THE PERCEPTION OF INFORMATIONAL BARRIERS TO THE INTERNATIONALISATION OF BOTH MICRO-SMALL Sized AND MEDIUM-SIZED ENTERPRISES

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ABSTRACT: This paper addresses informational barriers to the internationalisation of small and medium-sized enterprises. Analysing the survey conducted to the owners of 235 small and medium-sized enterprises in Turkey, we argue the informational barriers such as inability to contact potential overseas customers, identifying foreign business opportunities, lack of knowledge of external markets, and different foreign customer habits and attitudes are key barriers while language differences is not a key barrier. Moreover, the findings show that all these barriers are positively correlated with each other. The findings also point out that the perceptions of informational barriers faced by firms are negatively correlated with company size.

KEYWORDS: SME Internationalisation; Small And Medium Sized Enterprises; Informational Barriers; Internationalisation Barriers

INTRODUCTION

The globalisation generates a multitude of new options for small and medium-sized enterprises (SMEs) to realize international business. These new options make SMEs face a significant possibility in the internationalisation of production. The context of international trade opens a wide range of possibilities to SMEs by inviting and encouraging them to join a phenomenal commercial arena, an international market, through the sale of their products to multiple destinations. However, due to their organizational drawbacks (Jurado et al., 1997), they cannot truly benefit from these options.

Despite the increasing opportunities to enter markets, internationalisation is not an easy job for SMEs (Flanders, 2008), because the process needs resources, information about the foreign markets and support for direct interaction with these markets to promote the products, and establish business contacts. In addition to financial disadvantages, these companies also have administrative problems since they usually are managed by the owners. Therefore, if the owner is inexperienced himself, the company devotes more hours to work, although its performance is not very high. (Correa, 2012)

The globalisation of trade, finance and information generate a multitude of new options for SMEs to realize international business. These events are a new source of promotion and development of their commercial activities. Thus, as Gelmetti (2011) argues, this circumstance makes SMEs face a significant possibility in the internationalisation of production. Worldwide opportunities for small and medium-size companies have expanded as the new possibilities
such as transport, new information communication technology made it easier and less expensive to contact potential customers abroad (Albaum and Duerr, 2008). These possibilities enable the SME owners to overcome informational barriers much more easily. The main contribution of this work is to highlight the informational barriers to internationalisation, and to analyse the correlation between these variables and effect of company size in the perception of these obstacles.

This paper examines informational barriers of SME internationalisation which are previously identified by (European Commission, 2010; OECD, 2009; OECD-APEC, 2006; Orlandi, 2006; Leonidou, 2004) such as inability to contact potential overseas customers, identifying foreign business opportunities, different foreign customer habits and attitudes, the language problem, lack of knowledge of external markets. Furthermore, the difference between micro-small enterprises and medium enterprises in perception of these barriers is analysed.

LITERATURE/THEORETICAL UNDERPINNING

Internationalisation barriers

A considerable amount of literature has been published on the internationalisation performance of small and medium enterprises. The literature on the factors that affect international performance of SMEs mainly focuses on the strategic challenges faced by SMEs such as shortage of working capital to finance exports, identifying foreign business opportunities, limited information to locate and analyse markets, inability to contact potential overseas customers (OECD, 2009), lack of knowledge of international business (Albaum & Duerr, 2008), and organizational factors (Phulpoto et al. 2012). The literature shows consensus on that the firms having more financial resources and abilities are assumed to be more successful in exportation which is the most important stage for SMEs in their internationalisation process (Dhanaraj & Beamish, 2003).

The obstacles and barriers of internationalisation are examined widely in the literature. As (Flanders DC, 2008) indicates that due to their resource constraints, overcoming these barriers is not an easy job for SMEs. Because they have limited assets and financial resources, little or no international experiences in their management teams, limited knowledge of international markets, and limited international networks.

The literature on the factors that affect international performance of SMEs focuses on the strategic challenges faced by SMEs such as shortage of working capital to finance exports, identifying foreign business opportunities, limited information to locate and analyse markets, inability to contact potential overseas customers (OECD, 2006; 2009; Leonidou, 2004), lack of knowledge of international business (Albaum & Duerr, 2008; Leonidou, 2004), and organizational factors (Phulpoto et al., 2012). The firms that have more financial resources and abilities are assumed to be more successful in exportation (Dhanaraj & Beamish, 2003).

