Type of Firm</strong></td>
<td>Consulting</td>
</tr>
<tr>
<td><strong>Year of establishment</strong></td>
<td>2007</td>
</tr>
<tr>
<td><strong>Number of years Internationalization</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Position in the domestic market before internationalization</strong></td>
<td>Strong domestic focus through agents and collaborations.</td>
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The respondents and the companies’ information are illustrated above. We contacted the companies: Adroit Guide, TEC Co, and LMC Co through phone/emails/video calls. The authors have a good relationship with the CEO and directors of the three companies. Also, it is important to interview the right people who have the central position in the company to avoid the risk of lack of knowledge.

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4. Empirical Findings Three case Studies

4.1 Overview

This chapter outlines the findings from the interviews conducted with three companies through phone interviews in order to answer our research questions. The interviewees were asked questions concerning with the firm experience in the local and international market, how the entry mode, characteristics of internationalization process as well motives, challenges and barriers. Starting with a short introduction to the company’s background followed to the findings with respect to the semi-structured interviews.

4.2 Background of case companies

In this section, authors introduce the general background of case companies such as company profile, owner’s or manager’s profiles, products and services, markets, customers and business activities. The authors also applied these basic data to analyze the empirical findings along with interview guide.

4.3 Case 1 'Adroit Guide'

Adroit Guide, founded in 2007 located in Hyderabad, India, is an International Student Recruitment Organization that assists students in pursuing the overseas education in universities in Sweden, France, Finland, Norway, Denmark, Ireland, Germany and the some of the European Union countries. Exclusively targeting Sweden as the business revenue since 2011 (Sweden introduced tuition fees in 2011).

4.3.1 Company Background:

Adroit Guide is growing firm which specializes in tailoring career pathways towards quality education and assisting each individual with the best options and guidance to suit individual profiles within the constraints that may prevail in each case. Adroit Guide collaborated with many agents all over the domestic region with a strong base with required training and updated information is provided to the agents and employees. The organization is collaborated internationally especially in Sweden stepping forward and made a decision to go international in 2012 signing five new projects exclusively in Sweden.

The vision of the organization is to give good quality services like training and guiding the students accurately. The strategy applied to reach the vision is made up through gaining trust, loyalty and focus on the key customers. A trustworthy relationship is maintained not only with the customers but also with the sub-agents and Swedish organizations.

Adroit Guide is an owner-managed company with the experienced CEO controlling all the operations with 100% ownership. The CEO of the company has good knowledge and the loopholes about the business unit with extensive experience as worked successfully in different positions in different companies in India that enabled him to become successful in the domestic market and also in the collaborations with international projects.
Management changed at times with respect to the growth of the company primarily making an attempt to expand the business by targeting international geographical region in Africa and Asia like Malaysia, Pakistan, Indonesia, Sudan, Bangladesh, Sri Lanka, and Ghana etc. The organization first made an attempt for knowledge acquisition by visiting different parts of the world to recognize the standards of the domestic markets and the targeting groups.

4.3.2 Motives for Internationalization

For the service-oriented company like Adroit Guide, the main motive for internationalization is ‘to do something new and challenging’. The director of the company inputs his opinion that motive to go international is his personal choice to be passionate doing something innovative and more challenging. Though, it is the main reason, besides he also considers other reasons for internationalization.

Other motives for internationalization are ‘competitors.’ To overcome competitive pressure and sustain in the market to provide good quality services, internationalizing is an outstanding step.

“One of the main reason to go international is the demand in India is high with many agencies competing in the market. We solved this issue in the domestic market by collaborating with agents to work as sub-agents with our company; encourage them with a commission; furthermore, taking a step forward to go abroad and build an exclusive agency that makes us control the market internationally and be the leader agency.”

In the above activities, the company will have profits in the domestic market as well as international market alternatively the company can withstand the growth and development in both the markets. The company also has services that are unique when compared with other company.

Apart from the above reasons, the company undergoes other benefits like economy sales when entering foreign markets. Though there are many challenges that are to be faced by the company when entering new markets first, there are also advantages of gaining trust with the customers. Thus results in gaining trustworthy customers in the future who rely on the services by the company.

The CEO of the company Mr. Raj also says,

“Having extensive knowledge about geographical location will become an opportunity to enter foreign markets. Our organization has extensive knowledge about EU countries especially Sweden. This is our personal and professional motive to enter new foreign markets”

In addition to the above he also stated that, as the company’s business unit is unique introducing a new concept of internationalization in EU, Africa and Asian countries, the company must take a step forward to implement into new foreign market initially. So, that the company can be excluded by immediate competition.
By innovating a new strategy with different ideas that benefit the company, customers, agents and also the internationally collaborated organizations will always be an added advantage personally and professionally.

“When an idea is generated with a business strategy that benefits good revenue to everyone in the business sector linked internally should not wait for the time to implement.”

When there is demand for services or when there is a lack of services with respect to any kind of reasons in the foreign market, the company has an opportunity to enter the foreign market as a first attempt that should not be ignored. Any company should grab such opportunity irrespective of the consequences to be faced in future. This step going international will become the first step for knowledge acquisition with a great enthusiastic organizational culture that leads to unbelievable and unexpected profits sometimes.

One of the motives to go abroad is also to collaborate with other institutions and organizations (exclusively) that allow our customers leads to internship, jobs and other services after they finish the study. Thus, making the customers choose the company efficiently.

4.3.3 Entry modes & Barriers to entering the market

Throughout the discussion, while interviewing about barriers and entry modes, authors adapted few important statements and comments from the CEO Mr. Raj. First and foremost is the capital that matters a lot while planning to enter new foreign markets. Capital investment differs from domestic market to foreign markets especially when entering for the first time. It is better to wait for the right time to enter foreign markets but not too late that the company loses the opportunity. Furthermore, collaborations play a vital role as entry modes because collaborating with the local markets makes the company not only perform its task efficiently but also save the time. Or the other way is to franchise which the easy way avoiding risk taking and cost effective. But trustworthy natives are hard to find. So, we chose to use the collaborations with the Swedish Universities and the company simultaneously collaborated with agents internationally from different parts of the world. To perform such multi-tasking, the management should make a partnership with existing staff that is knowledgeable about the present strategies of the company with experienced foreign markets.

Whilst, the interview continued with a series of questions about barriers to entering foreign market, the opinion that revealed is

“Culture aspects could be a barrier when entering new markets. Culture always matters a lot; there is a culture change from one country to another; a service-oriented company like us should always take this aspect into consideration to build the business in a pleasant way with no obstacles; the management should be responsible for gentle concerns.”

At times decision-making plays a major role in the new foreign markets. Especially when management has to be chosen in the new foreign markets. Regarding decision-making, Mr. Raj CEO says that
“As the owner of the company, making decisions are critical that involves everything such as to choose market, management, collaborations and staff etc. For me, a trustworthy management and partnership matter a lot. Because if we fail to make worthy decisions, we lack in revenue growth.”

One of the obstacles is customer

“There are many awkward losses like effecting revenue, growth, uncertain market entry modes etc. if we don’t have enough knowledge in this competitive world, we cannot withstand competitors in the updating world.”

Lacks of entrepreneurial, managerial and marketing skills are important barriers when entering foreign markets.

“Finding customers in the internationalization process. The important entity to be considered is finding customers at the right place and choosing the geographical location.”

4.3.4 Challenges to internationalization faced by the first company

The entry strategy for international markets is a comprehensive plan. It sets forth the objectives, goals, resources, and policies that will guide a company’s international business operations over a future period long enough to achieve sustainable growth in world markets. Compared with domestic operations, international expansion requires employees to process more complex information and utilize new knowledge. An interview query about knowledge and its importance resulted in this response

“Always internationalization of the business should be established with good experience and knowledge. Not having enough knowledge when entering new foreign markets results in many awkward losses like effecting revenue, growth, uncertain market entry modes etc. if we don’t have enough knowledge in this competitive world, we cannot withstand competitors in the updating world.”

Furthermore, Mr. Raj also clarifies if the owner of the organization does not have sufficient information in his business unit, he should not go international. If the organization still goes international markets, it will end up in great losses. The head of the company should at least have informative management in the international market that leads to positive or manageable results. To avoid such losses it is better to have knowledge acquisition as a challenge before entering new markets.

