Internationalization strategies within smes

Small and Medium Entrepreneurs in any economy encourage ownership of private property, encourage novelty and expand entrepreneurial proficiencies. SMEs are flexible and such flexibility allows them to cope with rapid revolutions in market demands. Further, SMEs in an economy produce a lot of job opportunities, encourage economic activities diversifications, maintain sustainable growth and create a momentous contribution to both overseas marketing and international trade.

Therefore SMEs are lively and inventive and they easily become accustomed to altering situations and thus in the process turn out to be the major engine in the success of both the economy and the society at large (Lovelock, 2006). The concept of internationalization can be traced back in the past two decades and by then SMEs utilized only two strategies i. e. through foreign direct investment and import-export trading practices; however, several internationalization strategies have emerged in the recent past; a development which has augmented the internationalization process by SMEs.

Research indicates that the process of internationalization as well as its strategies is risk inherent and therefore SMEs pursuing this process ought to be very careful in order to avoid unwarranted failures. Further research reveals that most SMEs which has opted to go international has failed terribly in the international markets as a result of the challenges brought about by the concept ofglobalizationwhich has become the modern form of carrying out business in this 21st century.

In other instances the challenges of the ever growing European Union has made it difficult for SMEs to succeed in the foreign markets (Jose, Mikel and Antonio, 1998). Internationalization Process (Zhan and Raymond, 1998) notes that internationalization process can be described as a steady chronological and linear increase of actions over a specific period of time. Research indicates that there are three crucial processes of internationalization that SMEs ought to pursue in order to attain there objectives.

The first process is that the supposition of internationalization supposes that an organization should achieve a basis of competitive advantage in its local marketplace. If such advantage will not be resourcefully utilized by the firm in the home market with no unwarranted transaction expenses then the business may opt to shift to other external markets and attempt to utilize its competitive advantage in such external. The second procedure of internationalization is widely described as Uppsala internationalization replica and it explains a process of augmented dedication to worldwide sales and manufacturing activities of different SMEs.

This process illustrates that SMEs undergo certain stages in its attempts to internationalize (Zhan and Raymond, 1998). The third process is referred to as network approach and it centers on the linkages between these SMEs; under this process an SME for instance institutes and develops several networks and linkages whereby the process of internationalization rely heavily on the quality of linkages or networks that have been cultivated (Dr. Antal, 2000). Internationalization Strategies of SMEs

The first internationalization strategy by SMEs is that of exporting and it depends on a number of factors that includes the following; the available resources that a firm is capable of spending, the size of the company, if the company posses any past export experience and expertise or it is trying it for the first time, conditions of conducting business in the selected abroad market and products nature for example if the products are perishable or durable.

Under exporting SMEs have the options to choose from two strategies namely; direct exporting and indirect exporting. Direct exporting involves the SME (producer of the products or services) dealing directly with a buyer in the foreign country and often regarded as the difficult method of entry because the owner or the exporter of the product is entirely responsible for the business undertaking for example researching the suitable market for the products and establishing the suitable distribution channels to be used.

Therefore this strategy requires much attention in terms of management and the resources to be used in the entire exporting process. It is also arguably the best method because the exporter (SME) may benefit from reaping maximum profits and may enjoy long-term growth thus the company can maintain its base in those countries. Under direct exporting SMEs may choose to use modes such as agents and distributors, domestic sales representatives, overseas sales office or subsidiary.

Such methods have various advantages that that supports SMEs to exploit the host markets, for example agents and distributors are familiar with the market, there are existing business contacts and sales people are always dedicated to the customers thus can boost business activities in these host countries (Jose, Mikel and Antonio, 1998). Under indirect exporting an exporter (an SME) can access foreign market free from risks of doing it directly. It involves the use of independent organizations within the exporter's domestic markets.

