

CONTINUING CHALLENGES TO ENTRY AND PARTICIPATION IN INTERNATIONAL MARKETS BY NORTHWESTERN U.S. SMALL AND MIDSIZED ENTERPRISES

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ABSTRACT

Small and midsize firms are often considered to be more entrepreneurial and innovative than their larger counterparts. This entrepreneurial spirit, however, does not necessarily extend to participation in the international business arena. For these firms, there is a greater need for assistance in overcoming both structural and psychological barriers to achieve equivalent performance in international markets. The barriers impact all functional areas of the firm. We offer a rather extensive review of relevant literature on SME internationalization followed by a discussion of the results of an earlier pilot survey of small to midsize, northwest U.S. enterprises in international business with regards to internationalization challenges. Our results allow us to take an interesting look at how the barriers to internationalization have changed over the intervening years. Comparing the current literature and our earlier results indicates that the tepid and ad-hoc approach to entering international markets observed in the behavior of many SMEs continues today. Our findings show that many of the same challenges faced by small and mid-sized firms well over a decade ago still remain and underscore a continuing need for state, regional and national support to help develop these firms in order to enhance U.S. competitiveness in the global economy.

INTRODUCTION AND LITERATURE REVIEW

The backbone of the national economy is the small to midsize enterprise (referred to hereafter as a SME) that has 500 or fewer employees. These firms are considered to be more entrepreneurial and innovative and an engine for job growth in the United States. In the U.S., there are almost thirty million small businesses while there are fewer than nineteen thousand large businesses. Of the net new jobs created in the U.S. from 1992 to 2013, 63 percent were created by SMEs (U.S. Small Business Administration, 2016). The health and economic prosperity of the SMEs are thus

critical to the overall health of the U.S. economy. Given the growing importance of international markets and the globalization imperative, participating in the global economy has become increasingly important to the success of small to midsize enterprises.

SMEs account for roughly one-third of both exports and imports by value although most SMEs export to or import from only one country. Brouthers, Nakos, Hadjimarcou, and Brouthers (2009) show that specializing by limiting operations to one country is a common method SMEs use to gain expertise and limit international risk. While many barriers may exist, Drzeniek-Hanouz and Doherty (2013) suggest that reductions in transportation and information costs are particularly important for SMEs given their lack of scale economies and small number of staff dedicated to international markets. Exports from U.S. SMEs are primarily to Canada, Mexico, Great Britain, China and Germany, while imports are mostly from China, Taiwan, Italy, Germany and India (Barresse, Shelak, Pineda, & Ewing, 2016). From 2006 to 2013 export by SMEs in terms of both number of firms and value of exports grew faster than for large firms. Moreover, SMEs that export tend to have faster growth, pay higher wages and employ more people than similar firms that do not export. Although international participation has grown over time, many additional export and import opportunities for SMEs remain untapped (Delehanty, 2015; Wood, Logar, & Riley, 2015).

With 95 percent of the world's consumers located outside the U.S., many SMEs remain under-involved in the global economy, particularly in relation to larger firms. The reasons for the size disparity in global participation (even after discounting for the local service segment, i.e. the "mom and pop" establishments which could not be expected to participate internationally) are both *structural* and *psychological* (Reece & Shooshtari, 1999).

Many SMEs still face resource constraints and uncertainty that limit their willingness to participate in the global economy via international sales and other operations even though many realize that they are missing out on growth opportunities. Managerial attitudes about international markets, international marketing ability and a global orientation all impact the degree and the success of internationalization at small firms (Knight & Kim, 2009; Game & Apfelthaler, 2016; Wood, Logar, & Riley, 2015).

A survey by Wells Fargo International Business Indicators (2015) reported that about half of small and about 60 percent of large companies believed it was important to expand internationally. In their survey larger firms were more likely to be increasing their international activity and managers at bigger firms were more optimistic about the international business climate. Their survey also found that a majority of both large and small firms felt that expanding internationally was important for long term revenue growth. Most large firms stated it was important to consider either producing overseas or importing to reduce operating costs, though the majority of smaller firms did not agree with this assertion. In choosing a foreign market to explore, U.S. businesses in general are looking for political stability, a base level of infrastructure development, favorable tariff and trade laws, the ability to enforce contracts in a timely fashion, low labor costs and access to credit. Both large and small firms cited currency values as a concern.