In this fast revising world, competition is measured as the important challenge and it is a tactful task to overcome especially in the type of business. During the conversation

“Challenge is not the competitors but the challenge is fulfilling customer requirements. If targeting customer group are satisfied gaining trust with the updating Different cultural and social sensitivities should be well established. It is just part of our marketers need to piece together. But targeting customers on a global scale also requires a deep understanding of how industries, geography and demographics will affect.”
Start-up teams will have a stronger impact on networks related to their firms. As ‘owners and managers’, the start-up team members of a new venture have greater legitimacy in the decision-making process. Thus, their social networks may greatly influence their new venture’s strategic outcomes. Performance in international operations is reflected by how effectively networks overcome in an organization. Firms may have to develop their international operations gradually over time because they lack sufficient knowledge about foreign market conditions.

“In my opinion, networks are good relationships and very important for expanding business in other countries. It is a great opportunity to learn something new about their local market that helps us to reach heights. Also, good relationships with someone who is already in the foreign market will help to how to invest; where to invest; what are the results of the investments; governmental policies; tax information; benefits of doing business in that geographical location.

My business friends in foreign countries helped to collaborate with other organizations at the same time I gained information about procedures and policies. Though it also depends on true networks”

Financial performance is one of the biggest challenges. There are many aspects that effect due to the lack of traditional financial performance measures. Financial challenges include management, capital, licensing and trading etc. any firm should who is planning internationalization have the economic growth, profit, losses with alternative ideas and options for future.

“The economic picture of different countries has to be factored into campaigns. Finance is a risk-taking topic when it comes to SMEs. This issue is always an uncertain topic because of the political environment, sometimes there can be sudden changes in the governmental policies that affect many businesses.”

“Finally, global marketing directors must take into account the relative growth positions and potentials for multiple markets. Right time, right step and right decision will gain good profits and revenue for the company while going international.”

4.4 Case 2 ‘TEC Co.’
TEC is a multi-activity well-established company Founded in 2011, Located in Khartoum-Sudan that provides power solution (Power Generators, Control panels, Automatic transfer switches ATS and Uninterruptible Power Supply UPS) as well as after sales for spare parts and services around all Sudan, Eritrea and Ethiopia.

4.4.1 Company Background:
TEC reached an agreement with a reputable OEM (original equipment manufacturer) and assembly facilities in United Arab Emirates UAE for the supply of an excellent Gensets with original European Standards components and original spare parts.

TEC vision is to earn the trust and credibility of their customer through advanced and reliable products and services and to be one of the main power generators providers in Sudan and Africa.
The strategy of the company is to assist the customer in finding scientific cost effective solutions to their power generating problems and provide excellent products, presales and aftersales services that satisfy customer requirements and needs. To build a brand where mutual trust and confidence are the dominant factors.

The company stepped forward to build many facilities with a large warehouse in Khartoum-Sudan and another one in the free zone for exporting facilities to the neighbor countries for a more convenient approach. In addition, the company has many teams for Gensets installations, maintenance, projects and solutions with all logistic facilities.

Though the company is already internationalized to the foreign markets like Ethiopia and Eritrea, the company is currently investigating opportunities in the west of Africa to implement their strategy.

The company was completely owned by Mr. MA at the time of establishment but due to many reasons that are discussed later, the owner had to give partnership of 30% to someone in UAE.

The director of the company has extensive knowledge and experience in Mechanical Engineering, as he is a student from Chalmers’s University, Sweden, and business management courses in USA. Also, his experience as sales area manager in LG\(^5\), PERKINS\(^6\) and CAT\(^7\), Sudan and Eritrea added advantage for his business concept.

4.4.2 Motives for Internationalization

In prior to the motives for internationalization, the authors would like to go back to the director as the area sales manager, he had a very good knowledge about the domestic markets and networks that are the reason he made an attempt to start his own company.

After his success in the domestic market, he acquired great opportunities with the need of developing market of electricity field in these countries. His desire to internationalization is supported by many internal and external reasons that made him decide to go abroad, after the inflation in Sudan and the economic situation declined due to the American sanction-embargo on the country.

The first choice of international market destination for the company was Eritrea and Ethiopia, today the company investigate and found more opportunities in the west of Africa. The company resulted in a good demand to export his products to these countries, as he is the first and exclusively offered by this company.

For Mr. MA, besides the importance of having business knowledge, it is also important to have perceptive sales personal skills by visiting the customers and able to see the potential business opportunities. According to him.

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\(^5\) World's leading multi activity company  
\(^6\) Leading Providers of Diesel and Gas Engines- UK  
\(^7\) Leading Manufacturer of Construction, heavy equipment and Diesel Engines- USA
“At the beginning of the establishment it was only me who visiting the customers personally to do the daily job, it was not hard because I used to do this in my previous job and the experience helped me.”

Another motivation that Mr. MA explains ‘hiring the right people is also an indirect motivation’ for TEC. It is important to have a good sales team who understand your vision. He also mentioned that he tried to enhance the environment in TEC with no bureaucracy as in the multinational companies. With no bureaucracy, organization culture is pretty comfortable for the employees that result in efficient outcomes and motives to grow more resulting in going international.

Additional driving force for going international is the drive to make money, the profits from selling the products and services works as motives in the international business. The company has good key potential customers signing long-term agreements LTA’s with some customers. The company is following the strategy of focusing on the existing customers who are profitable for the company aligned with searching for new customers.

“In the domestic market, our strategy was pampering the customers, we divided the customers into sectors (individuals, oil & gas, telecom...etc.), and so by this, every sales representatives will focus in his area and take care of all the customers.”

As mentioned before Mr. MA was working as an area sales manager. In this company that he was working before is the exclusive dealer in Sudan and Eretria for PERKINS products, so he already has enough knowledge about the market in Eretria with the extensive network there, thus resulting in one of the motives for him to go international.

Eretria is one of the developing countries where there is a requirement for electricity, Mr. MA was responsible for the main power stations in his previous job, it was the first destination for TEC. As he mentioned he found an opportunity because PERKINS is expensive British brand and customers do not value the quality of the products despite the cost, they need something cheap with medium quality. Therefore, he started importing the same assembled British Gensets and engines but from UAE with less cost of manufacturing and logistics. Later decided to import Chinese brands from UAE, which is cheaper, and thereafter import directly from china.

Ethiopia is the second destination for Mr. MA, According to the World Bank, Ethiopia is among the five fastest growing economies in the world. After a decade of continuous expansion (during which real GDP growth averaged 10.8% per annum). He found a huge demand with a lot of direct inquires has been the largest motivation to go international.

Mr. MA says he has been very lucky since Ethiopia Government applied many policies in a proper time for him, Ethiopia government encouraging private sector investments for both (domestic & foreign). The government has developed a range of incentives for investors such as One hundred 100% exemption from the payment of import customs duties and other taxes levied on imports, Exemption from Payment of Export Customs Duties and a lot of other incentives. As he explains:
Ethiopia was a turning point for TEC, very good environment for investment even the government encouraging re-exporting which solves me a lot of obstacles according to the foreign exchange rate.

4.4.3 Entry Mode & Barriers to entering the market

When choosing new markets it’s important for the company to look at the existing markets and size. Mr. MA explains that at that time the size of TEC is not that much big and he was Targeting Eretria market only.

“My idea at the beginning to establish the company in Eretria for Gensets services and maintenance only because there is a lack at that field but the luck plays a big role. After the sanction-embargo on Sudan and the separation between Sudan & South Sudan, the economic situation declined, inflation as well as restricted policies for the foreign exchange rates. So it's very hard to go international at that time specifically. On the other hand, CAT Company owned PERKINS and becomes an American company, which is forbidden to export in Sudan. I took the opportunity to expand the business domestically by importing the same specification of the engines and alternators but assembled in the UAE.”

After stability in the domestic market, TEC uses their own sales representatives and service teams to enter Eretria market upon requests only. Since Mr. MA has good networks and customers from his previous business trips, TEC stepped forward and signed many service contracts for monthly visits.

