Small companies and internationalization – requirements for being successful

Psychology, Success

Executive summary As the rate of economic globalization becomes faster and faster, small firms can no longer afford to ignore internationalization. Small businesses are a key factor in the economies of all nations. Small businesses must develop a global culture, challenge the attitude of key decision makers, gain crucial international experience, and overcome the size barrier. This requires successful entry wedge strategies if the company hopes to have any chance of success. Many will need external support in finding ways to access foreign customers. Introduction: Small firms (sf) are companies which are most likely proprietorships or private partnerships with a fewer employees and have less revenue than the regular sized organisation. Sf’s are a very important structure for the economic growth of a country. Thriving sf’s generate employment and generate increased taxes which can be used by the government in the development of a region.

Many countries have realized this and they have introduced many policies that have promoted the growth of the sme sector for e. g. in india the govt has introduced the “ make in india” initiative where the sf’s are entitled for a tax free period of 3 years and increased funding for the start-ups through various schemes and developing the incubators to develop the overall knowledge base of the start-up leading to increased viability of the start-up. The impact of globalization has shifted the source of competitiveness towards knowledge-based economic activity, which has led to an increased role for smes. To grow the sf’s face several constraints and internationalization can be a solution for the success of these sf’s. The objective of this paper is to understand the constraints and how internationalization can help sf’s to remain successful. Constraints faced by sf’s: The sf’s which become successful and start making sufficient revenue, face several constraints for growing further. Competition: When competing in the same space sf’s either have to increase their service offering which has a superior competitive advantage or play with the pricing which results in shrinking margins, when the market is fragmented with many players grows and the need to be successful becomes imperative expansion of operations in new markets seems a definitive choice. Competition from larger firms presents in new sets of challenges, overcome the entry barrier and if successful they have a substantial threat of getting acquired by these larger firms and hence emerges the need to grow and generate sufficient revenue to increase the capital thereby prevent the sf’s from acquisition.

To generate revenue exploring new markets are necessary. Increased global competition due to globalization also make the sf’s vulnerable and in order to remain successful increase in knowledge base is a necessity to develop competitive advantage. Saturation: Saturation in the home markets pose a threat for the success of the sf’s. Increased competition results in fulfilling the demand by multiple players resulting in a decline in the demand. Overcoming market saturation is imperative to be successful and thereby it becomes a necessity to venture into newer markets Increased production costs: Increased production costs can result in unsustainability of the sf’s as the bottom line shrinks and then it becomes challenging to operate in the market and hence outsourcing it to a different market with lower production costs can result in lowering the production costs there by improving margins What is internationalization: “ internationalization can be defined as expansion across the borders of global regions and countries into different geographic locations” (hitt et al., 1997) “ international diversification enables firms to overcome market imperfections across different countries” (buckley & casson, 1976), and helps firms to achieve economies of scale and scope (kim et al., 1993; kogut, 1985)

How internationalization helps to address the challenges: There are other more proactive reasons for incorporating internationali¬zation into the com¬petitive strategy of a sf: § Exploiting the growth and development of international markets thereby helps the sf’s to grow even if their home markets saturate. § Moving the activities of the sf to a more competitive region(e. g. moving the production to a country with lower manufacturing or production costs) helps to grow the sf’s further. § Exploiting economies of scale and reach there by increases the revenue for the sf’s and helps it to grow further. § Adequate knowledge of the activities of the competitor helps the sf’s to fight competition and internationalization helps to gain knowledge¬ of the competitor’s clients and mar¬kets and the capacity of the competitors at a global level. This knowledge will help the sf’s to fight competition better both in the home and international markets.

Conclusions: Small firms play a very important role in the economies of all nations. Often they provide jobs, economic growth, and innovation. Increasingly, the small firms must face the challenges of becoming multinational companies by entering in the international markets. This helps the sf’s not only to be successful but also helps them to last longer and survive because internationalization helps the sf’s to gain valuable knowledge and without it these sf’s become less competitive and vulnerable. It is imperative for sf’s to internationalize as international competition exposes them for the need to excel, which is the core reason for any companies to be successful.