



JÖNKÖPING INTERNATIONAL  
BUSINESS SCHOOL  
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# **Challenges in the initial stage of internationalization**

## **A study of Swedish and Bangladeshi SMEs**

Master's Thesis within Innovation and Business Creation

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### **Abstract**

Internationalization is a topic of much importance because of its complex nature. In this study, the focus is on the initial challenges that the SMEs have to face when they go international. The literature suggests that, due to the simple structure and comparatively weaker financial base of SMEs, they face many hurdles when entering into a foreign market. The purpose of the thesis is to investigate what challenges a Swedish and a Balangedishi SME are faced with in the initial stage of the internationalization process.

We have used a qualitative method and collected empirical data through interviews. For the analysis, we use a theoretical framework that emphasizes the Uppsala Internationalization Model. Our main results show that the SMEs suffer because of the challenges to collect appropriate information and to reduce cultural differences.

With this thesis we hope to contribute with a new understanding of challenges that can help the SME to better cope with challenges in practice when involving in internationalization.

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# I. Introduction

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*The introduction is designed with background, where the readers will be introduced to the concept of internationalization in SMEs. Apart from that the problem discussion, purpose and delimitation part is also included in this chapter for a clear understanding about the thesis topic. At the end of this chapter, the disposition of the thesis is formed.*

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## **1.1 Background**

In the modern time there is a trend among the giant corporations to absorb the landscape of the global economy. Though, from the earlier stages it has always been started by the small business enterprises. With the changing trend of global business, small and medium sized enterprises (SMEs) are playing a crucial role in the development of the internationalization trend in the globalized market place (Oviatt & McDougall, 1994, 1999). In the eye of economics, internationalization is a way by which the firms increase their international involvement (Susman, 2007), which means involving in the international business activities. As the world economy is continuously integrating with the declination of government and politically imposed trade barriers, technological innovation etc, in this scenario internationalization of SME's can be an attractive option for the business minded people to carry out. In the present business environment, when the SMEs have strong financial background to meet the initial challenges in the international market and gain experience in the local market, then as a part of their growth strategy they take the decision of going international (Lu, 2002). This decision is vital for the SMEs because traditionally they have a small financial base, focus on domestic market and limited geographical area (Barringer & Greening, 1998).

According to the EC (European Commission) adopted Recommendation 2003/361/EC, a small enterprise has an employee base of more than 10 and less than 50 and turnover of more than 2 million and less than 10 million euro. A medium sized enterprise has an employee base of more than 50 and less than 250 employees

and turnover of more than 10 million and less than 50 million euro. The definition of SME is not same all over the world. As, along with the Swedish SMEs, the Bangladeshi SMEs will also be focused on, so, the definition of SME in the context of Bangladesh should also be known. Bangladesh Bank, which is the central bank of Bangladesh has recently defined the SMEs in Bangladesh, where it is said that the small enterprises are those which are having an employee base of maximum 49 and fixed capital investment of less than 100 million taka (almost less than 1 million euro) and medium enterprises are those that are having an employee base of maximum 99 and minimum 50 and having a fixed capital investment of maximum 300 million taka (almost 3 million euro) and minimum 100 million taka (almost 1 million euro) (Zubayer, 2012). Surely, some goals are attributed with the decision of going international. It can be seen from the definition that the employee base and profit rate of the SME is not very high.

While involving in internationalization, two of the most common goals are getting upward profit flow and achieving growth of the firm (McDougall & Oviatt, 1996). In the case of internationalization, Foreign Direct Investment (FDI) and exporting are the two most popular way for the firms. Many SME's do not have enough experience about the international market and in that case, exporting is considered as an important tool to gain international experience. It helps the SME's to gain knowledge about the international market and at the same time building network with the local clients (Lu, 2002).

## **1.2 Problem**

The focus of this thesis is within the field of the initial stage of SMEs' internationalization. After reading books and articles, we found that the SMEs face various challenges throughout the internationalization process. The initial stage of internationalization is of crucial importance for a SME because, then it starts getting closer an unknown business environment which often means that it has to deal with many difficulties when trying to market, advertise and sell its products.

Study shows that, there is still insufficient understanding about challenges that inhibit the internationalization of small and medium sized firms (McDougall and Oviatt, 1996). A study done by Zahra et al, 1997 prioritized environmental factors, industry factors and firm resources, whereas Coviello and Munro (1995, 1997), and Chetty and Hunt (2003) identified networking relationships as a potential challenge for the internationalization of SMEs. The findings of the authors were multi-dimensional. We thought that, if the SME owners do not have an idea about what challenges they might face when moving to a foreign market, then it can be problematic for them. The problem of this thesis thus concerns the challenges faced by an SME right from the beginning of its internationalization process.

## **1.3 Purpose**

The purpose of this thesis is to investigate challenges that appear in the initial stage of internationalization of Swedish and Bangladeshi small and medisum sized companies. In this way we hope to contribute to the readers' and the interested firms' understnading of various challenges.

## **1.4 Research questions**

To guide a study, research questions should be established (Saunders et al, 2009). In this study the following questions are formulated:

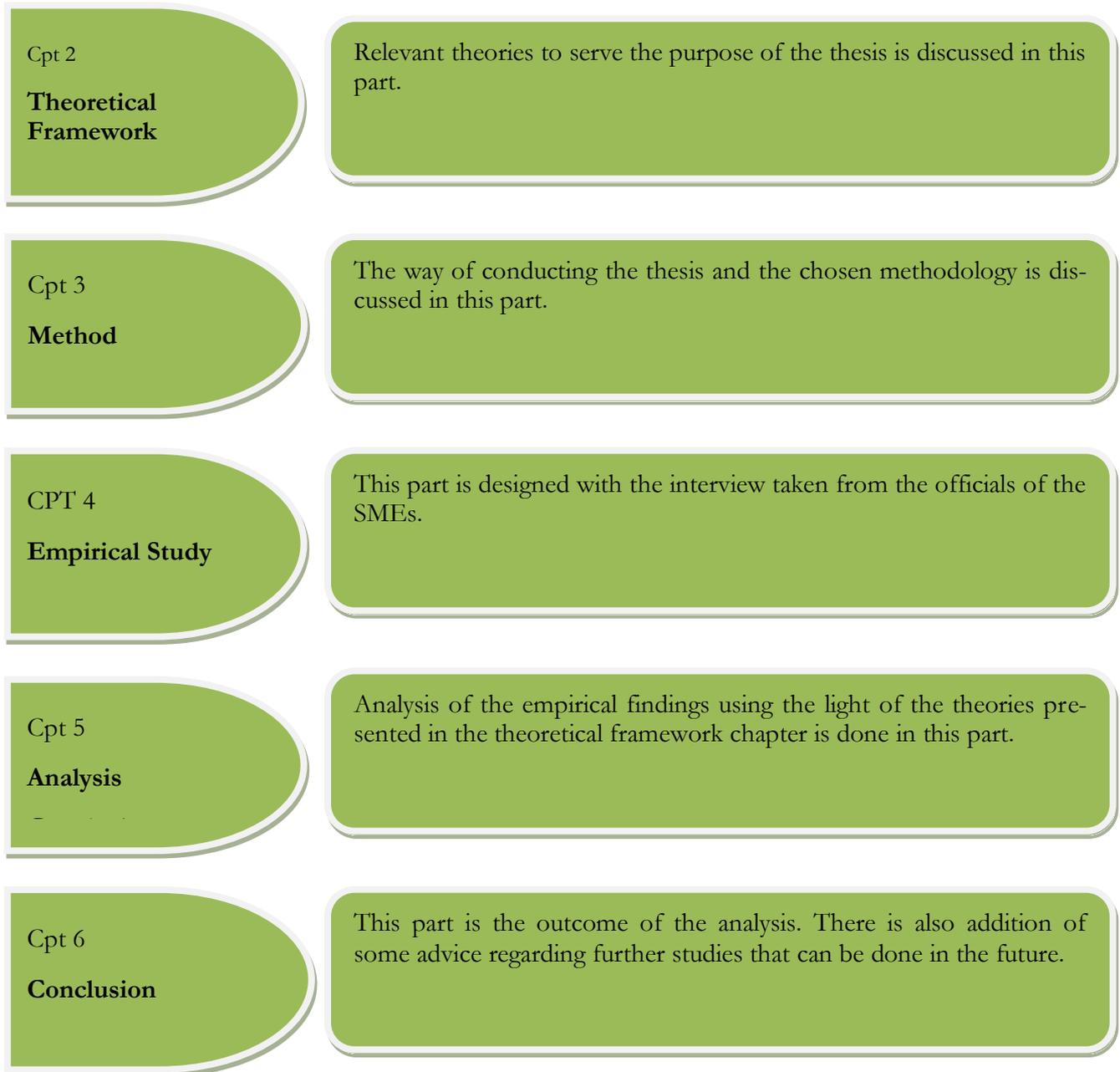
- What are the challenges for the SMEs in the initial stage of the internationalization process?
- What are the expected challenges before going international?