Opportunities for SME Internationalization

Exporting remains a primary entry method in international markets for many SMEs, although alliances and other contingencies can impact the method and extent of internationalization (Rundh, 2015). There is an extensive amount of literature discussing determinants of SME involvement in international business. A good discussion of this literature is found in Love and Roper (2015). Exporting is thought to be a means to generate better growth and improve productivity, but success and the impact on performance are also related to firm and industry specific factors (Rundh, 2015; Brush, 1996). For instance, Love and Roper (2015) indicate that managerial skills in both production and marketing play a key role in international success. Firms that engage in more capital investment and R&D are more likely to have export success, although it is hard to determine the direction of causality in these relationships. More successful firms may engage in additional capital investment and experience export success because they are better performing firms. Entrepreneurial firms are often more involved in international markets and tend to be more successful. There are also strong ties between R&D investment and entrepreneurialism in firms. Brouthers, Nakos, and Dimitratos (2015) find that entrepreneurial firms have higher international performance when they use alliances that leverage the firm's existing capabilities. Entrepreneurial firms are more likely to engage in innovative behaviors, including exploring new international markets, engage in risky investments and proactively seek additional opportunities. These are characteristics that are useful in growing internationally.

Ibrahim, Abdullah, and Ismail (2016) studied Malaysian SMEs and found that firms with an international market orientation and international marketing skills were more innovative and more likely to be involved in external markets. Dimitratos, Johnson, Plakoyiannaki, and Young (2016) find that entrepreneurs helped to shape firm characteristics that would lead to succeed in international operations. Ciravegna, Majano, and Zhan (2014) examined Chinese textile manufacturers to determine whether firms that proactively seek the first foreign client (an entrepreneurial behavior) are likely to increase exports more rapidly and to more countries than their competitors. They found the process was impacted by the proactive behavior of managers, but also influenced by unpredictable events that spurred or limited internationalization. They also showed that firms used social networks to reduce information and knowledge risks of foreign markets.

Kontinen and Ojala (2012) and Fernandez and Nieto (2005) find that internationalization is affected by ownership structure in family owned SMEs. When the leadership is fragmented internationalization progresses more slowly and in stages, but when ownership is concentrated internationalization progresses more rapidly. Growth in internationalization is a function of many variables including attitudes of managers and type of industry and also education and intellect of managers. Knowledge intensive industries generally progress in internationalization more rapidly (Olejnik & Swoboda, 2012; Carlsson & Dale, 2011). In developing countries increased competition and a general decline in subsidies have led SMEs to seek international markets (Zarei, Nasser, & Tajeddin, 2011).

Firms may seek international markets for many reasons. In some cases, excess supply may encourage firms to expand their market base. For others, constraints on growth due to market

size, regulations, high domestic taxes, problems in obtaining distribution channels, etc., can encourage a firm to seek foreign markets. The firm may also gain valuable experience, cross-cultural knowledge and find new sales and investment opportunities that otherwise would not have occurred.

Challenges to SMEs Internationalization

As stated previously, SMEs face additional constraints in international activities, though a growing number of SMEs are involved in international activities at some level (Knight & Kim, 2009). In this section we turn to the various challenges SMEs face in entering and competing in international markets.

Exporting is often one of the first methods of seeking international markets because exporting is cheaper, faster and requires fewer management skills than many other types of foreign activities such as a greenfield investment (Roy, Sekhar, & Vyus, 2016). Exporting can contribute to growth and additional opportunities and is often encouraged by government, but it is not without risks. Roy et al. (2016) examine Indian SMEs to ascertain the primary internal (within the firm) and external or environmental barriers to internationalization. Typical external barriers included a lack of government assistance, complex rules about exporting, tariffs on exports and concerns about political stability in foreign markets. Other barriers included currency exchange rate fluctuations, payment collection, documentation requirements, competition in foreign markets and cultural differences. Lack of information about foreign markets is an often stated constraint for SMEs (Zarei et al., 2011). In particular SME managers want information about potential overseas customers and information about distribution overseas. Internal barriers include managerial constraints, such as lack of time and expertise to devote to developing foreign markets. Managers also find it difficult to find a foreign representative agent that they believe is trustworthy. Rundh (2015) finds that SMEs that can standardize the export process across different foreign markets are likely to have greater export success.