“I decided to open a small Retail Shop for the spare parts and service teams only, but I saw an opportunity to sell the Genstes nevertheless still exporting from Sudan, high Standards brands and high prices was a huge barriers as well as there has been a pressure on work between the two countries especially for the maintenance teams.”

Finally, TEC entered the market through a joint venture with one of the businessmen there who are already a friend to Mr. MA. His strategy comes from the company objectives and its shown in their business approach. According to Mr. MA, there is a risk of selling abroad and uncertainty. Larger the company is more able to take the risk.

“I knew that the prices will be high but I took the risk, the business in Sudan was good and to be honest I didn't care for the profit at that stage, I have a partner in the UAE and one more now, so in the worst cases, the lost will be affordable. My idea was just to expand. I wanted to try..!!”

For Eretria market Mr. MA explains that you will find barriers and challenges in any businesses especially in developing countries you can’t expect what will happen tomorrow, regulations and policies can change within no time. In addition, because of his knowledge about the market in the host country and networks he faced barriers as expected.

One of the problems when entering a new market is to find 'the Right one' to work with. The partner is a well-known businessman in the host country and he has good local networks, which helped him in the establishment of the company, and the
governmental procedures that are unfortunately major barrier in the developing countries without cronyism.

Regarding the culture difference, which is an important factor that may affect internationalization process, Mr. MA explains that Eretria is a neighbor country to Sudan, little bit difference in culture but overall it’s the same.

One of the main barriers was the lack of financial resources, any small enterprise the company size is small and the lack of finance can be an important constraint for small firms when trying to develop an international orientation and expand. Mr. MA explains:

“When I established the business in Sudan my idea in the beginning was concentrating on spare parts and services only. As I mentioned before and I was owning the company 100% but later I gave 30% for the partnership in the UAE to expand my business domestically and to sell the Gensets in both countries.”

Another barrier was the accessibility to technology; Mr. MA explains that Eretria was declared independence in 1993. Earlier was permitted to place international calls and to access the Internet, it’s the least technology-connected country on earth but now it's much better.

“I faced many barriers regarding technology, internet, emails, documents related to logistic works...etc. as well as sometimes we need special tools for overhauling works for the engines.”

The second destination for TEC was Ethiopia, one of the fastest growing economies in the world. Previously, Ethiopia and Eretria was one country, there is a social and cultural overlaps as well as they are neighboring countries to Sudan. All the circumstances were good to enter Ethiopia market.

The Eritrean partner plays a vital role through his networks in Ethiopia; TEC received many inquiries from Ethiopia for small Gensets and engines as Mr. MA explains.

“We received some inquiries from Ethiopia with the help of my partner, at that time Ethiopia government applied many policies to attract the investors with many facilities, I mentioned before as one of the motives to enter the market.”

According to Mr. MA, since TEC is a small sized company the choice of entry mode to Ethiopia market was the simple entry mode: Joint venture. It is the easy way to engage in the international business; sharing all the expenses and the investments. TEC is responsible for the finance; products; technology; local partner provide the knowledge to manage the business.

“Although the facilities are provided by the Ethiopian Government for the investors, but the partner should be Ethiopian. To be honest I was upset at first and preferred to enter through wholly owned subsidiary but this is the conditions of the country.”

According to Mr. MA, the main barrier when entering Ethiopia market was the product differentiation between Gensets ranges. In Ethiopia they need different sizes of
Gensets not like in Eretria with only one size Gensets is required that results in more importation and more need of finance.

Another barrier was the competitions in the international market, due to the facilities provided, many international investors working in the country have some sort of competition.

Generally, the respondent did not mention many entry barriers

“Entry barriers are not too restrictive in Ethiopia as compared to other countries like Eretria and even Sudan.”

This may be attributed to the knowledge of the director as he got more knowledge about the internationalization process from his previous experience (Eretria) or the good investment facilities provided by the Ethiopian government.

4.4.4 Challenges to Internationalization faced by the Case Company

In this part, the authors according to the semi-structured interview discuss the challenges faced by the company. Mr. MA explains several challenges from TEC Company that is recognized during their business activities. These include challenges faced in both domestic and foreign markets.

Further on, he explains that one of the main challenges in the domestic market was the financial crisis and separation between Sudan and south Sudan, as mentioned before Sudan government applied many restrictions and regulations for the international activities related to imports and exports. Furthermore, the restricted policies of the foreign exchange rate.

“I experienced a loss of growth due to inflation and instability in the foreign exchange rate.”

The biggest challenge at the beginning TEC Company has faced related to the products and the inappropriate behavior of multinational companies against domestic companies. The Company had a lot of harassment from the main distributor company regarding the Gensets brand and that’s why the company began to focus in the after sales services.

Another challenge TEC Company faces is the company size and lack of finance in the domestic and international market. Its profits are decreasing in order to compete in the market and increasing the overhead costs for the indirect purchasing from UAE instead of the U.K. Also considering that the cash flow of the company is spread between Sudan, Eretria and Ethiopia.

TEC Company has chosen low physical distance countries to export to. It has chosen indirect exporting but still the transportation, customs regulations taxes and lack of governmental incentives especially in Sudan were big challenges for the company.

The main problem when entering new market according to Mr. MA is to find people you can work with and their knowledge about the company products. He explains another challenge for TEC that is the lack of service teams which causing more effort and fatigue for the engineers and technicians.
“I tried to use local technicians but the lack of engineering knowledge; how they use the special tools was a challenge which compelled me to send them to Sudan; the UAE for training which cost the company more money and even time. It’s hard for the new employees to understand how to get success in business with the company vision and mission.”

Nowadays Ethiopia Government spending billions of dollars to build a Dam at 6,000 MW, the dam will be the largest hydroelectric power plant in Africa when completed, as well the 11th largest in the world. When being asked whether TEC will influence by this issue in the future Mr. MA answered:

“The Dam currently under construction, according to the Ethiopian government it will be completed in 2017 and this the real and unexpected challenge for TEC now, as of my expectations there will be a decrease in demand on the Gensets. I am thinking to move to the mining sector in Ethiopia besides that moving forward and investigate more opportunities in the west of Africa.”

4.5 Case 3 'LMC Co.'
LMC Co. founded in 2005 headquartered in Oman with Subsidiaries in Sudan and Tanzania. The company having over 10 years’ experience in Sudan and the Middle East, LM major disciplines are projects management consultancy, risk management service from tailoring methodologies to coaching, mentoring and training staff.

4.5.1 Company Background:

The company is well established that has a range of clients covers both private and public sector from such diverse segments in IT, banking and financial Services, oil & energy, automotive, manufacturing, construction, consultancy, pharmaceuticals, aviation, computing, engineering, research and retail.

Furthermore, LMC Management Consultancy provides PRINCE2 courses in association with CUPE International Limited UK and has the exclusive right for training courses and exams as well as Pizza 360 Project Management Simulation Workshop-A Challenging Project Management Game for Project Managers & Project Team Members

The company started a consult services in Oman focusing in Gulf Area for consultancy service management, over time and after the financial crisis in 2008 and the global recession LMC moved to Sudan, developed from purely being a consultant to training services in Sudan and expanded more to Tanzania.

The director of the company Mr. Dirar has a background in mechanical engineering with extensive knowledge, experience in business and management, as he is a student from London school of business and finance, UK. His experience as Project engineer in Oil and Gas field also the consultant in the Middle East is an added advantage for his business concept.
LMC Management Consultancy approach is to assist in tailoring customers project management, tailoring the Project Management training which can be extremely cost effective and always assures competencies, develop templates and guidelines specific to customers organization’s needs to make the learning usable.

LMC Management Consultancy main products are offering two Project Management Office (PMO) services – PMO Set-Up and PMO Re-engineering. These services help clients to establish and enhance the PMO function at various levels within their organization depending on client requirements.

4.5.2 Motives for Internationalization

At this part of the interview, authors enquired the respondent the reasons why the company decided to internationalize. Mr. Dirar emphasized the main reason is to get additional profits like many other SMEs. In addition, he also stated– after the financial crisis in 2008, the global recession, which affected gulf region that led to stopping projects that resulted in deciding to go abroad.