The literature on export has addressed various barriers of internationalisation that can act as impediments or limitations on the export performance of companies in general and SMEs in particular. Exportation is the most important stage for SMEs in their internationalisation process (Dhanaraj & Beamish, 2003). The export behavior of firms, in this sense, has received significant attention in the literature. Export behavior theories attempt to explain engagement of firms in export activities and the dynamic nature of such activities. Albaum and Duerr (2008)
argue that risk, uncertainty, and inadequate knowledge about unfamiliar markets are important determinants in export behavior of the small companies.

European Commission (2010) groups the obstacles into four different aspects. According to this classification, the barriers linked to knowledge are the main factors that affect the export performance. In this aspect the obstacles such as lack of market knowledge, lack of experience, lack of information about exportation regulations, the ignorance of the culture and the language of the target country are main knowledge linked impediments. The barriers that are completely linked to the lack of financial, human and technological resources are the second type of barriers. The third type of barriers is related to the procedure that arises during the process of internationalisation and is related to tariff barriers, transport, legal, and documentation. The fourth type of barriers is exogenous type such as political and economic instability of the nations involved, some external obstacles such as corruption and bureaucracy, the country risk and the level of confidence in the business climate. (European Commission, 2010)

Several OECD reports (OECD, 2006, 2007, 2009) list the barriers of the internationalisation in four main categories: shortage of working capital to finance exports; limited information to locate and analyse markets; inability to contact potential overseas customers; and lack of managerial time, skills and knowledge.

The barriers that caused by imperfect information such as inability to contact potential overseas customers, identifying foreign business opportunities, different foreign customer habits and attitudes, the language problem, lack of knowledge of external markets were previously identified by several studies and reports. (European Commission, 2010; OECD, 2006, 2007, 2009; Orlandi, 2006; Leoni, 2004).

Leonidou (2004), on the other hand, classifies informational, functional, and marketing barriers into internal while comprising procedural, governmental, and environmental barriers into the external. Similarly, OECD-APEC (2006) report, groups the obstacles encountered by a company into two sections, the first of the internal obstacles such as access to information, unqualified staff, product prices, knowledge, logistics and bad negotiation and the second covers all external obstacles such as infrastructure, financial resources, regulatory policies, business environment, lack of support. In the same vein, Acs and Terjesen (2005) note two main barriers that SMEs face in their internationalisation process; financial barriers, and informational barriers that limit their ability to get access to good information about foreign market conditions.

Hypothesis 1: Informational barriers are significant impediments to the internationalisation of small and middle-sized companies.

**General characteristics of micro- small companies and middle-sized companies**

The definition of a company regardless of size or place of origin is equal to anywhere in the world, since within its definition, the same components are described as a company. (Andersen, 1999) defines a company as "an economic unit of production and decision by the organization and coordination of a number of factors (capital and labor) aims to make a profit producing and selling products or providing services in the market".

As Gómez (2008) notes the small and medium enterprises (SMEs) specifically almost always share the same characteristics such as: the capital is provided by one or two persons who usually...
are family or close friends; the owners themselves have an active role in the running of the company; dominate and supply a larger market, but not necessarily have to be local or regional, as many times fail to produce for domestic market and even for the international market; they operate in the field; personal is unskilled or unprofessional; little strategic vision and ability to plan long term; lack of information about the environment and the market; lack of training policies, it is considered an expense and not an investment, the unable to make out the long-term benefits that can generate.

**Differences between Micro- small sized companies and Middle-sized companies**

Although the micro and small companies possess competitive advantages, due to their small size and low margin of profits, they usually lack of financial resources and are limited as they do not have easy access to funding sources. In addition to financial disadvantages, these companies have administrative problems. Since, as Rodriguez (1996) argues, their administration usually is not specialized, is empirical and usually performed by the owners. Therefore, if the owners are inexperienced, the performance of the company drops as the company devotes more hours to work. (Correa, 2012)

Moreover, as Longenecker et al. (2010) argue, SMEs lack of formal structure, lack of systematization of their operations and activities, lack of written policies, lack of supervision and performance standards, lack of system planning, organization, management and efficient control, lack of training, excessive staff turnover, lack of safety and health, lack of real knowledge of competence, lack of use of market related techniques to advertise their product and adapt it to the changing needs of customers. Besides, many SMEs lack both the capital and an efficient business and technical training. The factors such as lack of good management, financing, and technology cause SMEs fail in their development attempt, and therefore, they usually are not able to ascend to the higher segments of the business community.