### **1.5 Delimitation**

The authors have tried to get an understanding about the initial challenges in the internationalization process of SMEs but many more challenges may evolve in the later stages. As the study is limited to the initial stage, many important challenges that appear in the later stages are not included. Apart from that, the challenges may not be the same all over the world. For an example, the challenges faced by a SME from a developing country may not be same as an underdeveloped country's SME. Moreover, the challenges may differ between country to country because of the existence of various national cultures, government rules, and business environments. To minimize the limitation, scenarios have been described from both an underdeveloped and a developed country. As a developed country, Sweden is included and as an underdeveloped country, Bangladesh is taken into consideration.

## 1.6 Disposition

The disposition of the remaining part of the thesis is shown below.



# 2. Theoretical Framework

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*Previous research and studies that have been conducted within the field of challenges regarding SME internationalization will be focused on in this chapter, but more deeply the earlier stage challenges will be focused on. The Uppsala Model (Johanson & Vahlne, 1977, 2009) is presented as the main internationalization theory for our study.*

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## **2.1 SME Internationalization**

SME, which stands for small and medium sized enterprise, has become a very common way of starting a new venture as it does not need high amount of capital or complex organizational structure. SME's have huge growth opportunities and these small scale businesses can really play a vital role in economic development of any country through valuable employment generation and financial flow (Arinaitwe, 2006). Firms use internationalization as a way of their growth strategy and in recent years it has been used by many SME's in the international market (Oviatt and McDougall, 1994, 1999). In recent times many SME's are being internationalized at very earlier stage comparing with the previous decades (Andersson, 2004).

Geographical extension which means extending business from one country to another country is one of the important ways for the SME's for internationalization. On the other hand it can be an important growth strategy for those small and medium sized enterprises to internationalize their operations whose business scope has already been confined with the same geographical boundaries (Barringer and Greening, 1998). But different geographical area always comes up with different cultures, market conditions, customs, customer preferences etc. To adapt with various market conditions, firms may need to adopt to internationalization strategy for grabbing new market opportunities of core competencies in a global market place (Zahra, Ireland, and Hitt, 2000). Internationalization for small and medium sized enterprises (SME's) in different geographical markets can be an important opportunity for their external growth and value creation activities. In this way, the internationalization strategy will bring some unique challenges in addition to the existing domestic market growth of SME's. Once SMEs try to enter into a new market, many of the challenges that might

appear can be created through the difficulties associated with the liabilities of foreignness (Hymer, 1976) and newness of the market place (Stinchcombe, 1965), where the target market and new subsidiaries are totally dissimilar with the parent organizations core value and business functions. It means the knowledge, capabilities and technological innovations that have already been introduced by the SME's have to face a different set of market structure than the domestic market.

## **2.2 Uppsala Internationalization Model**

The Uppsala internationalization model is developed by Johansson and Vahlne (1977, 1990). It is considered as a leading internationalization process theory (Andersen, 1997). The basic assumption of this model is that, inadequate knowledge about the foreign market is a major hindrance for international activities, but it can be gained in course of time and strategies. In this model the example of the Swedish firms is given. While going for international operation, they follow small steps like, exporting through agent, then establishing a sales subsidiary and sometime beginning direct production in that country. These small steps slowly make the firms adapt with the new market. As psychic distance is a major issue in this case because the firms have to adapt with the new system of a new country, the firms starts their internationalization process in the countries where there is less psychic distance (Johansson & Vahlne, 1977).

While the firms go into the new market, the psychic distance is higher. This distance is caused as a result of the differences in the languages, cultures, business practices, level of industrial and infrastructural development, level of education etc. According to Johansson & Widersheim-Paul, (1975) The firms are more likely to follow the sequential or incremental steps that the authors mentioned as 'Establishment Chain'. They mentioned two aspects of this chain, the state aspect and the change aspect. The state aspects refers to market knowledge and market commitment. The change aspects refers to a decision to commit resources and to the performance of current business activities. In this process (see Figure 1) the commitment decision and the current activities are assumed to be affected by both market knowledge and market commitment and, in turn, affect the knowledge and the commitment (Aharoni, 1966).

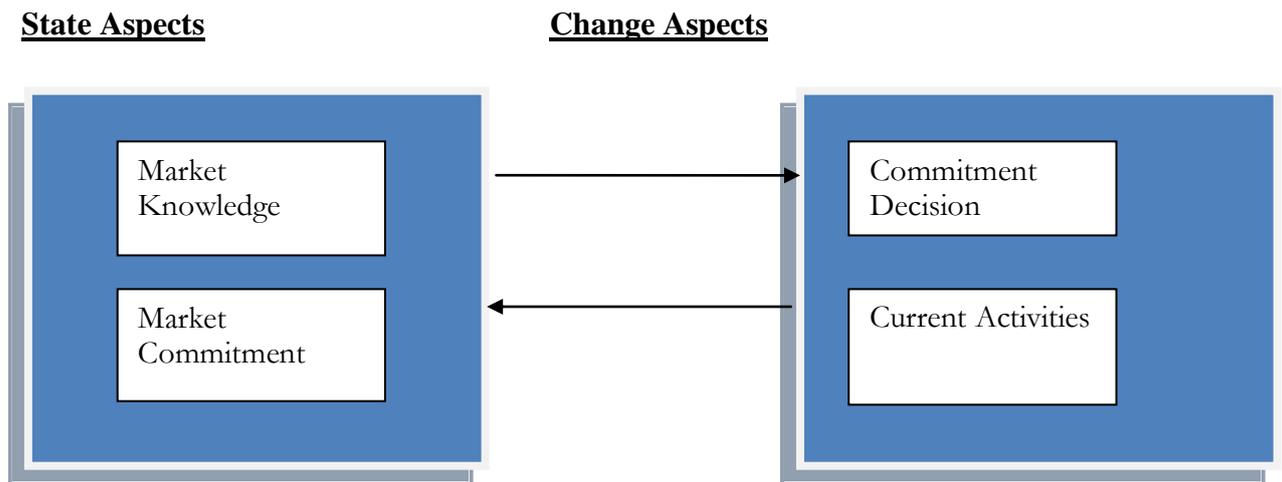


Figure 1: The internationalization process model (Johansson & Vahlne, 1977)

But the firms do not always follow sequential and incremental steps. There are also firms that enter into a new market as soon as they are established. These firms are termed born global (Knight, 1997).

After the Uppsala Internationalization model, there have been many changes in the world business environment and many theories have evolved as well. So, the authors revised their model and mentioned that the present business environment is now based on network relationship where the suppliers and the customers are part of a relationship network (Johansson & Vahlne, 2009). In addition they pointed to trust building and to the knowledge that is created through the network relationship.

There is not much change in the basic structure of the model that was developed in 1977, but in the revised model with regard to the state aspect, Johansson and Vahlne (2009) have added 'recognition of opportunities' to the 'knowledge' concept to indicate that opportunities are very vital in building knowledge. The authors have also added network position under state aspects. Previously market commitment was there in the old model but the authors now have the new understanding that business is done in a network. The more stronger the network is the more flexible the environment becomes for the business.

Figure 2 demonstrates the content of the stage and the change aspect in the network model.