He also talked about the positive features such as the ability to get more potential customers and receive additional profits from international activities. Besides that, the firm gets an international experience.

Mr. Dirar continued that the desire could also be one of the motives. When he was studying in London, he gained valuable experience in business management, marketing planning, business strategy and other management fields and there are good opportunities in the developing countries to expand in that field.

“I always wanted to be a businessman more than a technical engineer, today’s organizations search for innovative solutions to meet specific and one-off needs. Sometimes, existing solutions do not meet their requirements and need tailor-made development. Therefore it is important to use this opportunity in order to grow and take market shares in new and existing markets.”

Moreover, Mr. Dirar illustrated when LMC decided to move to Sudan, at that time until 2008 Sudan’s economy boomed on the back of increases in oil production and large inflows of foreign direct investment as well as many projects which motive LMC to go abroad for more expansion and to gain more profit.

In addition to that, he also stated that after Sudan subsidiary, LMC consider the appropriate countries to expand more; the second destination was Tanzania the second largest economy in the East African Community the government encourage both foreign and domestic private investment, as well as the country is politically stable and internally peaceful compared to other African countries.

Taking into considerations, Mr. Dirar has networks in the UK and good knowledge about the domestic market, which is one of the motives that made him an attempt to start his own business and to expand.

“I built extensive networks while I was studying in the UK that helped me in establishing the business to expand.”
4.5.3 Entry Mode & Barriers to entering the market

Mr. Dirar expressed us that the firm established a complete new subsidiary when entering Sudan market; he wholly controls the subsidiary. The reason why such entry mode has been used: his decent knowledge and networks about the host country; another reason is that the company would like to retain a full control and ownership of the Prince2 agency.

“LMC strategy to enter Sudan market by opening wholly owned subsidiary which lets the company do business in our own way.”

Tanzania market is different; the respondent has an insufficient knowledge about the market in Tanzania. Furthermore, this kind of business depends on networks and marketing. Therefore the second entry mode was through a joint venture with one of the mates while studying in London.

On the contrary in terms of establishing a new subsidiary in another country with limited knowledge about the host country and definitely, there are certain risks in terms of full ownership. So LMC decided that partnership is the better choice since the partner knows the country culture and also minimize the risk as well as cost.

In terms of providing us with the barriers faced by the company, Mr. Dirar explains that governmental barriers are one of the barriers in Sudan. The attitudes of the government towards the SMEs are a complicated requirement, taxes and many other restrictions. Furthermore, the bureaucracy and the procedures in both countries are a complicated as well as the sanction embargo and the inflation in Sudan.

“Because LMC was registered in Oman—more documents are required, the government should be supportive instead of obstacles. The government doesn’t stop promising about the facilities and concessions but unfortunately it's stated in the papers only... practically zero.”

In addition, he also stated that LMC faced a lot of harassments from the British council-Sudan office as the main center for PRINCE2 exams, LMC also has the license for the PRINCE2 which wasted a lot of time in courts.

He continued, the inappropriate behavior of multinational companies and big agents against small companies is one of the main barriers in the developing countries. They should be supportive especially for these kinds of business which related to education and training instead of obstacles.

According to the culture difference, when LMC expanded to Tanzania, the language was not a barrier because English was the second language but there is a difference in culture and the general attitude. The most important factor is LMC has a close relationship with the partner, which has a sufficient knowledge about the market and the culture.

Mr. Dirar concluded this part of the interview by explaining in this kind of consultancy business you do not expect many barriers, this kind of business doesn’t require huge capital. Unfortunately compared to the gulf region, there are many barriers in the developing countries that SMEs faced.
4.5.4 Challenges to Internationalization faced by the Case Company

When entering a new market, always hire people who have knowledge and expertise in the field or at least who have worked before, Mr. Dirar explained at this part of the interview about the challenges that LMC faced.

One of the main challenges: the lack of human capital or the lack of people with the right skills and knowledge. This may become a serious challenge to the international expansion capabilities of the firm.

“I wanted fresh and special employees where I can train; school them about LMC vision and mission though it doesn’t work especially for internationalization purpose because we need expertise.”

Mr. Dirar explains another challenge, LMC Sudan is totally owned by the owner and director Mr. Dirar but LMC Tanzania is a joint venture as mentioned before. If one and only the partner controls the activities in the international market, it may lead to losing the market opportunities, company goals and this is one of the partnership disadvantages.

“I was busy between Gulf and Sudan market; I left everything under the partner control. He wanted to add many activities but LMC is designed for projects management only.”

Furthermore, Mr. Dirar explains, due to the political instability situation in Sudan, many customers from the non-government organization NGO’s expelled out of Sudan by the Sudanese government that causes LMC in heavy losses at that sector of customers.

According to Mr. Dirar, another challenge regarding the license registration for the PRINCE2, it took a long time to obtain license registration with a lot of procedures for business start-ups as well as the uncertainty in the general procedures.

4.6 Synthesis of empirical Findings

In this part, authors present the main results of the empirical findings summarized in three parts: motives for internationalization, Entry Mode & Barriers to enter the market and challenges followed by a table in order to help the readers to understand the empirical findings easily.

Motives for internationalization: In regards to motives and reasons for internationalization, the three company owners have a great influence in SMEs internationalization to go abroad since they are the ones who decided entering the foreign markets. We agreed that the three-company owner’s saw an opportunity to expand and take the risk.

The political situation and instability in the domestic market at some extent function as a reason or motive to go international for case-2 and case-3. On the other hand, in the 1st company case, the competition in the domestic market could be a motive to internationalize.
Entry Mode & Barriers entering the market: When it comes to the entry mode there are differences between the three companies that we have interviewed as this could be attributed to their different strategies when entering the market.

The barriers could be same for case-2 and case-3 companies internationalized to developing countries but for the case-1 company, barriers are totally different when entering developed country.

Table 5 Synthesis of empirical findings

<table>
<thead>
<tr>
<th></th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International markets</strong></td>
<td>Planning to go international to countries from Asia and Africa like Indonesia, Sudan, Malaysia, Bangladesh, Pakistan etc.</td>
<td>2 countries-Ethiopia and Eretria.</td>
<td>Tanzania, Oman and Gulf area.</td>
</tr>
<tr>
<td><strong>Entry Mode Type</strong></td>
<td>Out sourcing and own subsidiary (in process).</td>
<td>Joint venture.</td>
<td>Own subsidiary and joint venture.</td>
</tr>
<tr>
<td><strong>Main Motives for internationalization</strong></td>
<td>Managerial urge and competition in domestic market.</td>
<td>Managerial urge, make profit, government encouragement, physical distance, instability in the domestic market due to political situation.</td>
<td>Make profits, recession, managerial urge, government encouragement and instability in the domestic market due to political situation.</td>
</tr>
<tr>
<td><strong>Main Barriers</strong></td>
<td>Finding customers, lack of entrepreneurial and marketing skills, taxes and risk taking.</td>
<td>Lack of funds, instability in domestic market, product differentiation, bureaucracy and lack of governmental incentives.</td>
<td>Insufficient knowledge, risk of selling abroad, governmental barriers, bureaucracy in the procedures, harassment from multinational companies and cultural barriers.</td>
</tr>
<tr>
<td><strong>Main Challenges</strong></td>
<td>Managerial skills,</td>
<td>Competition in the</td>
<td>Lack of human</td>
</tr>
<tr>
<td>Challenges and Barriers</td>
<td>Knowledge Acquisition, Customer Requirements, Cultural Aspects, Capital Investment and Networks</td>
<td>International Market, Technology, Inflation, Political Situation, Transportation, Taxes and Custom Regulations, Finding Right Employees and Unexpected Challenges</td>
<td>Capital, Inappropriate Behavior of Multinational Companies, Partnership Challenges, Political Situation and Legal Procedures</td>
</tr>
</tbody>
</table>

The above table illustrates the important aspects and a brief overview of all the three cases as our empirical findings.

**Challenges to Internationalization:** There are several different challenges especially for case-2 and case-3 companies since the companies entered developing foreign markets, bureaucracy is one of the main challenges added to that corruption, high tariffs, instability in the market, political situation are also considered.