Financial barriers for SMEs include higher bank financing costs and lower availability of financing to fund export activities. Many marketing barriers have been posited as well, including problems in adapting the product or service to a foreign market, inability to price the product competitively, shipping problems, dealing with foreign distribution channels and a lack of control over foreign sales (Hilmersson & Johanson, 2016; Love & Roper, 2015). Francioni, Musso, and Cioppi (2015) find that SMEs do not conduct much market research, but rely instead on contacts and experience. A study of SMEs in the petroleum industry by Carlsson and Dale (2011) suggest that knowledge intensive SMEs follow a strategic process in internationalization, but that others employ a relational or opportunistic approach where the choice of market is based on a happenstance meeting of a potential customer or recommendations through personal contacts.

SMEs often do not have access to so called 'best practices' that other similar firms have pursued to succeed internationally. Zarei et al. (2011) offer a business plan to develop a best practices framework which could help SMEs engage internationally by learning best practices developed

by other SMEs. This could be quite useful because insufficient knowledge is so often mentioned as a barrier to SME internationalization. Trying to copy the efforts of large firms is not likely to be successful because of the difference in resources and experience between the two groups. Shamsuddoha, Ali, and Ndubisi (2009) examine the impact of export assistance on SMEs in developing countries. Surprisingly, they find that financial assistance and loan guarantees have less impact than assistance in market development. This suggests that export assistance may be more effective at encouraging SME internationalization when targeted on helping firms find information on specific foreign markets and products (Francis & Collins-Dodd, 2004).

Love and Roper (2015) summarize the limits in our current knowledge of predictors of exporting and performance. For instance, we do not know exactly what management skills lead to more innovation and export success. The impact of intellectual property protections and our understanding of the relationship between strategy/planning and export success are also weak.

The Process of Internationalization

As mentioned above, firms often start the internationalization process by exporting. When a firm lacks knowledge and experience about foreign markets it may limit its exposure and first export and then only gradually invest more in foreign sales, perhaps through a sales rep or using a foreign sales subsidiary, and then eventually engaging in foreign production (Johanson & Vahlne, 1977). This is termed the Uppsala or stage model of internationalization. As SMEs gain both knowledge and experience, perceived risks of internationalization fall, foreign sales development becomes more integrated into the strategic planning process and a growing international presence often results. Firms that follow this pattern generally start with foreign markets that are geographically and culturally similar to their home markets. In the stage model, early forays into international markets are opportunistic rather than strategically planned, resulting from customer recommendations, trade show leads, and excess supply in a given period requiring additional markets and the like.

More recent research has found other patterns of internationalization. Some firms are 'born global' engaging in international activity from their creation or having a significant percentage of sales (usually characterized as 25 percent or more) to foreign countries within the first three years of their creation (Knight & Cavusgil, 2004; Moen & Servais, 2002). The born global firms tend to have managers with greater knowledge about and commitment to internationalization. They are more likely to be technology firms, use foreign alliances and employ managers with international experience (Li, Qian, & Qian, 2012). They do not necessarily focus on markets that are geographically close or culturally similar to their own. Internationalization is more likely to be a strategic focal point from the beginning and managers of these firms often consider the world their marketplace and international operations are not just an add-on to domestic operations.

Yet other firms initially follow the stage pattern and then suddenly substantially increase their internationalization (Tuppura, Saarenketo, Puumalainen, Jantunen, & Kylaheiko, 2008). These firms generally are late internationalizers and have more resources that allow more rapid

international growth than the typical born global firm. There is often a trigger that causes the firm to expand international operations such as a management change, an unusual opportunity, or difficulties in the domestic market (Kontinen & Ojala, 2012; Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012). Olejnik and Swoboda (2012) examine German SMEs to identify the determinants of internationalization patterns. They find that firms with a greater international orientation are more likely to be either born global firms or late globalizers rather than follow the stage pattern. Growth oriented firms also were more likely to be in one of the former two categories. Firms that follow the traditional stage model are more likely to have strong internal communication lines and may rely less on external influences for management decisions related to internationalization.