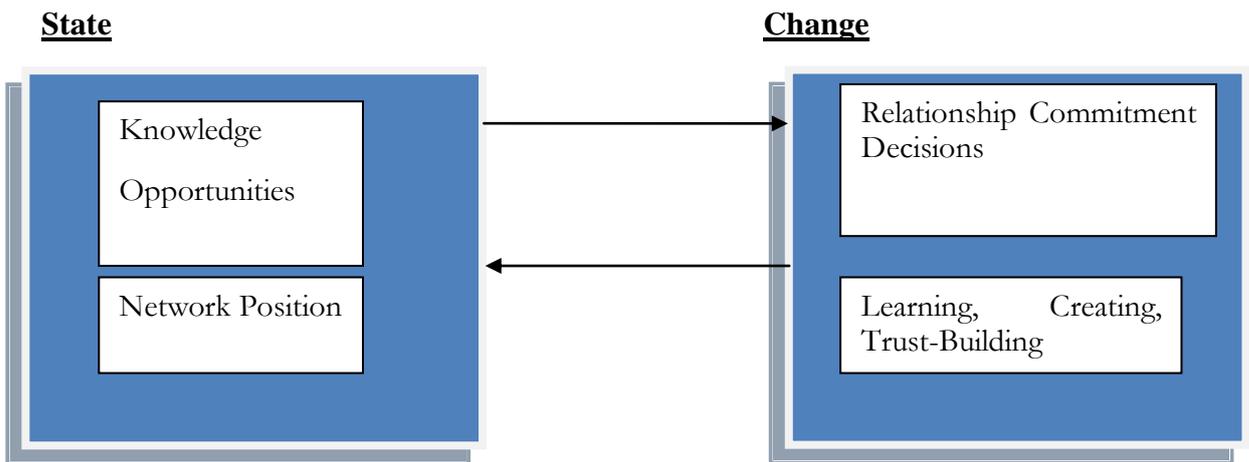


Figure 2: The business network internationalization process model (Johansson & Vahlne, 2009)

### **2.3 Initial challenges in the way of internationalization**

A study shows that there is still insufficient understanding about the challenges SMEs face in the internationalization process (Westhead et al., 2001). A study done by Zahra et al. (1997) pointed to challenges in connection with environmental factors, Boter and Holquist (1996) industry factors, Westhead et al. (2001) firm resources, and Cannon and Willis (1981) emphasized level of experience in relation to challenge.

#### **2.3.1 Marketing Challenges**

While SMEs go international, information about a foreign market is crucial for the businessmen to consider. Information about a foreign market includes: information about customers, competitors, infrastructures along with other factors that may affect the daily activities of any foreign investors. Past studies show that when companies internationalize, especially in exporting, they face severe difficulties in obtaining necessary information to enter in foreign market (Eshghi, 1992). Another important study done by Alexandrides (1971) demonstrates that because of limited market information, both importing and exporting companies are always facing complexities in locating foreign markets. Actually, lack of knowledge regarding foreign markets may hinder the overall international performance of any firm (Kedia & Chhokar, 1986). In the case of small and medium sized firms, they are more delicate as they

might have very little internal resources to invest in gathering potential foreign market information. On the other hand, most large firms have more internal resources to deploy in observing and identifying information about their potential international market and promoting their products.

Some other researchers have also explored several other marketing barriers to import and export activities of small and medium sized firms. For example, competition in foreign and domestic markets was found as one important marketing barrier that could interrupt a SME's internationalization and especially hinder the expansion of export (Naidu and Rao, 1993). While going international, strategies related to pricing of any product has been considered as an important factor (Keng & Jiuán, 1988). Kaynak and Kothari (1984) found that "pricing the product for the international markets was one of the least difficult task for exporters in Nova Scotia and Texas. Advertising and promotion are other important factors which can create bad impact on the internationalization process. A study done by Keng and Jiuán (1988) found that, in Singapore most of the exporters has been considering advertising and promotion as more crucial in internationalization than the importers. In contrast Namiki (1989) has identified the thought of experienced exporters that, in Japan Advertising and Sales promotion is not considered vital for the business.

The challenges found under the term marketing challenges are-

- Gathering enough information about the foreign market.
- Unknown competition in the foreign market.
- Pricing the products.
- Advertising and promotion.
- Identifying appropriate distributors and suppliers.

### **2.3.2 Procedural challenges to entry and exit:**

While internationalizing, procedural barriers can be raised. These refer to the transactions within foreign market where unfamiliarity with techniques and procedures, communication complexities, and unnecessary delays in monetary transactions have great impact on the overall SME's performance (Moini, 1997). It is shown that perceived complexities on import and export, such as shipping complexity, uncertainty

of shipping costs, and complexity of trade documentation also relate to procedural barriers (Sharkey et al.,1989).

### **Unfamiliar import& export procedure/documentation**

When SME's involve in foreign trade operations they experience customs documentation, shipping arrangements, and other export procedures as hurdles for their business operations. The association of time and cost for documentation may create a negative mentality in doing foreign trade (Moini, 1997). Different estimates show that the average number of foreign transactions involves at least 40 documentations and 27 parties which usually results in documentation costs which is almost 7 percent of the total import/export cost (Terpstra & Sarathy, 2000)

### **Communication gap with foreign markets**

In order to have successful foreign trade, it is important to maintain proper and daily communication with the foreign markets. However because of large geographic and psychological distances between sellers and buyers in international markets, sometimes it becomes more complex for businessman to maintain daily communication. In addition to this, there still remains some underdeveloped foreign countries with poor communication infrastructure like: Asian countries (Terpstra & Sarathy, 2000). This will hamper the continuous flow of international business transactions by creating some serious problem such as: uncertainties in information processing, less control over foreign trade operations along with delays in strategic decision making and some useful feedback from business development authorities.

### **2.3.3 Bureaucratic challenges**

Governmentally imposed barriers involves different actions and reactions that have been taken by the home country government for facilitating foreign trade. In our study we would like to characterize the governmental barriers by using two different dimensions. Firstly: Lack of interest shown by the home country government in motivating and assisting the current foreign trade operations. Secondly: The inherent bureaucracy in its regulatory framework related to the foreign trade operation and entry/exit barriers erected by government.

### **Lack of government interests in motivating/assisting foreign trade**

In a given country, government and its related agencies could be the major promoter of foreign trade activities by enhancing all the incoming and outgoing monetary transactions along with bank guarantees, pricing negotiation process, trade fair and also sourcing sponsorship for the trade missions (Gerald et al, 1998). However, in most of the developing and underdeveloped countries, importers/exporters complain that they do not have enough assistance from the home country's government. Even though governments provide some assistance, firms fail to utilize it properly. The assistance might not adjust to the specificity of small and medium sized companies (Serinhaus & Rosson, 1990).

### **Unfavorable regulatory framework attributed by government**

To develop and facilitate domestic trade and infrastructures, government may put some strict rules and regulations on international trade issues. In that case the initial role of government could be restrictive through a number of legislative rules imposed on firms along with different foreign investors. These restrictions may include: prohibiting international trade with some countries where government has some bad diplomatic relations for an example: Bangladesh vs India or India vs Pakistan (Terpstra & Sarathy 2000).

### **Entry/exit barriers erected by the government**

When firms involve in internationalization, the highest and most economically damaging entry/exit barriers could be those erected by a government. A study by Baumol (1990) reveals that governmentally imposed rules and restrictions related to legal logistics, taxes, and also some bureaucratic corruption may considerably increase the costs of establishing international trade. Whereas in another study, done by Murphy et al (1993), barriers to entry/exit imposed by the home/host country government rather will encourage and motivate business-minded and innovative people to invest in exploiting the system. In many countries, various rules and regulations related to environment, safety standard etc. may appear as entry barriers for a SME.

#### **2.3.4 Imperfect information**

During internationalization of business operations, rich information about a foreign market is crucial. Informational barriers can be raised because of difficulties in identification, selection and communication activities with the potential foreign market (Morgan and Katsikeas, 1997). For our study we have categorized informational barriers in the following sectors: Selecting/Analyzing of foreign market, Identifying the key business opportunities in specific foreign markets.

#### **Selecting and analyzing foreign market**

Appropriate information about a foreign market is always necessary in order to reduce a high level of uncertainty that could be inherent in the heterogeneous, sophisticated, and turbulent foreign business environment (Welch & Wiedersheim-Pau, 1980).

#### **Identification of foreign business opportunities**

Window opportunity in a foreign market may exert strong pressure on small and medium firms and on their willingness to engage and expand their foreign business operations (Albaum, Strandkov & Duerr, 1998). Failing to identify proper business opportunities leads to keep the small and medium enterprises less prepared and also less equipped to cope with upcoming challenges in the international business environment (Leonidou, 1995).

#### **2.3.5 Cultural Challenges**

Culture is the combination of values, norms, and customs along with the knowledge that guides human beings to shape their behavior in a society. According to Schein (1994) organizational culture represents a pattern of basic assumptions in a given group of business people such as ways for external adaptation, internal adaptation and problem solving behavior. These assumptions influence how people perceive and shape their behavior in relation to challenges met in a new environment. The role of culture in the internationalization process has long been established as a crucial factor of external environment which entails differences in the ways people shape their lives (Steenkamp, 2001). According to Johnson and Turner (2006), a cultural barrier is one of the biggest barriers in SME internationalization. A SME tends to have lim-

ited knowledge about a foreign culture which has to do with the entrepreneur's level of education and experience, and the unfamiliarity with new target markets. That is why understanding foreign cultures where SME's want to expand has been considered as a crucial factor for the success of SME internationalization (Swift & Lawrence, 2003). However, understanding a host market culture is not only critical to one's chances to achieve success but it could be the determinant of other big markets into which the owners and managers might enter in a near future.