For the case-1, the cultural aspects and networks are the main challenges since the company internationalization strategy from developing to developed country.
5. Analysis

5.1 Overview

This chapter includes analysis of empirical findings collected from three case study interviews. The authors present within-case analysis in the light of literature review and continued with cross-case analysis in order to compare the data between the three companies to simplify for the reader to get the full picture.

5.2 Case Analysis ‘Adroit Guide’

With the help of within case analysis, we performed interviews to acquire more knowledge about individual cases. Here we analyze reasons to go international in Case 1 Company.

5.2.1 Entry modes & barriers entering the market- Case 1

Ekeledo & Sivakumar (2004) and Couturier & Davide (2010) agreed that finding the right market and selecting the right mode of entry are critical and strategic decisions for company management (Ekeledo & Sivakumar, 2004; Couturier & Davide, 2010). Adroit Guide chooses Foreign Direct Investment (FDI) entry mode. It is one of the best ways of entering a foreign market; the importance of FDI is increasing. Firms are always in search of profits but also contain long-term relationships and management of activities in future that has risks with the management of resources. The company is planning to establish an own subsidiary in Sweden that builds good networks in Sweden and also neighboring countries.

Adroit Guide followed dual entry modes FDI and outsourcing resembling to Greer, Youngblood & Gray (1999), “The expectation that outsourcing will cut costs is consistent with the strategic management view of competitive resource allocation. This perspective holds that all activities unrelated to strategic core competencies should be outsourced since economies of scale allow specialized vendors to provide services at lower costs” (Greer, Youngblood, & Gray, 1999, p. 88). Adroit Guide followed this concept and outsourced in different parts of the world especially in Asian and African countries like Indonesia, Pakistan, Malaysia, Bangladesh, Sudan, Ghana and Nigeria. The company built agents in these countries in order to accomplish the understanding of domestic culture in different parts of the world.

According to the internationalization barriers, main barriers are the culture difference from the domestic to international market; the company “Adroit guide” should always take this aspect into consideration referring to Schiffer & Weder.

Regardless of size, country or region the main barriers of doing business are funds, regulation and taxes, policy instability, inflation, exchange rate, corruption, street crime and organized crime (Schiffer & Weder, 2001). For a company like Adroit Guide, taxes and governmental regulations are also the barriers when moving from developing to developed countries especially in Sweden where the taxes are high. Empirical findings of the company also overviewed about finding customers as a barrier. For a service-oriented company like Adroit Guide, there are chances of losing customers in the domestic market when going international.
The author’s opinion with respect to empirical findings, international collaboration-joint ventures and direct investment are highly risk taking barriers because it is sometimes hard for the company to maintain a good relationship with the networks while aiming long term goals and profits. In addition first-to-market especially in service sector gain competitive advantage through controlling the market and the resources for the company. Also, Adroit Guide will have a good reputation to become a leader in the market by building customer relationship and customer loyalty.

5.2.2 Challenges to internationalization- Case1
The literature states that many challenges that affect the internationalization process for the SMEs, Moreira, Carneiro, & Selada (2008) confirmed that there are list of challenges: (size, age, experience, sources & financial resources), managerial characteristics (age, experience and attitude) and environmental characteristics (market, technology, competitors, networks, regulation) (Moreira, Carneiro, & Selada, 2008).

According to the empirical findings, the main challenges for the company ‘Adroit Guide’ are managerial skills, knowledge acquisition, customer requirements, capital investment and networks. OECD (2008) report stated that many Difficulties arise from limited managerial knowledge which effect directly on SMEs internationalization process (OECD report, 2008). The CEO of the company has good managerial skills and extensive market knowledge about the domestic markets and awareness about the international market but practically internationalization process for the company is the main challenge.

Another factor i.e. network, may have positive or negative effects concerning with internationalization process. Uzzi (1997) suggested that firms relying on social networks lead to excessive reliance on the relationship as well lack of new information into networks (Uzzi, 1997). As mentioned by the CEO, the company has good networks through collaborations in the Asian and African market and also with the Swedish institutions that help the company to establish an own subsidiary in Sweden directing the challenge to build networks in the neighboring countries.

Lack of the financial resources is one of the main challenges for the firms that go international. ‘Adroit Guide’ is a small sized company with limited financial resources, which is a major challenge for the company like many SMEs in the developing and even developed countries. Smallbone and Wyer (1995) also agreed that Lack of financial resources may prevent the ability of SMEs to identify the international opportunities also may delay the SMEs process of going abroad to exploit the international markets that they have identified (Smallbone & Wyer, 1995). Adroit Guide needs a capital to establish an own subsidiary in the Swedish market. Government regulations in the developed countries related to the financial capabilities; employees; other expenses are also considered as the main challenges for the company in the future.

5.3 Within Case Analysis ‘TEC Company’
With the help of within case analysis, we performed interviews to acquire more knowledge about individual cases. Here we analyze reasons to go international in Case2 Company.
5.3.1 Entry modes & barriers entering the market- Case 2
Choosing the right entry mode strategy might be far-reaching consequences on the future performance and survival of the firm (Ekeledo & Sivakumar, 2004). TEC entered the first destination Eritrea and the second destination Ethiopia through a joint venture; it is the easy way to engage in the international business where TEC can share all the expenses, revenues and investment to minimize the risks.

TEC adapted born global internationalization process to enter into foreign markets. Most born-global firms expand internationally through exports by engaging in direct international sales or leveraging the resources of independent intermediaries located abroad. More experienced born-global firms appear to adopt additional strategies, such as joint ventures and foreign direct investment (Cavusgil & Knight, 2009).

Joint Ventures can be seen as successful entry mode, particularly for small medium sized companies with limited knowledge about the new foreign market. Ethiopian government forced the investors to enter the market with respect to the joint venture. This aspect can be termed as an advantage to the company since TEC is a small sized company with limited financial capabilities. Hence, TEC following born global in terms of joint venture help the company to share the expenses to minimize the risk with the foreign partner.

According to the OECD (2009) report, ‘Removing Barriers to SME Access to International Markets in several respects’ listed a study suggests that “Limitations in finance and related physical resources have continued to be highlighted as a leading barrier to the internationalization of SMEs” (OECD report, 2008). Since TEC as a small sized company, lack of finance is the major barrier. Hence, the director of the company decided to offer 30% share to the partner in the UAE to fund the company to sell the product.

Also, Sudan sanction- embargo and the separation between Sudan and South Sudan, the economic situation declined, corruption, inflation as well as restricted policies for the foreign exchange rates. These aspects are considered as additional barriers caused by the wrong political government decisions. These aspects mentioned above also resulted as other barrier ‘bureaucracy’. Bureaucratic rules are designed to make it difficult for imports to enter a country. TEC experienced barrier like importation and exportation from country to country due to bureaucratic procedures.

According to the product differentiation usage in different foreign markets, in international marketing, the product has to be adapted to a certain degree to accommodate certain target markets. This process also helps to find out how the product is used in the target markets (Cateora & Graham, 1996). Products and services play a vital role in a small sized company like TEC during the internationalization process. There is products and service differentiation when going international to Ethiopia. The company used to sell small size Genset products in Eritrea whilst different ranges and sizes of Gensets are required in Ethiopia that results in more importation and more need of finance.

5.3.2 Challenges to internationalization- Case2
Kirzner (1997) identifies “Competition is the process through which knowledge is
discovered and communicated” (Kirzner, 1997, p. 48). “It is particularly necessary for SMEs in developing countries to internationalize, due to the increasing competitive pressure and reduction of the direct subsidies and protection they used to receive from their governments” (Etemad, 2004). Due to the facilities provided by the Ethiopian government to the investors, many international investors are able to work in the country. So that TEC has some sort of competition.

In the developing countries, increasing the technology capabilities are driven for the SMEs to internationalize to know-how in order to gain or to remain a competitive advantage (Hutchings & Chetty, 2012) argues that Technological knowledge is knowledge about the technology upon which firm’s products are developed. TEC faces many challenges regarding infrastructure mainly and with respect to the technology as Eritrea declared independence in 1993 and considered as the least technological connected country on earth, and the company experiences challenges regarding technology, internet, emails, documents related to logistic works even the transportation facilities. Furthermore, the technology-know-how for the technicians regarding the tools for the service works as the respondent mentioned. Though there are few disadvantages, some of the technology advantages are procurement, warehousing and financing systems etc.