It can be done through various ways, for example, a domestic based export merchants, who take the title of the goods and sells them in those countries abroad, domestic based export agents who sell and market the goods on behalf of the exporter and co-operative organizations who act on behalf of the producers. SMEs can prefer the use of one of the above methods of entry because of the following advantages; communicationis very much easy because the exporting company is domestically based and the risks of investing are much lower than coming up with full market in the host country.

This approach might be cumbersome to undertake because the cost of getting links with agents thus taking long time to establish a market. Another strategy of entering the new market and that can work for SMEs is a method of entry called relationship based partnership and comprises of the following: Joint venture partnership whereby it can be defined as a partnership created by one or more firms with a view to carry out a business together. They contribute equally to the business and agree to share any profits in a certain percent in the course of the business.

Such a business is referred to as equity joint venture and it is favorable because there is sharing of risk and loses. There is also contract joint venture which involves creation of new firms in which foreign and local investors share ownership and control (Deakins and Freel, 1998). Generally joint ventures are common where government conditions demand so in order to ensure control, nationalism and reduced re-patriation of profits. It will be an ideal situation if an SME is still young and wish to exploit other markets for their products since it require fewer resources.

However, it has potential problems and includes sharing of profits, employment issues, market coverage and decision making due to different long-term interest in partners. Another relationship based partnership internationalization strategy that SMEs can use is licensing method of entry, whereby they can be termed as contracts in which a foreign licensor provides a local license with access to know-how in exchange for financial compensation.

SMEs can prefer to use this method because it presents an opportunity to entering foreign markets that may have been otherwise closed to exports and also it will not require any firm to have substantial capital investments in the host market horizon. However, SMES may be faced with problems like loosing production control of firm’s products. Also still under relationship based partnership SMEs may consider franchising as a strategy of entry to foreign markets. Franchising involves one partner called franchisor licensing trademarks and established methods of entry to a party called a franchisee in swap for a recurring compensation.

A good example that illustrates this method is that of the small firm in the UK selling its products together with the rights to use its trademark and name to other independent manufacturers. This strategy of internationalization may be successful because it is easy to start the business abroad, there is room for rapid expansion, there is stable offering of the same products for a long time and therefore will attract customers and most of the time franchisors offer training for free that is always not offered to individuals setting up their businesses (Cullen and Boteeah, 2005).

Strategic alliance method of entry can also be employed under relationship based partnership in going international which involves formal partnership between two or more parties to undertake a common business with the view of attaining same objective but the parties involved always remains independent to each other. Business resources to be shared may include common distribution, channel, knowledge, products or expertise.

SMEs may opt to use this strategy because of the following advantages; there are low research and development costs, getting access to partner's capital, new markets for the products of the company and quick time in marketing the products, there is sharing of distribution channels and tapping the other partners advancedtechnologyand intellectual property among others. Another internationalization strategy that SMES should consider before opening subsidiaries in the foreign markets is referred to as direct investment method of entry.

Directing investments entails setting up manufacturing facilities although it requires heavy capital and management dedication. It can also be carried out through acquisition and this involves purchasing of already existing foreign investments that will include existing experience workforce, management structures, local knowledge and the existing contacts in the market and the government. Although direct investment method is expensive and difficult to start should it succeed the firm will enjoy good returns and will establish strong market base in its new market (Hill, 2005).

Internet and SMEs Internet has played part in internationalization process of SMEs for instance SMEs have accessed new markets without traveling to potential markets physically. Difference in cities or countries even continent does not affect e-commerce; for instance, if an SME have any kind of crises it can log on from anywhere in the world and can solve its problem in a faction of time (Hamil and Gregory, 1997). Transaction is very fast and effective; many online business sites now offer sophisticated tools to help SMEs manage all their assets more effectively and conveniently.

A simple example of this can be taken from the simple accounting software e. g. in the banking sector. Some online banks provide to simplify record keeping. Another importance of e-commerce is that less paper work has to be done and once you have entered information, it doesn't need to be re-entered for similar consequent checks, and future payments can be programmed to occur automatically (Poon and Jevons, 1997). Barriers faced by SMEs in there attempts to Internationalize There have been several barriers that SMEs faces in there quests to internationalize and such barriers have reduced the level of business activities of SMEs.