Middle-sized companies, on the other hand, when compared with small companies, have usually a better organization, allowing them to apply and adapt to the dynamic market conditions; this adaptation ability provides them with mobility enabling to improve their organizational and technical capacities. Besides, their organizational structure enables them to assimilate and adapt new technologies with relative ease. Moreover, they have a better administration, although in many cases influenced by personal opinion or business owners. (Longenecker, 2001).

Theoretical underpinnings of perceived internationalisation barriers suggest company size as an important factor for SME internationalisation. Some researchers (Keng and Juiuan, 1989; Hook and Czinkota, 1988) report that smaller companies, compared with larger companies, perceive more internationalisation barriers. Katsikeas and Morgan (1994), on the other hand, indicate that firm size is associated only with some internationalisation barriers. Similarly, Ghauri and Kumar (1989) find that compared with larger companies smaller companies perceive the barriers more significantly. On the contrary, Aaby and Slater (1989) finds that smaller firms come across fewer obstacles than larger firms do.

Hypothesis 2. There is a meaningful difference between Micro – Small Enterprises and Middle Enterprises in perception of informational barriers to SME internationalisation.
METHODOLOGY

This study draws upon the studies on the internationalisation of SMEs, and most significantly from primary research of SMEs through an online survey of 235 Turkish enterprises found in Istanbul, Turkey. There is no generally accepted definition of an SME. The European Union categorises the enterprises according to the two criteria: staff headcount and annual turnover (European Commission, 2005). The case companies identified in this study are selected based on the criteria of staff headcount; micro business, one that is between 1-9 workers; small business, one that is between 10-49 workers; Medium company, one that is between 50-249 workers.

Our objective was to assess the key internationalisation barriers that micro-small and medium sized enterprises are facing and the perception of these barriers of both Micro-Small enterprises and Middle sized Enterprises. Hypothesis testing was carried to test the propositions that inability to contact potential overseas customers, identifying foreign business opportunities, different foreign customer habits/attitudes, the language problem, and lack of knowledge of external markets are significant barriers of internationalisation. We used one-sample t Test to test our hypothesis. The results of test show that all variables have suitable and average condition except forth variable, the language problem, which has a mean value of 2.48. (Table 1)

Table 1: Informational barrier variables: Correlations and Descriptive Statistics (N = 235)

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Contacting overseas customers</td>
<td>-</td>
<td>.680*</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identifying business opportunities</td>
<td></td>
<td>.309*</td>
<td>.339*</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>2 Different customer habits</td>
<td></td>
<td>.417*</td>
<td>.484*</td>
<td>.338*</td>
<td>-</td>
</tr>
<tr>
<td>3 Language problem</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Lack of market knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Correlation. M = 4.14, SD = 0.995, Range = 1-5, SEM = 0.065

The correlation test was conducted to measure the correlation among the variables (see Table 1). The positive correlation between lack of market knowledge and identifying business opportunities indicated that the more participants lack market knowledge, the more they have the problem of identifying business opportunities, r = .643, p < .01.

The positive correlation between contacting overseas customers and identifying business opportunities indicated that the more participants perceive the barrier of inability to contact with overseas customers, the more they have the problem of identifying business opportunities, r = .68, p < .01.
The positive correlation between contacting overseas customers and lack of market knowledge indicated that the more participants perceive the barrier of inability to contact with overseas customers, the more they lack of market knowledge, $r = .606, p < .01$.

The positive correlation between language problem and contacting overseas customers indicated that the more participants have language problem, the more they perceive the barrier of contacting overseas customers, $r = .417, p < .01$.

To test the second proposition, we used Independent T test. This inferential statistical test is used to determine whether there is a statistically significant difference between the means in two unrelated groups. The results show that all the barriers are significant for both groups, Micro – Small sized Enterprises and Middle-sized Enterprises, except the language problem. However, analysing the mean values of each group, we observed a meaningful difference in perception of the barriers. (Table 2)

**Table 2: The perception of key informational barriers of internationalisation for both types of companies. Mean, standard deviations, and standard error mean**