### **2.3.6 Financial challenge**

Engagement in internationalized business operations often requires huge capital. Capital needs to be invested in researching potential markets along with visiting customers for ensuring the adaptation of a future import/export marketing strategy to a new business environment. An inadequate capital structure of a SME is considered a challenge for internationalization (Bilkey & Tesar, 1975).

# 3 Method

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*A qualitative method has been chosen for conducting our study. This chapter includes a presentation of how the qualitative method has been used and how empirical data has been collected through interviews. The chapter also includes a discussion of quality assessment with reference to validity, reliability and generalizability.*

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## **3.1 Qualitative Study**

Methodology is a way to fulfill the goal of a study and provides the guidelines for using tools (Potter, 1996). Research can, in general, be done by the adoption of a quantitative and/or a qualitative method. The researchers decide which method they will use depending on the goal of the research (Holme & Solvang, 1991). This choice also depends on the problem and the need for information. In our study we have adopted a qualitative method. It covers a small sample and refers to an unstructured and exploratory research methodology (Malhotra, 1996). The data collected through this method cannot be quantified because of their structure (Parasuraman, 1991). Apart from that, the qualitative method can give more opportunities to be participative (Schostak, 2006). In our study we are dealing with the challenges faced by SMEs in the earlier stage of internationalization and with the justification of the best of our knowledge the relevant challenges cannot be quantified. This fact has made the decision to choose a qualitative method easier for us. We also felt that a qualitative method will allow us to look more in depth of the subject matter we are dealing with. A quantitative method and statistical tools cannot identify challenges based on people's thoughts about challenges since they focus on facts which are just given some numerical values.

## **3.2 Instrument of data collection**

Various data collection methods are used based on the type of the research. These are e-mail, interview, literature review, case studies, content analysis, web based survey etc. Denscombe (1998) mentioned that researchers should be very careful when choosing method and the best one should be picked from the available options. Yin (2003) has mentioned six methods for collecting data. They are documentation, archival records, interviews, direct observations, participation observation and physical

artifacts. While collecting the data it is important to maintain the originality of the data and in this case the primary data give a better result (Yin, 2003).

In our study we have gathered empirical data by using the interview technique. This is a way to gain trust and cooperation from the interviewees/respondents (Cavusgil, et. al., 1993). In a survey method, the interviewees may fall into confusion but in the interview the interviewer can help to reduce misunderstandings so the outcome becomes more realistic (Babbie, 1992). Some of the interviews are personal interviews and some of them are telephone and e-mail interviews. Due to limited time it was not possible to conduct personal interviews throughout the entire empirical study. To collect the interview data, contact was made with more than 19 companies in which 11 were Swedish companies and the rest of them was from Bangladesh. We tried to get insight into both a developing and an underdeveloped country's SME as we thought more challenges can be identified in this way. Responses were received from 2 Swedish companies and 3 Bangladeshi companies. A number of 10 interviews supplied data from 6 different individuals. Some persons were interviewed twice to make the subject matter clearer. The semi-structured interview technique was followed. This is a sort of interview where there is a formal set of questions but while interviewing, many more questions may come out to make the subject matter understandable (Semi-structured Interviews, 2008).

The interviewee table is presented below.

<b>Name of the Company</b>	<b>Interviewee name &amp; designation</b>
Flisby AB	Johnny Hansen (General Manager)
Flisby AB	Kristofer Hansen (Import Manager)
Mega Gastronomi	Michael Kalender Idis (Sales Manager)
Alam Shipping & Trading Agency	Alam Muhammad Morshed (CEO)
Luman Group	Lutfor rahman matin (MD)

Bhai Bhai Plastic & Putting Industry	Mohammad Jamal Hossain (Owner)
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### **3.3 Conducting Interviews**

We mainly tried to contact via telephone and in some cases via e-mail. The response was low from Sweden mainly because many people went for their summer holiday. In Bangladesh, due to lack of knowledge about the interview technique, the people we contacted were hesitant about sharing their thoughts. As a consequence of this we selected the companies that were previously known to us and it made things easier for us.

#### **3.3.1 Design of the interview**

At the beginning of every interview session, we briefly presented our idea about the interview and told about our topic of study. It was mainly an ice breaking session, so the interviewees would feel free to share their thoughts. We also asked for the permission to recording their voice. Before that we made clear to them how we planned to use and present their thoughts in our study. The challenges faced by the SMEs in the early stage of internationalization do not deal with any sophisticated confidential information about the company's strategy, so none of the interviewees denied to give us the permission to publish their names along with the company names.

In the interview sessions we followed a flow as described next.

- Firstly we asked about the reason to go international. It was done to make them think about the internationalization process once again.
- Secondly we asked the main questions. As the interviewee already had thought about the internationalization process of the firm it became easier to insights into the challenges faced.

### **3.3.2 Interview questions**

As mentioned above that the interview session was mainly semi-structured. So apart from the following questions, some more questions were asked which were relevant to the interview. Also, some questions were asked in different forms, so that we can get the most of the experience of the interviewee.

<b>Question</b>	<b>Reason to ask</b>
What was your driving force behind involving in internationalization?	To make the interviewee think about the internationalization process so that they could answer the question properly.
What are the challenges faced in the initial stage of the internationalization process?	To get the direct answer from the interviewee.
What types of challenges did you expect to face and do they match with the real scenario?	To make them ask themselves if they have missed or overlooked any challenges
How have the unexpected challenges hindered the internationalization process in the initial stage?	As above
Which challenge/challenges do you think mostly affected the internationalization process (among the challenges you mentioned)?	As above

### **3.4 Quality Assessment**

It is very important to maintain high data quality while conducting semi-structured interviews. The assessment can be done considering three variables. They are validity, reliability and generalization (Saunders et al, 2009).

#### **3.4.1 Validity**

Validity means to what extent the researchers have gained relevant knowledge from the participants (Saunders et al, 2009). It is very important to reach the destination the authors are intended to reach and validity deals with this fact (Zikmund, 2000). In our report, we tried from the beginning to find out the challenges faced by the SME's in the initial stage of internationalization and after collecting the data from the interviewees, we believe that we have been quite successful in this case.

#### **3.4.2 Reliability**

Reliability deals with minimizing the errors in the report and it is mostly relevant for a quantitative study (Bryman & Bell, 2007). It is hard to achieve a high level of reliability in a qualitative study due to its flexible structure (Saunders, 2007). In our thesis, a brief idea about the interview was presented to the interviewee before the session started. Our thought was, if the interviewee has some knowledge about the interview session, then they can arrange their words properly and can recall many important events which can be very helpful to increase the reliability.

#### **3.4.3 Generalizability**

Generalization means to prove the external validity and to refer the findings to other settings and organizations. In the case of a qualitative method and semi-structured interviews, it is not possible to generalize about the entire population (Saunders et al, 2009). But this is not the purpose of our thesis. Our purpose is to contribute to build an understanding about the challenges SMEs are facing in the initial stage of internationalization.

# 4. Empirical Study

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*The collected data from the interviews is presented in this chapter. Initially, information about the Swedish and Bangladeshi companies included in the empirical study is provided and then, the data gathered from the interviewees is presented. The chapter is designed in accordance with the theoretical framework. The brief analysis of data included in the chapter will be helpful for a deeper analysis in the next chapter.*

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## **4.1 Company Profile**

The interviews are based on 6 interviewees in 5 companies. The brief information of those companies are given below.

### **Flisby AB**

This company is specialized in natural stone for residential use. They are one of the biggest dealers in the Scandinavian area. Flisby has almost 50 years of experience in the relevant field. They import their raw materials directly from the supplying countries without any middlemen, which has made them able to keep their products price lower in the market. Apart from that, their wide varieties of products has made it possible for the customers to pick the best one out of that. Flisby has its business with some Asian countries like India and China and European countries like Poland, Greece, Spain etc (Flisby AB, 2012).

### **Mega Gastronomi AB**

This company is specialized in supplying restaurant materials like Buffet bar, Pizza ovens, Cooling system etc. They started their operation in 1998 and now they are importing and exporting their materials from/to the European and Asia countries. Their marketing strategy is to provide unique products with less possible price (Mega Gastronomi AB, 2012).