According to the respondent, the main problem when entering a new market is to find people we can work with and their knowledge about the company products. TEC face another challenge due to lack of service teams that causing more effort and fatigue for the engineers and technicians. Because of the lack of professional skills of people in the foreign market, the company needs to hire employees from other countries. This problem could arise due to inadequate training about export business issues (Leonidou, 2004). But SMEs often cannot afford to hire experienced staff to prepare, equip and manage their international operations due to lack of finance.

5.4 Within Case Analysis ‘LMC Co’

With the help of within case analysis, we performed interviews to acquire more knowledge about individual cases. Here we analyze reasons to go international in Case3 Company.

5.4.1 Entry modes & barriers entering the market- Case 3

LMC Company enters the foreign market by two means of the own subsidiary in Sudan market and a joint venture in Tanzania. Couturier & Davide (2010) argued that finding the right market and selecting the right mode of entry are critical and strategic decisions for company management (Couturier & Davide, 2010).

LMC established a complete new subsidiary when entering Sudan market because of the decent knowledge of the owner and his useful networks about the host country as well as to get a full control and ownership of PRINCE 2 agency. It is one of the best ways of entering a foreign market; the importance of FDI is increasing. Firms are always in search of a profitable area for investment and provides with an opportunity to analyze the foreign market situation, systems, etc.

For Tanzania market, it was different while LMC entered through joint venture due to the lack of knowledge about the foreign market moreover, to avoid the risk in terms of full ownership. According to Kirby & Kaiser (2003), Joint Ventures can be seen as
successful entry mode, particularly for small medium sized companies with limited knowledge about the new foreign market (Kirby & Kaiser, 2003).

Referring to Table no. 3, the inadequate behaviors of multinational companies against domestic SMEs are one of the barriers to LMC. LMC faced a lot of harassments from the multinational companies in Sudan regarding the license of the PRINCE2. In the developing countries, unfortunately, the multinational companies and large agents always owned by people who have the power, this is one of the main barriers common in the developing countries. They should be supportive instead of criticizing the SMEs or working as sub-contractor for the multinational companies.

In addition, the culture difference when LMC expanded to Tanzania according to the respondent, there is a difference in culture and the general attitudes. This is one of the reasons for LMC to enter a foreign market (Tanzania). A study of Rundh (2001) shows that main barriers are raised because of the cultural aspect (Rundh, 2001). That means the physical distance between two countries with respect to the language and cultural differences represents the biggest barrier to the internationalization process. It is of crucial importance when a company wishes to expand into a new foreign market, as it relates to the cultural differences and settings, to use various tools to overcome the problems.

When LMC has established a new subsidiary with limited knowledge about the foreign market, there is a certain risk in terms of full ownership even LMC’s entering its second destination through joint venture became the barriers to the company. Foreign risk and control over the foreign markets need to be included in the business model of the firms that internationalize. The firm can retain the control over the foreign venture through incremental behavior and moderately grow its knowledge to perform business in different foreign entry markets (Johanson & Vahlne, 1997).

Rundh (2001) illustrate that main problems are raised because of the cultural aspect. That means the physical distance between two countries with respect to the language and cultural differences represents the biggest barrier to the internationalization process. It is of crucial importance when a company wishes to expand into a new foreign market, as it relates to the cultural differences and settings, to use various tools to overcome the problems (Rundh, 2001). Liesch & Knight (1999) agreed that many barriers and challenges still exist like differences in culture (Liesch & Knight, 1999). When LMC expanded to Tanzania, the language was not a barrier because English was the second language but there is a difference in culture and the general attitude and that’s why they entered Tanzania market through partnership in order to avoid this barrier as the foreign partner has sufficient knowledge of the market. In order to know the market better, LMC partner can better negotiate with the customers due to the knowledge of the language and culture of the local market, which can help of reducing the risks and uncertainty of that foreign market.

5.4.2 Challenges to internationalization- Case3

The respondent explained one of the main challenges for LMC is the lack of human capital or the lack of people with the right skills and knowledge. This may become a major challenge to the international expansion capabilities of the firm. The director’s
vision is to hire fresh employees with less cost; so that he can train; school them about LMC vision and mission, however, it doesn’t work for internationalization purpose.

According to OECD report (2008), limited managerial skills and knowledge about internationalization have remained critical constraints to SME internationalization (OECD report, 2008). The authors think that hiring the experienced people is the better option for SMEs when going international, especially in the first stage of internalization and after the firm saturated in the market then fresh people can be employed.

Another challenge for LMC regarding the partnership challenges, According to the literature Kirby & Kaiser (2003) mentioned that Joint Ventures could be seen as successful entry mode, particularly for small medium sized companies with limited knowledge about the new foreign market (Kirby & Kaiser, 2003). Steier, (2001) stress that one of the threats associated with Joint Venture is the lack of control (Steier, 2001). One of the partner or firms manages their way and do not continue cooperation in the joint venture due to lack of control that results in the partner to be a competitor.

It’s a real challenge for SMEs to some extend it’s related to the SME financial capabilities when hiring the people who have the experience. Be linked to an actual lack of money or failure to adequately use the available financial resources, (Papulova & Papulova, 2006).

Other challenges that LMC face regarding the licensing procedures is considered to be one important challenge in the developing countries, as well as the bureaucratic procedures, are also a complicated requirement, taxes and many other restrictions. Hill (2007) mentioned that exports and import licenses, other documents, and the physical arrangements for getting the products from the port of entry to the buyer’s location mean additional costs (Hill, 2007). Authors argued that all these aspects due to the instability in the political situation of the host and the foreign country, which in turn reasons for inflation, economic decline and more restrictions.

5.4 Cross-Case Analysis
In this section, a cross-case analysis is structured to compare three case studies regarding motives, barriers and challenges for the SMEs internationalization process; illustrated in a table and a brief discussion in order to give the reader better understanding of the case studies.

5.4.1 Cross-Case Analysis- Entry modes and Barriers entering the market
The choice of selecting a geographical location to internationalize is not an easy decision because it effects the growth of the company. Here, considering case1, as there is a diverse geographical destination, there is high risk taking process when compared to case2 and case3 that chose neighboring countries to internationalize. Whereas, in case2, as the company is already internationalized with the same culture and geographical location: finding the right market is not a barrier. But case3 have sufficient knowledge about Tanzania market but in practical, the company could not find right employees at the first stage of internationalization.
Table 6 Cross-Case analysis- Entry mode and barriers

<table>
<thead>
<tr>
<th>Literature</th>
<th>Case1- Adroit Guide</th>
<th>Case2- TEC Co</th>
<th>Case3- LMC Co</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entry mode</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out sourcing and own subsidiary (in process)</td>
<td>Joint venture.</td>
<td>Own subsidiary and joint venture.</td>
<td></td>
</tr>
<tr>
<td><strong>Barriers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finding the right market</td>
<td>Yes, to some extent</td>
<td>No</td>
<td>Uncertain</td>
</tr>
<tr>
<td>Finding customers</td>
<td>Yes, to some extent</td>
<td>No</td>
<td>Yes, to some extent</td>
</tr>
<tr>
<td>Lack of entrepreneurial and marketing skills</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Taxes &amp; Government regulations</td>
<td>Yes (taxes)/ No (Government regulations)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Risk of selling abroad</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>No</td>
<td>Very high</td>
<td>Very high</td>
</tr>
<tr>
<td>Product Differentiation</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Inadequate behavior from multinational companies</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Culture difference and language barrier</td>
<td>Yes</td>
<td>No</td>
<td>Yes, to some extent</td>
</tr>
</tbody>
</table>

Obviously, both entry modes have its advantages and disadvantages from the practical point of view. Thus an author next question is— reveal of the good and bad things, the main benefit according to Mr. Dirar is that this entry mode allows retaining the greatest amount of control and ownership. Moreover, the firm can expect a higher profit by using particular entry mode.
Direct or indirect exporting is the main entry mode applied by the three case studies, Case1 wanted to establish their own subsidiary like case3 entry mode in Sudan market, for case2 as mention before, born global concept is adapted by the company to enter the international markets directly after establishment through joint-venture.