<table>
<thead>
<tr>
<th>Variable</th>
<th>SMEs size</th>
<th>Mean</th>
<th>SD</th>
<th>SEM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Contacting oversea customers</td>
<td>Micro-Small</td>
<td>4.36</td>
<td>0.756</td>
<td>0.057</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>3.47</td>
<td>1.301</td>
<td>0.171</td>
</tr>
<tr>
<td>2. Identifying opportunities</td>
<td>Micro-Small</td>
<td>4.42</td>
<td>0.85</td>
<td>0.064</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>3.5</td>
<td>1.341</td>
<td>0.176</td>
</tr>
<tr>
<td>3. Different customer habits</td>
<td>Micro-Small</td>
<td>3.74</td>
<td>0.898</td>
<td>0.068</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>3.1</td>
<td>1.021</td>
<td>0.134</td>
</tr>
<tr>
<td>4. Language problem</td>
<td>Micro-Small</td>
<td>2.66</td>
<td>1.191</td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>1.93</td>
<td>1.153</td>
<td>0.151</td>
</tr>
<tr>
<td>5. Lack of market knowledge</td>
<td>Micro-Small</td>
<td>4.29</td>
<td>0.847</td>
<td>0.064</td>
</tr>
<tr>
<td></td>
<td>Middle</td>
<td>3.47</td>
<td>1.404</td>
<td>0.184</td>
</tr>
</tbody>
</table>

The correlation test was conducted to measure the correlation among the variables (see Table 3)

The negative correlation between the perception of inability to contact customers and company size indicated that the smaller the company size, the more they have the problem of inability to contact customers, $r = -.308, p < .01$.

The negative correlation between the perception of identifying business opportunities and company size indicated that the smaller the company size, the more they have the problem of identifying business opportunities, $r = -.320, p < .01$.

The negative correlation between the perception of different foreign customer habits and company size indicated that the smaller the company size, the more they have the problem of different foreign customer habits, $r = -.262, p < .01$. 

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The negative correlation between the perception of language problem and company size indicated that the smaller the company size, the more they have the language problem, $r = -.307$, $p < .01$.

The negative correlation between the perception of lack of market knowledge and company size indicated that the smaller the company size, the more they have the problem of lack of market knowledge, $r = -.238$, $p < .01$.

**Table 3: Informational barriers and company size: Correlations (N = 235)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Size of the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Inability to contact customers</td>
<td>-.308**</td>
</tr>
<tr>
<td>2 Identifying business opportunities</td>
<td>-.320**</td>
</tr>
<tr>
<td>3 Foreign customer habits</td>
<td>-.262**</td>
</tr>
<tr>
<td>4 Language problem</td>
<td>-.307**</td>
</tr>
<tr>
<td>5 Lack of market knowledge</td>
<td>-.238**</td>
</tr>
</tbody>
</table>

*p< .05, **p< .01, ***p< .001

**RESULTS**

**Hypothesis 1: Internationalisation barriers**

Hypothesis 1 that informational barriers are significant impediments to the internationalisation of small and middle-sized companies was partially accepted. The findings of the study indicate that four of the informational barriers; inability to contact potential overseas customers, identifying foreign business opportunities, lack of knowledge of external markets, and different foreign customer habits and attitudes are key barriers while language differences is not a key barrier. Moreover, the findings show that all these barriers are positively correlated with each other. (see Table 1)

**Hypothesis 2: Difference between Micro – Small Enterprises and Middle Enterprises in perception of internationalisation barriers**

Hypothesis 2 that there is a meaningful difference between Micro – Small Enterprises and Middle Enterprises in perception of informational barriers to SME internationalisation was accepted. The results of the study suggest that all the barriers, except the language problem, are significant for both groups, micro-small sized SMEs and middle sized SMEs, and there is a meaningful difference between these two groups in the perception of these barriers. Furthermore, the findings point out that perceptions of informational barriers faced by firms are negatively correlated with company size.

**DISCUSSIONS**

The informational barriers, as Leonidou (2004) notes, “refer to problems in identifying, selecting, and contacting international markets due to information inefficiencies”. Hollensen (2011) notes inadequate information on potential foreign customers, competition and foreign
business, practices, and difficulties in communicating with foreign distributors and customers as key barriers that active and prospective exporters come across. The perception of these barriers is discouraging factor for the beginning of international activities SME.

The lack of external market knowledge is one of the key barriers that increase perception of the risk of opening overseas markets and affect internationalisation performance. Several earlier studies (Bilkey & Tesar, 1977; Kaynak & Kothari, 1984) cite inadequate knowledge of overseas market as important impediment to the internationalisation of the SMEs. Leonidou (2004) ’s 32 empirical studies, covering the 1960-2000 period, found that limited information in the determination of the foreign markets, communication problems with potential customers are among the highest export problems.; the European Commission (2007)’s report on European SMEs finds that lack of information about foreign markets and business opportunities is one of the biggest barriers that European SMEs come across; Acs et al. (2005) argue that imperfect information about foreign market conditions is one of the two most important barriers. More recent studies (OECD, 2009; EFIC, 2008) point out the significance of this barrier. Similarly, the findings of West Black Sea Development Agency (2010) indicate that not having enough knowledge of the external markets is the first barrier of Turkish SMEs in their internationalisation process.