### **Alam Shipping & Trading Agency**

This is a Bangladeshi company, specialized in working as an agent for the local or foreign companies while exporting or importing the products or raw materials. Alam

Shipping & Trading agency is an old shipping corporation in Bangladesh. It has been continuing its operation in Bangladesh since 1996. Apart from that, they also work as an agent for the foreign investors to the local market. From 2003 they have started the internationalizing process in their organization and now they have fully adapted with it.

### **Bhai Bhai Plastic & Putting Industry**

This Bangladeshi company is specialized in producing plastic materials for home and official use. They import raw materials from China and sometime collect raw materials from the local market. This company exports the finished plastic goods to the middle east countries like UAE, Qatar and Kuwait. Still They are not fully adapted with the process of internationalization.

### **Luman Group**

This is a leading garments manufacturer in Bangladesh. This company is specialized in woven products, which is a type of readymade garments product. Starting the journey in 1980, in every single year this company has generated profit. The management always tries to invest sufficient amount of time and money for making the employees well trained. It has export relationship with the USA, the European Union and the Middle East.

## **4.2 Driving force of internationalization**

It was very important to know the reasons for which the interviewees thought that the internationalization could be an important tool to develop the business. The same questions were asked to all of the interviewees and all their answer were quite similar. The General Manager of Flisby AB Johnny Hansen mentioned the unavailability of all the required resources in the domestic market as a reason. He mentioned:

*‘Sometime it is nice to have business with some countries as they are very professional and at the same time enriched with the resources that we need’.*

This is really an important point to be noted that sometime unavailability of required resources lead to involvement in internationalization.

The sales manager and the son of the Manager of Flisby AB Kristofer Hansen shared his point of view regarding internationalization. According to him:

*‘We could have limited our expertise only in the local market and that would help us to keep our focus on few things in an appropriate manner. But outside of Sweden many experiences and opportunities exist, so we wanted to enter those markets to get more experienced and to increase our profit flow as well. We hoped and proved in later time that the decision has helped us to improve our performance’.*

If we read his comment carefully, we can understand that he thought to gather more experience from another market which could be helpful to increase his business performance.

Md Jamal Hossain, the owner of Bhai Bhai plastic & putting industry, stated that:

*‘We need some special type of raw materials for the production which is not in local market and needs to be imported from China, so we established business relationship with Chinese suppliers and as there is a lot of suppliers of plastic goods, so we planned to go for export to broaden our area of business’.*

That means, scarcity of the raw material and wide business opportunities made him to think about moving to an international market.

Michael Kalender Idis, sales manager and the son of the owner of Mega Gastronomi AB, shared with us different reasons behind going international. He said:

*‘We thought that, only sustaining in the local market cannot help us with proper business development, so we contacted our network in the selected countries to get an entry’.*

That means, the intention of getting more buyer and working in bigger horizon made him decide to internationalize.

The Managing director of Luman group, Mr Lutfur Rahman Matin said:

*‘At the beginning we were thinking only about the local market, but very soon it seemed very small for the capacity we achieved, so we were looking for the opportunities beyond the local boundary’.*

His comment indicated that moving to the international market was like having more open business opportunity.

The CEO of Alam Shipping & Trading Agency Alam Muahmmad Morshed has the same sort of opinion. He mentioned that:

*'In the domestic market, the opportunities are limited and I did not want to spoil my capabilities by limiting it only in one place'.*

#### **4.3 Challenges in the way of internationalization**

Now we have some idea about the reasons for which the SMEs go international, but the initial stage challenges are yet to be presented.

The GM of Flisby AB Mr Johnny Hansen shared the challenges he faced in the initial stage of internationalization. He mentioned that, the company mainly deals with the garden decorating stones but in the Swedish market, these stones are not available in a large scale. So they contacted the suppliers in China, India and some other countries. We were very eager about the fact that, though he did not have much knowledge about the new market, he got the courage to enter into that new market. He mentioned:

*'You cannot have all the information before entering into a new market, you will get experienced as you go on, but you need to have sufficient financial background because you do not know whether you will survive in that market or not'.*

CEO of Luman Group Mr Matin also shared his view with us. He said:

*'I was too optimistic about my success and started the international operations but I faced some major failures and those cost me a lot but I was lucky to have a strong financial strength of my business and that saved me from being getting out of the operation'.*

So according to what they said, the inadequate capital structure of the SMEs to facilitate international business operations is considered a challenge for internationalization. As a newcomer in the international market the firm may have to deal with many financial-related failures (Bilkey, 1975).

As mentioned by Johnny they involve in business with the countries that can supply them with the required materials. To get deeper into the matter we were interested to know that in case of same type of supply from the different supplying countries, how

they select their suppliers. While answering this, the sales manager and son of the GM Kristofer Hansen said:

***‘We do not look for the countries that are sharing the same domestic culture, rather we prefer the similarity in the corporate culture, because it is an important factor for us while making any business deal’.***

Different corporate cultures increase the risk of ethical clash. Johnny and Kristofer both informed about the fact that they faced many challenges in the initial stage of internationalization and are still facing while doing business with the people of different cultural backgrounds. That is why they do not rely fully on them and limit their business relationship. For an example they mentioned:

***‘When we import from China, if we find some problems with the supplied products, we contact the suppliers and they make a quick response but we do not get any quick response from the European suppliers’.***

These statement somehow clarifies the statement made in the Uppsala Internationalization model, where it is mentioned that firms try to enter into the market where they experience less psychic distance. In the case of Flisby they have focused on the internal culture of the firms with which they have established a business relationship. Cultural challenges were mentioned by all the interviewees.

Mr Jamal from Bhai Bhai Plastic & Putting Industry mentioned:

***‘Our flexible way of business in the domestic market was not welcomed by our foreign clients and they were very strict about the time’.***

Mr Martin said:

***‘It was surprising that the institutional buyers of our products in the foreign market were keen to know the way we treat our employees. They even sent their representatives to visit our factory. At the beginning we were very annoyed but later we understood that they want to ensure that all the employees are being nicely treated. It will not create employee dissatisfaction which can ensure the long term product standard of the products. I tried my best but this was not possible for me to treat my employees the way they treat them in Europe or in the U.S.’.***

Mr Johnny mentioned:

*'People from different parts of the world have different cultures to which they adopt the products and business operations. It is so tough and very important also to make sure that those cultural differences do not hinder the steps of the business'.*

Mr Alam mentioned culture as one very important issue to deal with. He said:

*'In the domestic market clients always keep pushing about time but it can be adjusted later on. But in an international market, once the time is fixed then the clients do not push about it. However, when the deadline comes then they are not ready to compromise about it'.*

This behavior made the internationalization process tougher for him because he was more used to push the clients to change the deadline.

Mr Kristofer stated:

*'Behavior of people of some countries are really strange. In some countries people will behave like you are taking all the profits and leaving nothing for them. When we were new, we really felt very bad for them and they were winning in most of the negotiations but later on, when we understood the matter with the help of our local agents, then we changed our tactics in negotiations and managed to have a win-win deal most of the time. This is tough but important at the same time to understand the cultural differences and to act accordingly'.*

Michael from Mega Gstronomi AB said:

*'I was lucky to have friends when I first entered the international market. They were very experienced so I got help from them but I got to know how tricky it is to survive in the international market as most of the old businessmen try to make full use of to the newcomers'.*

Following the comments made by the interviewees we conclude that the role of culture in the internationalization process has long been established as a crucial factor of the external environment. This entails differences in the ways how people shape their life in different culture (Steenkamp, 2001).

In the case of the Luman group, as mentioned earlier, the CEO planned to move to an international market. He thought that it would help him to work in more open atmosphere and grabbing new opportunities would be easier. When the CEO faced the real scenario, he was demotivated at the end. He mentioned:

*'To understand the market in Europe, at first I appointed one contact person and he was explaining everything to me as if it were easier to sustain in the market but that it also was a mistake. He did not mention about the new challenges, which I had never faced in the domestic market I was doing business in. So the limitations of my knowledge about the international market made me suffer during the first few years of operations'.*

The manpower he had at that time was not prepared for the new challenges in the international market. In the international market, the requirements of quality of products, lead time, export-import business rules are not the same as in the domestic market. He said:

*'My company was one of the finest producers of clothes in the local market and my workers were pretty experienced with their work. But all of a sudden I found out that they were losing their self-confidence as they were not at all aware of the challenges in a foreign market'.*

As a matter of fact, by attitude people are afraid of the unknown and mostly want to be in their comfort zone. However, he CEO was trying to get out of the comfort zone and the workers were not easy going with that. He added:

*'It took months to make the workers understand the benefit of my plan. I had to invest more in their training. I was worried because they are my biggest asset and I cannot go to a new place without their support. It was hard but I achieved my goal'.*

Mega Gastronomi AB was suffering in the internationalization process, because of problems regarding the lack of network, outside of Sweden. Michael said:

*'I was very sure about the success of what product I have but was still having problem in the international market. The main reason was the lack of contacts in the markets I was intending to enter'.*

Eventually he contacted some of his friends and used their networks to enter into the market and initiate the internationalization process.