One way to help overcome the lack of knowledge about foreign markets and foreign sales is to use social and business networks to obtain leads and information about foreign markets. These networks can be a useful tool for SMEs to reduce the risk and cost of internationalization (Zarei, Nasser, & Tajeddin, 2011). Zhou, Wu, and Luo (2007) note that social networks, defined in this context as personal relationships based on trust as opposed to formal business relationships, can share information and experiences among SMEs to reduce uncertainty. These relationships can be particularly effective in emerging markets where information is not readily available. Similarly, Haase and Franco (2015), Rundh (2015), and Brouthers, Nakos, and Dimitratos (2015) indicate that alliances between companies can help SMEs overcome resource and knowledge constraints. The foreign ally can provide assistance in marketing and problem solving in a country, perhaps increasing foreign sales and lowering both the costs and risks of operating in a lesser known environment. These are key areas of success for early stage SME internationalization. Brouthers et al. (2015) show that entrepreneurial firms that choose alliances that are aligned with the firm's capabilities have higher performance as measured by ROI and profitability. Marketing alliances in particular are used to gain expertise and distribution. Forlani, Parthasarathy, and Keaveney (2008) examine methods of entry into international markets and find that firms perceive the risk of alliances differently depending on their own capabilities to manage international operations. Firms that believe they are capable of international management are more likely to participate in a joint venture while less capable firms tend to outsource international operations.

Lack of information about markets and distributors is probably the most often cited constraint to SME internationalization. Information about markets and potential alliances can be gathered from attending trade fairs or other trade related events. The fairs are used as venues to increase visibility of the firm's product in new markets, including international markets, and to build networking contacts. Haase and Franco (2015) and Zhou, Wu, and Luo (2007) emphasize the importance of fairs in developing alliances and social networks respectively. Freeman, Edwards, and Schroder (2006) and Hollenstein (2005) also discuss and demonstrate how small firms use alliances to overcome obstacles to internationalization. Agndal and Chetty (2007) study New Zealand and Swedish SME internationalization market strategy and entry modes and find that entry modes are more influenced by business relationships than social relationships. Jin and Jung (2016) also find a larger impact for business networks than for social networks on obtaining foreign market knowledge and achieving better performance.

Summary

It makes economic sense to encourage greater participation by SME in the global market. Society reaps the benefits accruing from increasing exports and improves the ability of SME to create jobs and otherwise stimulate economic growth. How can this be accomplished? A study by Keesing and Singer (1992) provided insight into the trade promotion organizations of various countries and found that export programs were most effective where government policy encouraged private sources to provide information and specialized services to firms interested in growing their exports. Stewart (1997) found a linkage between firms that have a coherent strategy and the degree of international involvement of Canadian SMEs who were exporting. Private source help for the SME can perhaps best be targeted to assistance in developing marketing strategies tailored to individual SMEs. As mentioned earlier, Shamsuddoha, Ali, and Ndubisi (2009) demonstrate the positive impact of government export assistance on developing countries. Wright, Westhead, and Ucbasaran (2007) suggest that entrepreneurial and international successes are interrelated and context specific and that not all SMEs can equally successfully internationalize. Thus, encouraging entrepreneurial behaviors may also spillover into additional international activities. The literature indicates that overcoming constraints to internationalization at SMEs will require firm and industry specific solutions, but common elements of assistance should include the following:

- i) hold events that assist local firms in establishing network contacts for similar businesses that have or are considering international expansion,
- ii) assist in market development of specific foreign markets for products, including identification of foreign distributors,
- iii) locate potential foreign investment partners for joint ventures or other strategic alliances,
- iv) conduct promotional events/seminars that include SME managers who have established a successful track record in internationalization in the targeted industry, and
- v) construct a best practices database, including local and foreign contacts for market development for different targeted industries.

THE PILOT STUDY

This work presents results of a survey of an earlier pilot study of northwestern SMEs from Montana, Idaho, Oregon and Washington to identify constraints to internationalization faced by SMEs, and to understand why some firms choose not to compete globally¹. The experience of the authors in prior informal discussions with Montana SMEs indicated that difficulties in payment terms, exchange rate risk, lack of financing and requests for improper payments had restricted their enthusiasm. We are in the process of updating the survey results but we wished to

¹ This survey was made possible through a summer research grant from the University of Washington Center for International Business Education and Research and the Northwest International Business Educators Network (NIBEN), and the University of Montana School of Business; with special assistance from the Montana Export Assistance Center of the U.S. Department of Commerce.

see if the current literature indicated that many of the earlier challenges had been addressed. We present this earlier data in order to relate the results to the factors that current literature indicate are still limiting SMEs from engaging in international activities.

Research Method

There is only limited survey data on Northwest U.S. region SME participation in international business. A questionnaire draft was developed based on available literature at the time, prior surveys on the subject and the authors' own experience dealing with SMEs. The questionnaire was subsequently reviewed and revised based on input from The University of Montana Bureau of Economic Research survey specialists and the Montana Export Assistance Center.