Another important barrier to export is the inability to contact potential overseas customers. Previous studies (OECD, 2009; Rundh 2007; Crick, 2007; Leonidou, 2004) reinforce the importance of this barrier. Leonidou (2004) notes different foreign customer habits and attitudes as an external barrier that has a very high impact. Leonidou (2004), referring Cateora and Graham (2001), further states that these habits and attitudes differ according to the differences in geographic and economic conditions, household characteristics, educational standards, and cultural differences. These differences, as Leonidou (2004) notes, “lead to different product preferences and usage patterns, price acceptance levels, distribution systems, and communication methods” that increase manufacturing cost and affect export performance.

Another factor that discourages the beginning of international activities and again will have a greater impact on small and medium-sized enterprises is identifying foreign business opportunities. OECD-APEC (2006) and Leonidou (2004) note this barrier as one of the key barriers of internationalisation.

The finding of the survey about language problem is consistent with the findings of a study (ABIGEM, 2010), supported by the European Union and Turkish government, on overview of Turkish SMEs which propose that Language is not one of the main barriers of internationalisation. On the other hand, the results don’t support the findings of a report of regional study in Turkey (West Black Sea Development Agency, 2010) which points out that the language problem is a barrier. (Leonidou, 2004; OECD-APEC, 2006) name language barrier as Verbal/Nonverbal Language Differences and rank it as a barrier that has a low impact. Language differences is not a key barrier, probably because exporting entrepreneurs themselves or the personnel they hire for this purpose should be able to manage to do business in a foreign language, English in most cases.

The positive correlations among the variables propose that overcoming any of these barriers leads the way to overcome other barriers. For instance, as expected, inability to contact with overseas customers was positively correlated with the problem of identifying business opportunities. The similar correlation was observed between contacting overseas customers and lack of market knowledge. Furthermore, there was a significant correlation between the
lack of market knowledge and identifying business opportunities. An entrepreneur who establishes contact with a potential customer can obtain new market knowledge and identify new business opportunities. Another significant correlation was between language problem and contacting overseas customers. (See Table 1). Entrepreneurs who don’t have language barrier can more easily contact oversea customers.

The study proposes that all the barriers, except the language problem, are significant for both groups, Micro-small sized SMEs and Middle sized SMEs. However, the study, at the same time, proposes that, except for the barrier of the inability to contact potential overseas customers, there is a meaningful difference in perception of these barriers (see Table 2). These results are partially consistent with the studies of Keng and Jiu (1989) and Hook and Czinkota (1988) who report that smaller companies compared with larger companies perceive more internationalisation barriers. Our study, analysing the informational barriers, updates the existing knowledge that firm size is associated only with some internationalisation barriers (Katsikeas & Morgan, 1994) and that compared with larger companies smaller companies perceive the barriers more significantly (Ghauri and Kumar, 1989). The finding of Aaby and Slater (1989), which proposes that smaller firms come across fewer obstacles, is inconsistent with the findings of this study.

The findings indicating that perceptions of informational barriers faced by firms are negatively correlated with company size suggest that informational barriers do not affect all firms in the same way. (See Table 3). The perception of impediments varies between firms, such that smaller firms perceive higher constraints to internationalisation.

The difference in perception of internationalisation barriers is mostly caused by the financial and structural differences between micro-small companies and middle-sized companies. Although the micro and small companies possess competitive advantages, due to their small size and low margin of profits, they usually lack of financial resources and are limited as they do not have easy access to funding sources. In addition to financial disadvantages, these companies have administrative problems. Therefore, the lack of good management, financing, and technology affect the internationalisation performance and cause failure in their internationalisation attempt. Middle-sized companies, on the other hand, have usually a better organization and administration, which allows them to adapt to foreign market conditions.

FUTURE RESEARCH

Limitations of this paper provide opportunities for further research. The study sample is constrained to the context of informational barriers of internationalisation. Therefore, future research may aim to examine other internationalisation barriers such as functional, marketing, procedural, and environmental barriers. This study analysed the perception of the barriers, according to company size. However, the perception of internationalisation barriers may also differ depending on other company characteristics such as age, sector, and exportation experience, which can be addressed by future research.

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