Mr Alam (CEO of Alam Shipping & Trading Agency, Bangladesh) mentioned:

*'With my experience of working in the domestic shipping industry and from discussions with my friends having a similar business abroad, I knew that if I broadened my business internationally it will surely get successful but still I was so afraid'.*

Obviously we as interviewers became very interested to know about the reason for this. How can people with experience of shipping business be afraid to go international. Actually it was the experience that made him afraid. He explained:

*'I as a person was full of experience about the shipping industry and it was my dream to go international but when I shared my dream with my employees, they gave me a blank look. At that very moment I realized that I am the only experienced person in the room'.*

Actually most of his employees were not having any good understanding about the international market but they were actually supposed to deal with all the issues. So lack of skilled labor was hindering the plan to go international.

The comments made by the interviewees regarding the lack of knowledge support the statement, Appropriate information about a foreign market is always necessary in order to reduce a high level of uncertainty that could be inherent in the heterogeneous, sophisticated, and turbulent foreign business environment (Welch & Wiedersheim-Paul, 1980).

In Bangladesh, the political situation is not always stable. Mr Morshed had to face many problems to adjust the schedule with the international client. He said:

*'Sometime I feel really frustrated when I am done with everything but because of some sorts of strikes my work get delayed and my international clients are not ready to understand anything about it'.*

He explained how helpless he feels when he loses some business opportunities because of problems created through political instabilities. For example he mentioned that in Asia and Africa, most of the time the unbalancing political conditions make

the business firms operations in danger. Most of the time it happens when they have to depend on one or two countries for supply. It means that problem in one or two countries put their business in danger. The same thing happened with his business as well. Not only the domestic political situation, but also the international political situation creates problem in the business activities and surely at the early stage it becomes very tough to involve in the internationalization activities.

The problem regarding the political instability was also mentioned by the other interviewees. They all shared the feeling of discomfort about it. Mr Jamal, owner of Bhai Bhai Plastic & Putting industry said:

*'When firms are in international markets for a long time then political instability does not make them suffer more, as they get used to it. But when it happens when they are in an initial stage of internationalization then it poses a threat for them'.*

He added that:

*'In 2008, I was about to enter in the middle east market, but suddenly the then government declared the state of emergency because of the political instability. The network I was in contact with denied to take the risk to take my goods as they thought that I may not be able to provide with them the products properly and it took six more months to gain their trust. Things like this are really out of our hand but make us suffer in the short and long run'.*

Mr Johnny from Flisby AB also mentioned this point:

*'Crisis in any country with which my company is in a business relationship makes us suffer a lot. Although I did not have to face this problem in the initial stage of internationalization, I can assure you that this kind of problem can depress the whole internationalization process for a firm that lacks experience of this kind of business environment'.*

Mr Marin and Mr Alam shared the view regarding the government's rules for exporting or importing. Mr Alam said:

*'It takes a long time when we try to import or export anything because we need to meet governmental procedures. While importing, the banks take long time to open*

*the Letter of Credit (L/C), which is vital to give assurance to the foreign sellers about the payment. The banks need so many papers that make us so frustrated’.*

The thoughts of the interviewees regarding the governmental role show that it is perceived as a challenge to the internationalization process. But in a given country, the government and its related agencies could be the major promoter of foreign trade activities by enhancing all the incoming and outgoing monetary transactions along with bank guarantees, pricing negotiation process, trade fair and also sourcing sponsorship for the trade missions (Albaum, Strandskov & Duerr, 1998).

Mr Martin added one more challenge, which concerns the proper pricing of the goods. He said:

*‘At the beginning I was so confused about the pricing of my products. I made it so cheap at first but then the buyers were doubtful about the quality. Then I thought, maybe if I make it costly then they will think that it has a better quality but that plan failed as well. So I had to take help from the pricing specialists of the new market and then I succeeded’.*

Mr Johnny shared his experience regarding pricing:

*‘Our main market is within Europe so we do not have to deal with the issue of pricing but from my knowledge I can say that not only for SMEs but also for all the companies, setting up a proper price is a challenge. Because of the structural simplicity and not very strong financial background, the SMEs are more likely to suffer if they fail to set a proper price’.*

So, while going international, strategies related to pricing of any product is considered an important factor (Keng & Jiuan, 1988).

Michael also talked about another issue that is related to advertisement. He said:

*‘In Sweden, I know how to do the advertisement of my product but things are not the same in another market. So, I had to invest more time to know about the behavior and advertising pattern of the new market and then I had to take the decision about the right type of advertisement’.*

Mr Matin also shared his view about the challenges regarding advertisement. He said:

*'When we started advertising in order to get the attention of the new buyers in the American market, then for a long time we did not get favorable response. Later we understood that the problem aroused because we did not have any idea about how to get their attention. Then we asked for help from the small advertising companies in the U.S. and they helped us with their new idea of advertisement to attract more buyers.'*

Mr Johnny shared his view regarding following incremental steps of internationalizing the firm. Mr Johnny stated:

*'Challenges and failure possibilities are higher when the firms suddenly enter into the international market, not taking incremental steps. They should be watchful about all their steps and not be so aggressive about everything.'*

Mr Matin and Mr Michael identified the lack of proper business network as a challenge for internationalization. Mr Matin said:

*'I did not have a proper network in the European market. I should have built a business network before I jumped into a new market. That would have saved much of my expenses and I could have achieved my target without many failures.'*

Michael stated:

*'I was lucky to have some friends who had a very good network in the markets I was willing to enter, but it would have been better if I have had my own business network. Anyway, something is better than nothing.'*

The comments regarding the incremental steps and need of network relationships in the internationalization process match with the Uppsala Internationalization Model (see Chapter 2).

We were also interested in knowing about one challenge that the interviewees thought would make the SMEs suffer. All interviewees referred to the difficulty in gathering enough information before jumping into the real scenario.

Mr Johnny mentioned:

*'It is very important to know about the depth of the river in which you will swim. The international market is complex in nature and if you do not have a proper idea about it then how you cannot expect to survive.'*

Mr Martin stated:

*'I mentioned earlier as well that I was biased by the wrong information provided by my agent. I really feel that I should have done my personal study before going into the new market and believe me. Maybe that will take some more time but cansave a lot of time and money in the future'.*

The other interviewees also shared this view, which gave us information about the importance of obtaining enough information before involving internationalization.

# 5. Analysis

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*Based on the theories and concepts presented in the theoretical framework (Chapter 2), empirical data is analyzed in this chapter. It begins by focusing on driving forces behind internationalization and continues with an analysis of challenges faced by SMEs in the initial stage of their internationalization process. In this way we will fulfill the purpose of the thesis.*

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## **5.1 Driving force of Internationalization**

As stated in the literature in chapter 2, SMEs begin their operations in the local market and as they gain knowledge and become able to fulfill the goals in the domestic market, then they develop the ability to penetrate the international market. Some SMEs, named born globals, start their operations by directly penetrating a foreign market. Their main intention is to capture existing market opportunities. Firms use internationalization as a way to pursue a growth strategy (Oviatt & McDougall, 1994, 1999).

The view shared by all the interviewees in the the selected Swedish and Bangladeshi companies is that internationalization can lead to success if the challenges can be tackled. The presented companies started their operations in the domestic market. As they progressed, they were motivated to go international. Some went to the international market for obtaining resources, some went to grab opportunities, but the intention was the same, mainly to maintain business growth.

In the process of internationalization, Bhai Bhai plastic & Putting Industry has still not been able to enter into the international market. They are still in the learning stage but they are involved in international activities in a smaller scale. The CEO in this case has decided to be watchful about the whole scenario so that the present experience can help him to take a bigger step in the future.