A total of 3000 survey packets were mailed to SME firms in the four northwestern states. The 3000 SMEs in the sample population were selected based on a systematic random sample of SME firms in each state. Two hundred sixty-eight questionnaires were returned for an overall response rate of 8.9 percent which included 32 responses for Idaho, 48 for Montana, 80 for Oregon and 108 for Washington.

Prior Survey Results

The survey began with a number of classification questions (section A of the questionnaire). These results for section A are summarized below.

Number of Employees

Respondents were classified by number of employees using the U. S. Department of Commerce categories, the respondent firms were concentrated at the smaller end of firm size classification with 46% less than 10 employees and 81% less than 50 in the overall sample. Most respondents had 1-9 employees in Montana, Oregon and Washington, while the largest category in Idaho was from 10-49 employees. There are very few firms with more 500 employees so the respondents are skewed toward smaller firms.

TABLE A1: NUMBER OF EMPLOYEES

Percent Response					
Employees	All	ID	MT	OR	WA
1-9	46	28	52	44	49
10-49	35	41	27	38	34
50-500	15	25	17	16	11
500+	1	0	4	0	2
No response*	3	6	0	3	4
Number of Responses					
Total	268	32	48	80	108
No Response	8	2	0	2	4

Dollar Volume of Total Annual Sales

Similar to the number of employees (above), Idaho has over twice the average number of firms in the \$5-25 million range (26% vs 13%) of the overall sample. The largest number of firms fell in the \$500,000 or less in sales category, both overall and by state, with the exception of Idaho.

TABLE A2: TOTAL DOLLAR VOLUME OF YOUR ANNUAL SALES

Percent Response					
Millions of Dollars	All	ID	MT	OR	WA
0-.5	30	22	38	30	29
>.5-1	17	16	17	14	19
>1-5	27	22	29	26	29
>5-10	6	13	2	10	4
>10-25	7	13	4	9	5
>25-100	6	9	6	6	6
>100	1	0	4	1	1
No Response*	5	6	0	4	8
Number of Responses					
Total	268	32	48	80	108
No Response	14	2	0	3	9

Industry Classification

We asked the respondents to indicate which one of the following industry categories best described their firm in terms of total dollar volume of annual sales.

The majority of respondents were manufacturing firms at 59% of the overall sample. Services were a distant second in ranking at 9% of the total, followed by Agriculture (5%) and then Retail and Wholesale Trade and Construction & Contracting at 4% each. Among the states, Idaho had the highest percentage (13%) in Agricultural Products.

TABLE A3: TYPES OF INDUSTRY CATEGORY BASED ON ANNUAL SALES

Percent Response					
	All	ID	MT	OR	WA
Agricultural Products	5	13	6	4	4
Manufacturing	59	53	71	58	56
Services	9	6	6	10	11
Retail Trade	4	0	4	1	8
Wholesale trade	4	3	2	8	4
Transportation & distribution	0	0	0	0	1
Communications & utilities	1	0	0	3	1
Construction & contracting	4	9	4	4	2
Finance/Insurance/Real Estate	1	3	0	1	0
Other	10	6	6	13	10
No Response*	2	6	0	0	4
Number of Responses					
Total	268	32	48	80	108
No Response	6	2	0	0	4

Prior Participation in Trade Missions, Meetings with Potential Trading Partners or Attending Trade Shows in Another Country.

The literature indicates that trade missions and the like can provide SMEs with valuable foreign market information and contacts. However, only 25% of the respondents had participated in trade missions, meetings with potential trading partners or had attended trade shows in another country. Idaho was the exception where 47% had participated, almost double the experience of each of the other states. In the overall sample, 70% of respondents had not participated although this was heavily influenced by the statistics of Montana and Oregon with 75% and 78% indicating a lack of participation, respectively.

Responses to a request for identification of the countries contacted were not tabulated because of the diversity of responses. However, the responses yielded no discernible pattern except a bias toward the more industrialized nations. Europe and Asia were heavily represented and North and South American countries were well represented. Multiple country listings from individual respondents were not unusual, and those countries were not always geographically proximate, indicating some had developed a diversity of contacts with potential international partners. Specific countries mentioned frequently as those visited during trade missions and shows were Canada and Mexico in the Americas; Japan, South Korea, Taiwan and China in Asia and Germany, United Kingdom, France and the Netherlands in Europe. Australia and New Zealand were also mentioned in Oceania as countries visited by SMEs. Given the literature's emphasis on the importance of these type informational events, designing methods to increase participation is an important component of any methods to improve SME participation in international markets.