It includes the following; SMEs lack of managerial, marketing and entrepreneurial abilities, insufficient intellectual property safety, intricacy of trade certification, rivalry brought about by indigenous SMEs already in international markets, inherent risks in marketing products overseas, cultural differences, language barriers, service/product choice usage and differentiations, red tape and inherent bureaucracy, failureof getting appropriate information, lack of adequate funds or capital to enter foreign markets, lack of advance technologies, non-conformity of consistency and governments unwilling to support SMEs in there attempts to internationalize for instance governments offering no incentives among other barriers (Cullen and Boteeah, 2005). How SMEs can Overcome such Barriers Developing or acquiring managerial skills is the first factor that should be utilized by SMEs in order to overcome barriers to internationalization.

Since management is considered to be both art andscience, it will be prudent for SMEs managers to be dedicated and learn through experiences thus avoiding future mistakes as a result of such learning. Also planning is a very crucial factor that SMEs ought to consider in internationalization process; planning entails developing future plans and ensuring that entry to overseas markets are well thought of and planned well in advance in order to avoid unwarranted difficulties. Planning will include issues such as, capital, sales targets, costs, expected revenues and human resource that will aid in achieving the firmsgoals. The other factor to be considered is that of SMEs management sourcing the best and suitable international partners. Such partners will help the SMEs wishing to go international to know of the local businessenvironment.

The other factor is that of availability of technical knowledge and proficiency; innovations enhance success and therefore SMEs must utilize advance technologies as well as proficient technical expertise. The other factor that will help reduce the barriers to internationalization is that of ability to quickly respond and adapt to changing business environment (Beijerse, 2000). Conclusion Most SMEs face stagnation in terms of growth because of lack of viable investment opportunities that they are involved in. Such Investment opportunities do not generate enough revenue to sustain their businesses and hence they lack bargaining power in terms of collateral required when they seek for loans. Due to globalization which has turned business activities to be dynamic, most SMEs face stiff competition from large companies.

As Deakins and Freel (1998) observers, the larger companies are always given priority in terms funding, for example, they may have an upper hand than SMEs when seeking funds through debt financing because they have enough collaterals to secure their loans. Many SMEs should find out that for them to be successful in foreign markets, they ought to compete efficiently in the international market in order to boost there chances of survival. Therefore, Small and medium Enterprises can remain competitive and international in scope if they utilize essential skills that enhance success in this contemporary business environment.

Reference

Beijerse, P. (2000): Knowledge management in small and medium-sized companies. Knowledge management for entrepreneurs: Journal of Knowledge Management Vol. 4 Cullen, J. and Boteeah, K. (2005): Multinational Management: A strategic Approach; 3rd Edition, Mason; Thomson South-Western Deakins, D. and Freel, M. (1998): Entrepreneurial learning and the growth process in SMEs. The Learning Organization, Vol. 5 Dr. Antal, S.

(2000): SMEs in the Third Millennium: - International Conference on Legal Aspects of SME Development and Best Practice in Simplification of SME Legal Environment, Maribor Hamil, J. and Gregory, K. (1997): Internet Marketing in Internationalization of UK SMEs. Journal of Marketing Management, Vol 13 Hill, C.

(2005): Global Business Today: - 4th Editions- New York: McGraw/Irwin Jose, M. , Mikel, B. and Antonio, F. (1998): The internationalization of SME innovatory firms. Conference on EU integration in the context of globalization, London Poon, S. and Jevons, C. (1997): Internet-enabled International Marketing: A Small Business network Perspective. Journal of Marketing Management, Vol 13 Lovelock, J. (2006): Services Marketing, People, Technology, And Strategy: Prentice Hall, New York Zhan, S. and Raymond, P. (1998): Processes of internationalization: An empirical study of small and medium sized high-tech Quebec enterprises: - Faculty of Administrative Sciences, Laval University, Canada,