Flisby AB started their internationalization process with a need of supplies from different markets. The type of products they were trying to provide for its customers' needed raw materials from outside of Sweden, which made him think about internationalization. The owner was left with no choice. He could have run the operations

with the existing raw materials which would have provided a very limited number of options to the customers. Within a couple of years, this would have represented a decrease in the revenues . So, to keep the wheel running, he went to the international market.

The MD of Luman Group and CEO of Alam Shipping & Trading Agency referred to the same driving force behind internationalization. They both thought that the open window in the international market could give them many more opportunities for increased growth. The main intention was to have higher growth. According to them, the international market is a risky place as the number of businesses are higher there. But only operating business functions in the domestic market do not do justice to their capabilities that have been achieved over long time.

The sales Manager and son of the owner of Mega Gastronomi thought that his product has some unique features with low price and could therefore help to increase demands from the buyers. Apart from that, the network relations he had established in some countries, helped him to make the decision very easily to go international.

The following driving forces were found Based on the interviews.

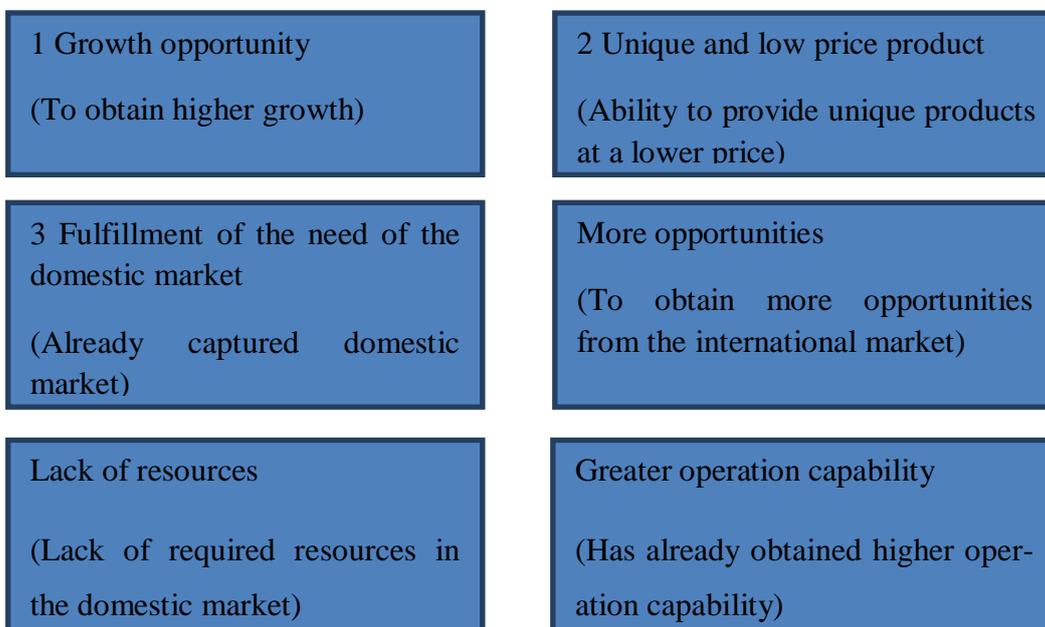


Figure 3: Driving forces behind internationalization

## **5.2 Challenges of internationalization**

Now we will discuss our main topic of concern, initial challenges of internationalization. Lack of information about the foreign market is an important challenge while the SMEs try to internationalize. It occurs when there is problem in identifying, selecting and communicating with the potential foreign markets (Katsikeas & Morgan, 1994). Our interviewees also mentioned this fact. Some of our interviewees even faced failures because they did not have enough knowledge about the foreign market. An example is the CEO of Luman Group Mr Matin. He mentioned that the wrong information, provided to him by his agent, made him face failures in the early days of internationalization. The challenge, related to imperfect information, can result in improper selection or analysis of a foreign market and the identification of unfavorable business opportunity. In both cases there is greater possibility that firms in the long run will be vulnerable. Kedia and Chhokar (1986) referred to the lack of knowledge as a big hindrance for internationalization.

The challenges do not evolve only because of lack of information. To gain financial strength is also a challenge for the SMEs. Actually, when the SMEs do not have enough information about the new market, the possibility of failure rises. To tackle that failure strong financial strength is needed. If the strength is inadequate, then the SMEs will suffer more from every failure (Bilkey, 1975). Apart from that, when the SME has weaker financial backing, then they will have to be more calculative about all of their decisions which will give them less opportunities to look for new options in the market. The strong financial strength of the Luman Group made it successful because it had more opportunities to look for more options and it used its failure experiences to become successful.

As the SMEs move on by establishing a good financial strength and collect enough information about the foreign market in which it will run its operation, they will face some marketing barriers. These are similar to setting up price for the products and properly advertising them. These things may be very simple for the experienced businessmen, who have been operating their international operations for a long time but for a SME, which does not have much knowledge about a foreign market, has to deal with many difficulties. Pricing of any product is a very sophisticated and an important strategy that the SMEs have to make (Keng & Juan, 1988). The GM of Flisby AB has given much importance to this strategy because the owner and manag-

er thinks that the structure of the SME will rarely give them a second chance to correct the mistakes.

The challenges are not limited to the above mentioned matters. According to the theoretical framework and the empirical data, the SMEs have to face many more challenges. Challenges also evolve when the SMEs have to deal with unfamiliar import-export procedures and communication gaps between them and the foreign clients. In the local market, the SMEs do not have to know all the complex systems of payment, import-export, etc. but while going international they need more knowledge that makes them understand the complexity in a foreign market. Sometimes too many documentations and formalities create a negative impression about internationalization in the mind of SME owners (Moini, 1997).

The internal challenges that the owners of the SMEs face can be tackled with a change in attitude and strategies but the external challenges could really make them suffer a lot. The bureaucratic challenge is one of them. The government policy of a country may not always be motivating of internationalization. For an example, SMEs have to follow many governmental procedures to get involved in internationalization but they are not always favorable for internationalization. Sometimes the relationship between two countries' governments also create challenges for the SMEs. Trade barriers could be imposed by a government and this type of barrier affects the firms that are engaged in a business with that country. Specially in the developing or underdeveloped countries, the governmental rules and regulations are not sufficient to motivate the SMEs to be internationalized (Serinhaus & Rosson, 1990). Alam Shipping & Trading Agency, Luman Group and Bhai Bhai co suffered from this sort of challenge during the initial stage of internationalization.

Another external challenge that the SMEs have to deal with in the early stage of internationalization is 'Cultural Difference'. It is really a big challenge to deal with. The firms have to deal with both the corporate culture and national culture. Corporate culture is important while dealing with the other business firms, as the rules and regulations and attitudes of two companies are not always expected to be similar. In the initial stage of internationalization, the SMEs may not be in a position to negotiate the rules and regulations. It is not easy to adapt to the culture of a different organization as the existing system of the SME may not support it. A domestic culture

is actually formed throughout many years of development of norms and behaviors of people living there and involved in the business. Alam Shipping & Trading Agency was having problem in maintaining pace with their clients in the international market. The cultural behavior they were accustomed to was no longer existing in the countries they were entering. It is normal not to have the same culture but the level of difference sometime poses a big challenge for the SMEs, especially when they are entering into an international market for the first time. Jonson and Tuner (2006) termed cultural challenge the biggest barrier to internationalization as it is formed by many factors of which the SMEs has less or no control at all. Flisby AB also stated its problems when it tried to establish business relations with new countries.

The identified challenges in the initial stage of internationalization is presented in the following figure.