TABLE A4: HAS YOUR FIRM PARTICIPATED IN TRADE MISSIONS, MEETINGS WITH POTENTIAL TRADING PARTNERS, OR TRADE SHOWS HELD IN ANOTHER COUNTRY (e.g. CANADA, MEXICO, CHINA, ETC.)?

Percent Response					
	All	ID	MT	OR	WA
Yes	25	47	25	19	24
No	70	47	75	78	69
No Response	4	6	0	4	7
If Yes, what countries?					
Number of Responses					
Total	268	32	48	80	108
No Response	12	2	0	3	7
What discourages you or keeps your firm from wanting to go on a trade mission, trade show or study mission in another country? (Open-ended)					

Factors Discouraging Participation in a Trade Mission, Trade Show or Study Mission in another Country.

Respondents were asked to identify factors that discouraged them from participating in a trade mission, trade show or study mission in another country. The predominant response to this query was financial as respondents indicated that high cost or a low expected return on investment from participation were cited most frequently as factors discouraging participation. The time required was also a common response. Responses were similar across states. Also mentioned were lack of value obtained from going to trade missions. An almost equal number of responses judged that participation would either be (1) inappropriate to their product or service, or (2) that they had sufficient business opportunities domestically. Government financial assistance to attend trade opportunities should be offered to encourage SMEs to participate. Holding at least some of the trade opportunities locally may also reduce the perceived managerial time cost of attending the event.

Interest in Receiving Local, State, or Federal Assistance in *Facilitating* International Trade.

In the total sample 40% of the respondents are interested in receiving local, state or federal assistance that facilitates international trade. Note that overall 49% indicate that they are not interested in receiving such assistance and the majority in Oregon and Washington were not interested. It is unclear why they were not interested, but it is likely similar to the negative responses about the efficacy of participating in trade related activities. Convincing firms that assistance can be effective is a key component of the aid process.

TABLE A5: ARE YOU INTERESTED IN RECEIVING LOCAL, STATE OR FEDERAL ASSISTANCE IN FACILITATING INTERNATIONAL TRADE?

Percent Response					
	All	ID	MT	OR	WA
Yes	40	50	50	36	34
No	49	34	42	53	54
No Response*	12	16	8	11	12
Number of Responses					
Total	268	32	48	80	108
No Response	31	5	4	9	13

Level of Interest in Specific Types of Trade-Related Services.

Respondents rated their interest in receiving trade-related services from ‘no interest’ to ‘highly interested’ and they could select more than one service. Consistent with the literatures respondents were most interested in services to help promote products or services offered by the respondents. This category was rated highest at 36%. The next highest rated category was contact with individuals or firms who have trade leads or who are overseas agents/ distributors with an overall response rate of 15%. International market research and a web site with trade-related information and events were the next most popular over, although Idaho and Washington firms frequently listed assistance with payment risk evaluation and trade finance. The literature indicates that similar types of assistance with promotion, trade leads and overseas distribution remain the primary forms of assistance desired today.

TABLE A6: FIRMS INDICATING A HIGH LEVEL OF INTEREST IN THE FOLLOWING TYPES OF TRADE-RELATED SERVICES

Percent Response					
	All	ID	MT	OR	WA
International market research	10	13	6	11	9
Promotion of products/services	36	47	44	29	34
Calendar of trade events	6	6	10	3	7
Web site with trade info/events	10	6	13	9	11
Contact with firms having trade leads or agents/distributors	15	3	8	10	18
Cultural/foreign language training	3	6	6	3	2
Translation services	3	6	4	3	1
Academic degree program in International Trade	1	3	0	1	0
International law/legal system training	1	3	0	3	1
International trade strategic planning	1	3	2	3	0
Payment risk evaluation and trade finance	9	13	2	11	8
No Response*	1	0	0	3	1
Number of Responses					
Total	268	32	48	80	108
No Response	(Varied by Service)				

Firm Involvement in International Business

We asked the respondents if they were involved in international business. This question was used as a lead in for section B of the survey which was limited to those firms who were actively engaged in international business. Forty-two percent of respondents indicated they did conduct international business, although the rate was higher in Idaho and Montana at 50 percent each.