The above examples show how the companies choose their entry mode according to their need, their strategy that is suitable to the company goals. The first destination considers as an important step for the SMEs in order to get more experience and expand more worldwide. The above table shows main barriers generated from the empirical findings, barriers mentioned should be considered by SMEs in their internationalization process carefully in order to overcome them.

Success in business depends on the right customers, regarding finding the customers: for case 2 company it's not a barrier as the company director is already working in the field and has customers already. Furthermore, the company received direct inquiries from his second destination, which helped him to expand.

For case1 and case3 companies, we agreed that there is a barrier regarding finding the customers. Although Case1 Company already collaborated with Swedish institutions and other agents in Asia in order to take a step and go international, but according to the respondent the barrier is how to find the customer in the other markets besides Asian and African markets. On the other hand Case3 Company, we agreed that they took the inappropriate step by hiring inexperienced people with less marketing and selling skills, which affected in finding the right customers.

Lack of entrepreneurial and marketing skills is not a barrier for all the three case Companies as the CEO's of the companies have good knowledge and experienced businessmen with good entrepreneurial and managerial skills.

Regarding the taxes and bureaucracy, case2 and case 3 companies agreed that it’s a major barrier especially in the developing countries with no clear policy about the taxation and regulation policies as well as bureaucracy in procedures regarding importation, exportation and other procedures, case1 also agreed that the tax is the main barrier for the company especially when the company is going to developed countries where taxes are high but with fair governmental regulations.

Products differentiation could be a barrier for some SMEs, for example, case 2 TEC Company selling specific Gensets ranges to Eretria market when the company expanded to Ethiopia market, there is a market demand for different sizes of Gensets, which means more importation for the company and more capital is required. So diversity of products could be a solution but depends on company financial capabilities and the demand of the market. Case1 and case3 do not consider as a barrier due to their business type.

The respondents of all the three companies agreed that risk of selling abroad is a barrier when going international. It’s highly important for the SMEs especially in the developing countries while the firm size is small with limited financial capabilities, so spreading the risk between the host and the foreign markets is an advantage but on the other hand, it has a disadvantage for the companies can lose the control and suffer loses. In case1, the risk is higher as the company is internationalizing from
developing to the developed country with a diverse environment compared to case2 and case3 where there is a manageable risk.

Inadequate behavior from multinational companies: both case2&3 mentions that harassment from the large firms is a barrier for them. On the other hand, case1 is planning to go to the developed countries with less or zero expectation for this barrier.

Culture difference and language are considered as important barriers to Case1 Company. Since the company is going to a diverse geographical location from different parts of the market. Whereas, culture difference is not a barrier for Case2 because the company internationalized to neighboring countries and Case3 there is a slight culture difference there is a diverse geographical destination though negligible.

5.4.2 Cross-Case Analysis- Challenges to Internationalization
When comes to challenges, to some extent we can observe similar challenges between the three companies. We agreed that firm size is one of the major challenges and have a significant impact on the SMEs especially in the developing countries. The managerial characteristics include the managerial skills for the owners of the three companies and their knowledge acquisitions about the foreign markets considered as an important aspect affecting internationalization process for the SMEs. The three companies have good managerial skills and sufficient knowledge about the international markets especially for case 1 and case 2 companies.

Table 7 Cross- Case analysis- Challenges

<table>
<thead>
<tr>
<th>Literature</th>
<th>Case1 ‘Adroit Guide’</th>
<th>Case2 TEC Co</th>
<th>Case3 LMC Co</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of the SME</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Managerial Characteristics</td>
<td>No</td>
<td>No</td>
<td>Uncertain</td>
</tr>
<tr>
<td>Lack of the financial resources</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Competition</td>
<td>Yes, in the domestic market</td>
<td>Yes, to some extent</td>
<td>N/A</td>
</tr>
<tr>
<td>Technology</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Networks</td>
<td>Yes, To some Extent</td>
<td>No</td>
<td>Uncertain</td>
</tr>
<tr>
<td>Government Regulations</td>
<td>No</td>
<td>Yes, High</td>
<td>Yes High</td>
</tr>
</tbody>
</table>

The lack of financial resources for Case1 and Case2 is a challenge like many other firms in the developing countries, for LMC company case, the type of company business as consulting service doesn't require a huge capital to expand in the foreign
markets.

Competition as a challenge, authors agreed that Case1 Company has a high competition in the domestic market and that could be one of the motives for the company to go international, Case2 Company has a competition in the international market due to the encouragement of the Ethiopian government for the investors. Case3 Company has no competition due to their business type as mentioned by the respondent.

Networks considered as an important aspect of the internationalization process for the SMEs, Since Case1 Company already collaborated and have good networks and relations in the foreign market, could be an important challenge for them to expand in the European markets regardless to Sweden. In Case 2 Company, because the director of the company is experienced in the market, TEC Company built good networks in order to expand. Case3 Company networks aspect is uncertain, the director of LMC has a good network as mentioned in Tanzania market but from the empirical findings, it could be an assumption that the relationship in the networks is more personal than the business network.

One of the major challenges is the government regulations, Case1 Company could be a good advantage for the company as internationalize to developed countries with clear government and investments regulation. Case2 and Case3 studies government regulation are major challenges; regulation can be changed within no time in the developing countries affecting the business in no time. Unfortunately, there are no clear policies about the regulation, importation, exportation, logistics etc.

5.5 Synthesis of Analysis
On the basis of the analysis mentioned, Authors presents the summary of the analysis in order to simplify for the reader to understand analysis of the empirical findings. Authors collect barriers and challenges from the analysis described in the figure below.
Authors assume that the Barriers are at the micro level and the challenges are at macro level. In the above figure, at a minor level, barriers are considered as lack of entrepreneurial and marketing skills, finding the right market, finding the customers, culture difference, product differentiation, inadequate behavior from MNCs, Bureaucracy in procedures. At a major level, challenges are considered as Governmental regulations, networks, lack of financial resources, managerial characteristics, size of SMEs, technology and competition.
6. Conclusion and Implications

In this final chapter, authors’ highlight the principal results obtained from this study and provide overall conclusions according to the literature and findings of the previous chapters to answer the research questions. Furthermore, followed to implications suggestions and for further research based on the significance of the findings and conclusion.

6.1 Discussion

The research purpose of this study has been formulated to describe the challenges and barriers that SMEs face in developing countries when going international and analyze the impact of motives over barriers to SMEs to enter new markets. The findings from the empirical data and analysis will be discussed to answer the research questions:

Many theories have been developed to provide immense knowledge about internationalization process to SME firms. We performed this studies to analyze whether these theories could be a practical phenomenon. All the theories and models developed by researches are the fundamental stages of internationalization. In practical, in-depth knowledge and practical aspects are different from the theory when a firm entering into the foreign market.

In Chapter 2, authors presented a broad overview of internationalization theories focusing primarily two models: Uppsala Internationalization process; Born Global firms. Though scholars and researches update these models over time, they do not experiment in practical. Most of the owners and CEO’s of the SMEs do not study these models in particular when going international. But at times, the owners accidentally follow these theories; sometimes combine more than one theory to achieve success in international markets.

A clear observation needs to be focused on chapter 4: empirical findings in order to dig deeper for further understanding and experimenting the SMEs internationalization process. Author’s point of view, there is a relationship in between the three companies with respect to motives; challenges and barriers interrelated with each other.

The conclusions for the research questions are further discussed below.

6.2 Conclusion regarding the Research Question

RQ: What are the challenges and barriers faced by SMEs from developing countries when they go international?

SMEs have to face many challenges during the internationalization process from developing countries. Referring to the chapter 2.4.1, there are several internationalization challenges: SME characteristics; Managerial characteristics; Environmental characteristics mentioned by several scholars and researchers. From the study, authors contribute analyzing other challenges in internationalization
process from the case studies and empirical findings. With respect to the empirical findings from the three cases, these challenges are categorized gradually descending structure from the cross-case analysis.

Thus, the main challenges are as follows, Taxes and Governmental policies; Bureaucracy; Partnership. We expect to see the barriers: Inadequate behavior of MNC’s; Culture and language differences.