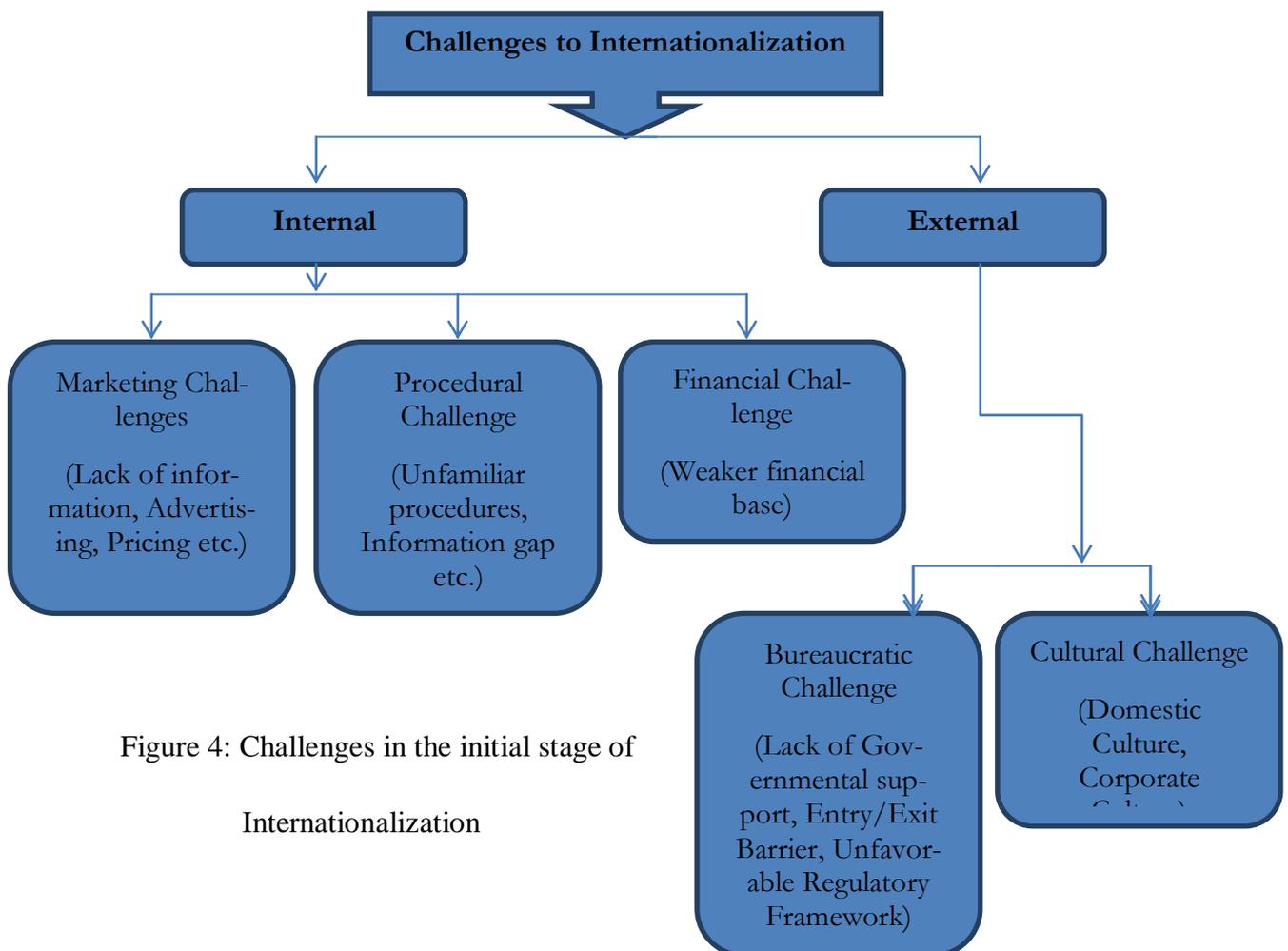


Figure 4: Challenges in the initial stage of Internationalization

### **5.3 The Uppsala Internationalization Model**

As mentioned previously, The Uppsala Internationalization Model is followed while conducting the thesis analysis. The interviewed firms did not directly jump into the international market. According to the model there are different ways to internationalize a firm. They are: export/import, sales office and foreign production.

The interviewed firms mostly started the business with countries with which they experienced less psychic distance. Thus they were interested in countries with a similar business mind. Even though some countries geographically were far away, they could have quite similar business practices. In the Uppsala internationalization Model it is mentioned that the countries prefer to have business relation with the countries having the less psychic distance (Johanson & Vahlne, 1977). Both the GM and the Sales Manager of Flisby AB mentioned they find much more similarities with the business practice with some of their clients though geographically they are located so far. Which means, it is not obvious that the psychic distance will be lower with the neighbouring countries. Countries locating so far can also have lower level of psychic distance. Psychic distance is not only formed by business practice but also by differences in language and political systems, (Johanson & Wiedersheim-Paul, 1975), but for Flisby AB, corporate culture was more important to consider.

In terms of entering into the market the firms preferred to have their own agent and then after understanding the market, some of them established their own sales office, but these steps actually depend on the positive development of the business. In the case of Flisby AB, Mega Gastronomi AB and Bhai Bhai plastic co, they are still having their agent in the countries they have business in but in the case of Luman group and Alam Shipping & Trading Agency, they started with their own agent but after that, they established their own sales office. These sorts of step are mentioned as established chain where the SMEs go to the international market step by step (Johanson & Vahlne, 1977).

When entering into a foreign market the firms preferred to have their own agent, and then having gained enough information about the market some of them established their own sales office. These steps actually depend on the positive development of

the business and a better understanding of the market. Flisby AB, Mega Gastronomi AB and Bhai Bhai plastic co are still keeping their agent. Luman group and Alam Shipping & Trading Agency used with their own agent and eventually established their own sales office abroad. These steps refer to an established chain which the SMEs follow when internationalizing (Johanson & Vahlne, 1977).

According to the Uppsala Model, lack of market knowledge is a major barrier to the internationalization process. From our interview data, we know that SMEs that have limited market knowledge suffered but that they gain experiential knowledge from failures. Luman Group suffered a lot because of lack of knowledge about the international market.

Johanson and Vahlne (2009) mentioned the importance of network relationship for successful internationalization. Mega Gastronomi AB developed a good network relationship in the markets it was entering into. As a result, it was able to use the experiential knowledge developed through this network when faced with challenges. It saved much efforts. It is admitted in the model that the best source of knowledge is experiential knowledge.

# 6. Conclusion

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*This chapter is based on the analysis. Our research questions are answered here to fulfill our purpose of the thesis, which is to investigate challenges faced by Swedish and Bangladeshi SMEs in the initial stage of their internationalization process. This chapter also includes suggestions for further studies.*

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It is mentioned in the introductory part of the thesis that the purpose is to investigate challenges that SMEs face in their initial stage of internationalization. We have presented theories and applied them to the real life experienced of the interviewees to understand the challenges. We have also tried to present driving forces behind internationalization, though this is not our purpose but we believe that it is very helpful to know why a SME chooses to move to a foreign market.

We conclude that driving forces behind internationalization are lack of resources in the domestic market, growth opportunities and uniqueness of the products. These make the firms to think about and go international. Our main finding concerns the challenges that occur in the initial stage of internationalization.

We have found that lack of information is the main challenge. As the analysis shows there is more pressure on the financial side of the SME when information is insufficient.

Market knowledge, which is an important factor to consider for a SME when entering into a new market, is also affected by limited information. Although the firms we have included in the thesis follow the Uppsala model, slightly or fully in terms of moving to countries with which they, in comparison with other countries, experience less psychic distance. All SMEs included in our study agreed with or followed the sequential steps of internationalizing the firm.

In terms of external challenges, cultural challenges and bureaucratic challenges are posed as big challenges for the SMEs. Challenges related to culture are pointed to by

all interviewees, which shows how critical it is to deal with this type of challenges while internationalizing the firm.

## **6.2 Further Studies**

In our thesis we have only gone through the challenges that the SMEs face in the initial stage of internationalization but there are many more factors to think about in connection with SME's internationalization. Further studies need to be done to know that, how the SMEs deal with different challenges and use a theoretical perspective that allows for an analysis of various stages of an international process. A study can be designed with a focus on experiential knowledge and how it is applied in later stages of an internationalization process. We hope the further studies also can help the SMEs to decide whether it is prepared to go international or not.

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## **Appendix I**

### **Interview Questions**

- What was your driving force behind going for internationalization?
- What are the challenges in the way of internationalization in the initial stage?
- What types of challenges you expected to face and do they match with the real scenario?
- How the unexpected challenges hindered the internationalization process in the initial stage?
- Which challenge/challenges you think were mostly affecting the internationalization process (Among the challenges you mentioned)

## Appendix 2

### Interviewee's Contact Information

Company Name	Interviewees name & Designation	Contact info
Alam Shipping & Trading Agency	Alam Muhammad Morshed (CEO)	alamship@gmail.com info@astabd.com
Bhai Bhai Plastic & Putting Industry	Mohammad Jamal Hossain (Owner)	jamal0182005@hotmail.com
Flisby AB	Johnny Hansen (General Manager)	jh@flisbyab.se
Flisby AB	Kristofer Hansen (Import Manager)	kristofer@flisbyab.se
Luman Group	Lutfor rahman martin (Managing Director)	lutfor@lumangroup.net
Mega Gastronomi AB	Michael Kalender Idis (Sales Manager)	micke@megagastronomiab.se