TABLE A8: DOES YOUR FIRM CURRENTLY CONDUCT INTERNATIONAL BUSINESS, WHICH INCLUDES EXPORTING OR IMPORTING, JOINT VENTURES OR MAKING INVESTMENTS IN OTHER NATIONS OR LOCALLY IN PARTNERSHIP WITH A FOREIGN COMPANY?

Percent Response					
	All	ID	MT	OR	WA
Yes	42	50	50	36	41
No	52	44	50	59	51
No Response*	6	6	0	5	8
Number of Responses					
Total	268	32	48	80	108
No Response	15	2	0	4	9

The questions in section B of the survey below include questions for those SME who are already engaged in international business.

Types of international business activities

Of the total number of respondents, 124 (46%) were currently involved in international business. Of the 124, 90% were involved in exporting and 41% engaged in importing. Approximately 22% of respondents were involved in joint ventures. For individual states, all respondents from Idaho and Montana were exporting; Idaho had the smallest percentage of joint ventures at 13%, while Montana and Washington ranked highest at 27% each. We expect the participation rates to have increased over time in line with increased globalization at all levels.

TABLE B1: WHICH OF THE FOLLOWING ACTIVITIES DOES YOUR FIRM ENGAGE IN? (PLEASE CHECK ALL THAT APPLY.)

Percent Response					
	All	ID	MT	OR	WA
Exporting	90	100	100	82	85
Importing	41	31	38	38	48
Joint ventures w/foreign partner	22	13	27	15	27
Number of Responses					
Total	124	32	26	34	48
No Response	0	0	0	0	0

Challenges in Doing International Business

Respondents were asked to choose what their biggest challenges were in conducting international business. The largest two categories mentioned were establishing trade leads at 47 percent overall and finding distributors/agents abroad (48 percent overall). According to the literature surveyed these two continue to be the most cited barriers to internationalization at many SMEs so firms still need assistance in this area even though the growth of electronic information sources has exploded over time.

Montana was the outlier in these results as fewer respondents in that state listed these as challenges. Managing shipping operations was listed as a challenge by 27 percent of respondents in the overall sample. A higher percentage of Oregon firms indicated finding information about exporting (27 percent) and the need to redesign products or packaging (24 percent) was a challenge than in the overall sample.

TABLE B2: WHICH OF THE FOLLOWING PRESENT CHALLENGED FOR YOUR FIRM IN DOING INTERNATIONAL BUSINESS: (PLEASE CHECK ALL THAT APPLY.)

	Percent Response				
	All	ID	MT	OR	WA
Obtaining information about exporting	17	13	15	27	13
Finding trade leads	47	50	35	50	50
Searching for distributor/agent	48	50	38	44	56
Locating export financing	11	13	15	15	6
Managing shipping operations	27	31	31	24	27
Redesigning product packaging	19	13	23	24	17
Translation services	18	13	15	12	25
Focusing company on internat'l trade	18	19	19	15	19
Other (please specify)	10	6	8	9	15
	Number of Responses				
Total	124	32	26	34	48
No Response	(Varied by Challenge)				

Services that would increase international trade involvement

Respondents were asked to select the types of services that would motivate their increased involvement in international trade. We expected this follow-up question to provide similar results to the prior question based on the current literature. The highest rated services were help in establishing trade leads (59% overall) and finding distributors/agents abroad (46% overall). Individual state responses closely mirrored the overall response. Idaho firms did rank trade leads

the highest at 69%, while Idaho and Montana had higher percentages of respondents that would like assistance in finding distributors and agents.

Open-ended Last Question

“We would appreciate any other comments you may have on the topic of this study (small to midsized business in the global market).”

A number of respondents provided comments regarding why their level of involvement in international business was expected to change in the future. In general, these comments were critical of government regulations and red tape in terms of both U.S. and foreign governments in impeding free and open trade. Many were critical of U.S. government failures to open foreign markets and level the playing field for U.S. companies, a concern that remains today. One respondent echoed the sentiments of many by stating that doing business internationally was hard, expensive and frustrating, yet it provided huge potential for companies who were willing to persist over the long term to succeed. This also indicates the need to assist SMEs particularly in early stages of the internationalization process. Many respondents were however apprehensive about government assistance. One described U.S. Department of Commerce efforts as a waste and another suggested that they had been involved in international business without government assistance and they preferred it that way. This may indicate that private sources of assistance such as provided by universities and other groups may need to be a part of the solution to fully leverage the potential impact of SME involvement in international activities.