In this study, we expect to see these three main challenges and barriers between developing and developed countries responding to the empirical findings and literature are ‘taxes and government policies,’ ‘bureaucracy’ and ‘partnership.’ These challenges are highly possible in developing countries but negligible in developed countries.

Whereas, ‘inadequate behavior of MNC’s’ and ‘culture and language differences’ are highly possible barriers in developed countries but negligible in developing countries ongoing international with a huge geographical distance.

As the result, we learned that barriers could be different according to the company’s business activity. As a justification for response to cross-case analysis, case2 and case3 companies chose to internationalize to developing countries but case 1 company chose to internationalize to developed country. Additionally, service-oriented companies like case1 and case3, barriers differ compared to the technology-based company like case1. The effect of barriers is diverse at times: barriers considered at the first stage of internationalization process need not be a barrier forever.

Irrespective of barriers and challenges, motives are the main cause SMEs tend to go international and ready to face any kind of challenges and barriers.

The present study explains that one of the motives for SMEs internationalization process is the managerial urge, authors observed that all the three directors of the three companies from the case studies have managerial urge to go international and their desire to make profits and growth for their companies led them to take a step further.

Our study concludes that the government encouragement and tax benefits have a great impact on imports and serve as motives for the companies, the SMEs in developing countries experiences a lack of government encouragement. For example, the Ethiopian government has a different view with contrast to the lack of government encouragement. Thus developing countries can adapt this concept to avoid losses.

The conclusions are the foreign market opportunity resides in demand for the products. This could be the motive for the directors of the SMEs; direct and indirect inquiries from the foreign market as in case 2 have a high influence on SMEs internationalization process.

We analyzed that motives have an impact on some of the barriers; for example, some crisis in developing countries tends the managers to go international. In some
cases managerial urge is a desire to go international at the same it is also considered as a barrier when they lack in managerial skills. The discouragement and wrong policies from the government are the main challenges that result as a motive for the managers to invest in other countries. Moreover, when the competition is high in the domestic market could also be a reason to find another market. According to our study, we assume that there is a relation between the three aspects mentioned.

6.3 Conclusion for the study

Internationalization process for the SMEs is a crucial face that indulges in considering many facets. It is uncertain to judge company’s position: like in case3, a company may not be a success with good managerial skills of the director. Although, it is always important to consider the type of entry mode for the SME when going international, constantly the right entry mode decides the future of the business personally and professionally.

Literature and empirical findings agreed that finding customers and finding the right market is a barrier for the companies when going international. Our opinion when the company decides to go international should consider: how to find the customers and the right market in their strategy before going international. Furthermore, we think it is a need for the company to plan ahead more than a barrier.

Thus, concluding the above figure. According to the three case studies, the above
aspects could affect the SMEs while going international. These are the practical issues but we cannot generalize these are the only motives, challenges and barriers to the SMEs in developing countries. As a result of our study, we expect to see there is a relation between Challenges, barriers and motives.

‘Managerial urge’ is a motive for all the three companies to go international as well as a challenge. For case2 and case3 companies taxes and government policies are the main motives to go international on the other hand these two aspects are characterized as challenges. ‘Foreign market opportunities’ are a motive for all the cases also ‘finding new markets’ and ‘finding new customers’ are barriers.

Motives could be a barrier, eg: the managerial urge is one of the reasons for SMEs; simultaneously it will result at barrier similar to Case3. Moreover, if barriers are not controlled in time they could become challenges in future. ‘Finding new markets’ and ‘finding new customers’ are the barriers if not controlled in time these barriers will become challenges. Likewise, some challenges and barriers face by SMEs in the domestic could be motive to go international.

6.4 Managerial Implications
Managerial implications should be considered in the framework of the current research perspective. Managers and policy makers can adopt mentioned managerial implications. The managers of SMEs are advised to consider gradual internationalization process. They should study the pros and cons of the international activities before engaging in the process. With respect to the first research stream, the managers should consider their Networks. Also, it is advised to follow the traditional ways of exploration and exploitation in internationalization opportunities as basic criteria.

The domestic market will no longer be sufficient to support business growth, at this stage need to adopt a diverse way of internationalization to achieve sustainable growth. This study provides valuable practical experiences and guidelines for the business practitioners. The result of this study suggests the firms obtain knowledge about risks (challenges/ barriers) during internationalization process.

Therefore, business managers should be aware of the established learning patterns in SMEs internationalization and improve new knowledge to promote business growth.

Our finding on the SME internationalization suggests the business managers about the challenges and barriers forehead before going international. This study also explores that without relevant skill and capabilities, firms may get trapped at the initial stages and end up in a failure.

Managerial skills and knowledge are not sufficient for doing business. Managers should imply their critical knowledge to plan and decide internationalization process. Barriers need to be taken into consideration, if the firm lowered or uncontrolled barriers they results in challenges.

The SMEs, especially in the developing countries, may request some help from the consulting business agents that have enough business knowledge who can provide
best results and guide or at least offer other alternative suggestions.

Firms need to have the long-term goal to sustain in the international market. To enrich this goal, the firm needs to have strong networks in the international market. The owners and managers to avoid future competition should perceive an intended partnership relation in foreign networks.

The governments in the developing economies should set applicable policies to support the SMEs by providing the loans with fewer interest rates and profits. Apart from that, there is a real need of academic attention by the government to the universities; educational institution and the research centers need a strategic planning in order to implement academic researches to encourage the SMEs in different business activities.

6.5 Theoretical Implications
According to the purpose of this study, we have focused on SMEs challenges; barriers when going international; the motives to enter new markets; how they choose the entry mode. In order to achieve our purpose, we explored the SMEs internationalization process in developing countries as well general barriers and challenges that are affecting the internationalization process. This thesis contributes providing literature and empirical investigation; as to some extent, we think that there is a relation between motives, challenges and barriers. Besides, there is not much literature on the relation between these aspects. So we hope that this thesis could be contributed to theory as a base from which further studies can be performed.

6.6 Suggestion for future research/ Limitations

Considerable efforts have been made to ensure the accuracy of the data collection and the robustness of the empirical tests. Nevertheless, there are a few limitations that are worthy to be mentioned.

Moreover, SME internationalization related to challenges/ barriers theories are immense and the prospective mechanisms affecting the internationalization performance relationship are extensive, this thesis could only capture a few most prominent and significant perspective that has been widely reviewed or accepted in the literature. The studies and theories employed in this thesis serve the overall purpose of the research design well. Nevertheless, discussion of theoretical framework choice could be everlasting if one considers the complexity of SME internationalization process and its consequences especially related to motives. Further research can include the effect of these challenges/ barriers and their mechanisms.

Instead of surveys, we rely on personal interviews in this thesis. Lack of survey data means that research design is restricted to specific topics. Therefore, further research could be combined with surveys, financial data, interviews and feedbacks.

The acquired empirical findings could be compared and further the performance of the firms could be tested in future studies. It would be rather interesting to test these theories into practice.
It would also be an interesting study to deal with technological/ non-technological/ environmental and other challenges and barriers for a successful internationalization process.

This study can be considered to explore internationalization process of SMEs. We focus on dig deeper in the motives, barriers and challenges for SMEs when going international. We suggest the further studies can be applied on MNCs instead of SMEs or how to overcome these challenges and barriers. Moreover, this study can be led to further challenges and barriers after internationalization process to withstand and compete in the market.

Moreover, theoretical implications should be implied and researched about the relation theories and practical controversies. Fundamental theories need to be improved with the subject to the relation between motives, challenges and barriers. According to our findings, the managerial urge is one of the major reasons to go international but it may not result in success in some cases. This can be proceeding to further research implications.
References


SMEs Internationalization from Developing Countries- Challenges and Barriers


Mekki has Bsc in electrical engineering almost 7 years experience in electro-mechanic industry with strong background in project Management. Being naturally sociable person has helped him to develop several skills. He is enthusiastic and excited to start his own business.

Kalyani is simple, a fun loving woman passionate to learn new expertise. Enthusiastic to do things in a smart way. Having an experience in business since several years especially in service-oriented industry and is a frequent traveller on business trips with knowledge.