

SMES ON THE PATH TO INTERNATIONALIZATION: CHALLENGES, RESOLUTIONS AND LESSONS LEARNED

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ABSTRACT

This study explores the challenges, resolutions and lessons learned by SME exporters as they internationalize. The project uses a ‘critical incident’ to explore the firm’s challenges. Respondents are asked to “tell the story” of the ‘critical incident’, its nature and consequences. SME exporters faced issues such as country differences, general business risk, logistics, documentation product quality, product operation and customer training. The research methodology provides both limitations and benefits. While this type of analysis suits small sample sizes, generalizability of the findings is limited due to the small sample. The benefit of the methodology is an in-depth understanding of the challenges faced by SME exporters.

INTRODUCTION

This study extends work by Scharf, Bell, Loane and Downey [1] that examined the challenges faced by small and medium size enterprises (SMEs) during internationalization, which used a qualitative methodology as means for extracting a rich understanding from managerial experiences. Using a sample from the USA, we found that SME exporters today face many of the same challenges as those noted in earlier studies, such as country differences, distribution, agents, local representation and general business risk.

LITERATURE REVIEW

Various researchers have investigated the problems facing exporting firms. Among these were lack of finances, foreign government restrictions, inadequate knowledge of foreign sales practices, inadequate distribution, lack of foreign market contacts, identifying overseas opportunities, export documentation, start-up costs, representation, servicing foreign markets, differences in consumers and standards, securing payment, and costs [2] [3].

Scharf et al [1] used this prior work as a foundation to developing a rich understanding of the experiences of SME exporters. Their results indicated that finding suitable intermediaries, distribution, product adaptation and finance issues were prominent issues encountered by SME exporters. They also noted problems due to outsourcing and sub-contracting components and finished goods. This study extends the methodology and understanding to other locations in an effort to uncover similarities, differences and greater understanding.

THE COUNTRY CONTEXT

In this study we looked at the exporting experiences of SMEs in the state of Idaho, USA. Idaho's exports increased nearly 30% from 1998 to 2003 from US\$1.5 billion to US\$2.1 billion. In 2003, the top export products included high technology products (64%), food and agriculture (16%), and wood and building materials (7%) [4]. Much of this growth is made up of SME exporters that provide products and services to these industries.

METHODOLOGY

The central research methodology for the project uses a qualitative approach involving the in-depth investigation of a 'critical incident.' The incident explored is the firm's "worst nightmare" or "biggest challenge" in conducting international business. Respondents are asked to "tell the story" of the 'critical incident', its nature and consequences [5]. This approach provides context for the challenges encountered and a greater understanding of the specific nature of the problems faced by the managers [6] [7] [8].

Research Sample

We interviewed sixteen managers from sixteen companies that were active exporters. The companies in the sample had mean annual sales of US\$4,568,571 with an export ratio (international export sales / total sales) of 32%. The mean number of employees was 99 persons. The mean age of the companies was 24 years with a mean of 13 years international experience. There was an even split between agriculture and technology industries represented. In terms of export destinations, Asia was the most common destination (44%), followed Europe (19%), North America (19%), Africa (13%) and South America (6%).

FINDINGS

From the interviews, we compiled three sets of issues related to SME exporters: the critical challenges faced by the firms, the resolutions to the challenges and the lessons learned from these experiences. These issues are discussed below.

Critical challenges. Dealing with country differences accounted for the largest set (31%) of challenges for the SME exporters in the sample. The second largest group of challenges (19%) addressed general business risks. Logistical challenges accounted for 13% of the critical challenges noted by the SME exporter firms. Documentation was another challenging issue for 13% of the SME exporters in the sample. The quality of products shipped abroad was a challenge for 13% of the sample firms. Customer training for product operation was another challenge for 13% of the sample.

Resolving the challenges. The SME exporter firms in our sample found a variety of ways to resolve the challenges faced. These involved accepting a monetary loss, writing off delinquent accounts, hiring a local debt collection agent, dismantling and reassembling machinery, spending time and money to get products out of customs, hiring a more responsive local agent, working through customs documentation, and asking the customer for assistance in completing documents in French. In other situations, firms repaired and replaced products and shipments and developed training courses for their client's employees on the proper operation of the equipment.

Lessons learned. In reflecting on what they learned in resolving the critical challenges faced, the firms were generally positive. The lesson learned included: “Be prepared that marketing requires money and be attentive to your customers,” “Find a niche in the market,” and “Use local management teams of hardworking people you can trust.” One firm decided that the international expansion was worth the effort, so they “gotta keep trying.” They saw these situations as learning opportunities and suggest to others “be a reliable supplier,” “don’t over react” and “try to maintain the relationship.”

CONCLUSION

This study provides three important contributions. It identified common problems faced by SME exporters as they develop internationally with findings consistent with those noted by other researchers. It seems that such problems are part of the internationalization process as exporters learn about the process. Also, this study added a new geographic aspect to the commonality in that these problems seem to exist regardless of the exporter’s geographic location.

The second contribution is additional evidence to support the initiating stage and on-going stage of exporting experience as noted over twenty years ago and that each stage has common sets of problems associated with it. These finding also underscore the recurring nature of these problems as something a firm experiences as it grows. Also, these findings appear to hold regardless of the exporter’s home location.

The third contribution relates to the methodology employed. The use of a critical incident as a focal point for asking questions of managers can be a powerful research tool for those who wish to understand the richness of managerial experiences. The critical incident allows the manager to focus on one situation and explore the various causes, effects, relationships and implications of the incident.

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