CONCLUSION

Based on prior literature and the results of our survey three major factors emerge related to SME involvement in international business. These three include the firm's motivation, its competency in the context of specific foreign markets in which they are involved and its advocacy support. This support is represented by the assistance provided by both public and private entities involved in promoting trade. A number of conclusions can be drawn in relation to SMEs and the three factors mentioned above.

1. There is still a need for infrastructure support for international business. This impacts various areas of company operations such as transportation, knowledgeable logistic support, and financial institutions that would assist SME international involvement. The latter includes assistance with documentation, trade finance and foreign exchange risk; in short, the factors noted in the citation of Peter Drucker (1999) in his challenge to the financial community to support the SME and as indicated by the Wells Fargo survey (2015).
2. There is general enthusiasm for certain types of government trade assistance at the local, state and national levels. Specifically, services to either facilitate trade or to perform outright advocacy of their products and services with foreign governments and businesses were and

are still desirable. Interest in government assistance, however, is tempered with apprehension along two basic dimensions: efficacy of the services rendered, and concern about government intrusion in company affairs. In the former there was criticism of some trade missions being too general in nature and with the presence of political agendas in lieu of a focus on the specific needs of the business members of the group attending the trade missions. This finding fits well with the theoretical development and other empirical evidence. The concern with intrusion is an inherent characteristic of business, particularly at smaller enterprises run by independently minded entrepreneurs. Together with the two concerns noted, the impediments of bureaucracy, government paperwork and regulations point to a need for careful consideration of the mode of government assistance for the SME. We believe the literature and the survey results indicate this should be localized as much as possible and must be attuned to the SME level of sophistication and knowledge. Assistance must also be low cost and 'user friendly' in the sense of building confidence and trust with the working relationship.

3. It is well demonstrated in the literature that SMEs are at a disadvantage with regard to expertise and resources in entering international markets. This was also clearly evident by survey responses indicating that the domestic market was challenging enough and that it consumed the firms' available resources. This concern does not appear to have disappeared over time. Despite resource limitations and shortage of available talent within these smaller firms, market research and trade lead generation were accomplished in house by many of the successful exporters. Trade publications, the Internet and industry trade associations can be used to successfully provide information to SMEs. We believe that local Universities and other organizations can and should assist firms in generating market research, trade leads and assistance and provide help in finding foreign distributors and financial advice. These efforts will need to be tailored to specific SMEs.
4. The motivation to internationalize is limited at many small firms. The lack of commitment to international trade is manifested in lack of follow up on trade leads and ad hoc international projects. In general, short term and opportunistic views of international trade are the norm rather than a proactive and strategic approach to doing business internationally at many SMEs. Prior literature indicates this will be less true in knowledge intensive industries, and for managers who have more international experience and higher productivity, particularly for born global firms. Nevertheless, many firms don't appear to know how to tap international market potential although many believe that growth opportunities are there. Some still feel that the international market does not provide an appropriate return on the investment of time and money involved and instead desire to concentrate on the domestic market opportunities. The latter may indicate a lack of education about global business opportunities. Many SMEs must concentrate on current economic factors in their decision making process due to resource constraints and thus they ignore the strategic aspects of international participation and fail to see that competition is now a global reality to virtually all SMEs. This is a type of market failure that suggests government and private assistance can add value to society by educating and assisting SMEs in growing their international operations.

5. The most positive factor among those firms experienced in international business is their optimistic expectation for continuing in this marketplace, with growth expected in the coming years. This optimism suggests that other SMEs, with appropriate support and encouragement, could overcome the barriers to entry, both structural and psychological, and become successful in international business.

Many of the barriers and constraints to internationalization by SMEs identified by our earlier results from over a decade ago still persist. Namely, a significant number of SMEs suffer from resource constraints that limit their ability to participate in international markets. Many still desire assistance in the form of identifying trade leads, conducting market research and need assistance in locating distribution partners and other joint venture candidates to overcome these barriers. In recent years social and business networking opportunities have also been used to overcome barriers and should be encouraged. Our results indicate that both government and private assistance targeted to the specific needs of SMEs in a local area are needed and can be used to successfully assist SMEs in growing internationally.

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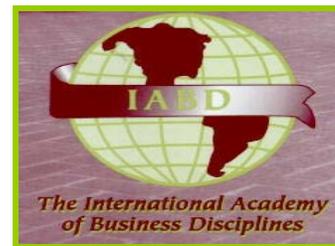
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