

## **Internationalization of SMES in Pakistan: A Brief Theoretical Overview of Controlling Factors**

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### **Abstract**

*Internationalization has been a topic of common interest since the emergence of globalization. But not much research work has been done to comprehend the factors effecting the internationalization of Pakistani business. This study is aimed to unveil the most important factors, responsible for driving or restraining the internationalization of Pakistani firms. The authors have presented a theoretical analysis of six research papers that would help in the identification of key factors. The papers have been studied in respect of their importance and impact on internationalization process. Various dimensions indirectly influencing the aura of international business in Pakistan have also been discussed. Theoretical analysis suggested that, government support, research and innovation, development of export industry and entrepreneurial relationships are the key factors driving the internationalization process. Conversely, lack of infrastructure, insufficient finances, inadequate research facilities, lack of sound economic policies and international trade barriers are the factors restraining it.*

**Keywords:** *Internationalization, Pakistan, SMEs.*

### **Introduction**

With a massive increase in the demand for goods and services around the globe as well as the removal of key barriers that have often restrained business firms to go global, most business organizations are facing the challenges of coping with international competitors who are inevitable as they bombard and snatch the market share of the local business. Moreover, demographic as well as geographic diversification also propels a business to consider entering international market (Ball, McCulloch, Frantz, Geringer & Minor, 2004). Thus it is essential to take into consideration the pros and cons of entering the international market.

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Research in past decade has revealed many factors that provide us with an insight into the drivers of internationalization. The taxonomy of drivers of internationalization has a diverse list but current study will only focus on evaluation of push and pull factors that can assist Pakistani firms in deciding whether or not they should enter into the international market. In this regard, a study conducted by Wang, Boetang and Hong (2011), concludes that various factors that trigger the Chinese firms to internationalize their operations include institutional framework of the home country and structural factors of the industry in which the firm is operating. The study takes into account the key determinants of internationalization and further proposes that further replications of the study be done in the developing economies since the institutional framework of Chinese organizations are quite different from those of other countries. Similarly, in another descriptive study by Etemad (2004), factors pushing and pulling a business towards internationalization have been discussed in detail. According to the paper, internationalization of small businesses though ancient, very limited research work has been conducted to highlight on the how, when and what determines the internationalization process.

Pakistan being one of the most populous countries of the world constitutes a significant share in the global market. With foreign businesses entering Pakistan, it is important to identify the forces that could provide Pakistani firms the opportunity to go international. The process of expansion across the borders and the need to move beyond the nation's market is quite inevitable today. The large firms or Multinational Enterprises (MNEs) face fewer hindrances as compared to small and medium businesses (Etemad, 2004). Initially, it was believed that SMEs (Small and Medium Enterprises), as compared to large firms, cannot expand internationally as they lack certain managerial and financial resources to compete (Melen, 2009, Rowden, 2001) but later researches uncovered several aspects of how SME's can compete internationally. In order to retain the local market share from the foreign investors as well as to attain competitive edge both locally as well as abroad, SMEs can only thrive if they can build the capacity to sell their products beyond the national territories (Etemad, 2004).

The research on facets and measurement of factors deciding the potential is more pretext-oriented rather than innate. It may therefore be essential to analyze both facets and especially see if the factors in Pakistan are reasonably ripe and are likely to yield desired results.

### *Statement of the Problem*

The study would explore the factors determining whether and how SME sector in Pakistan has the potential to enter in international markets.

### *Significance of the study*

The study aims to assist the small and medium business sector of Pakistan by identifying / precipitating the challenges posed to internationalization of SMEs. The literature analysis will be focused on both driving and restraining forces and their impact on SMES in order to suggest ways and means to build upon the strengths vaccinating against the weaknesses and turn every possible threat to an opportunity. The study will also take into consideration as to how various forces play their role in internationalization of SME sector in Pakistan.

## **Literature Review**

### *Internationalization*

The process of internationalization of trade and business has been driven by growth needs of organizations. Accumulation of resources of one kind may lose impact beyond a certain level and an associated need of another kind of resources necessitate the need to exchange. This mechanism along with sharing resources beyond the national frontiers provides a win-win situation to those who take lead. Diverse arena of goods and services compel the world to share them through the platforms of business and trade (Daniels, Radebaugh, Sullivan & Prashant, 2009). Internationalization or international business is defined as “All the commercial transactions between two or more countries.” (Daniels et al, 2009, pp 7). Oppenheim and Fraser define international market as, “A world economy composed of markets that are largely contained within national boundaries” (Oppenheim & Fraser, 1997 pp 170).

For a small business, strategies for international expansion must be shrewd enough to gain the desired growth and development. Furthermore, preliminary research is mandatory to fully comprehend the situational factors in the global context (Lu & Beamish, 2001). Although many small businesses have successfully entered international market, theorists suggest that the respective process for SMEs is quite different from that of large firms (Etemad, 2004). Etemad goes on to explain that small firms have to face tremendous challenges while deciding to go international. They cope with different environments and pressures since their institutional structure differs from larger firms (Etemad, 2004).

Taking into consideration the literary developments, the first precise development came from Hymer who suggested that regional firms have an upper hand because of possession of valuable knowledge

with regard to the local market. He further stated that such information can help a firm internationalize it (Hymer, 1960). Later on, Kindleberger went on to explain the relationship of foreign direct investment with global trade and how firms exploit the advantages they possess (Kindleberger, 1969). Aharoni in 1966 unveiled some interesting facts about the role of decision making in internationalization by studying the behavior of 38 U.S. firms. In 1995, Stage theory or Uppsala theory of internationalization emerged, that a firm can expand its operations internationally by following a series of chronic steps (Dollinger, 1995). The theory further elaborates the respective stages referring to the first step as passive exporting. At this stage, a small business is oblivious to its expansion capability and it merely relies on fulfilling orders from abroad. This stage is followed by “export management” in which the firm further seeks to export by selling more. Although it remains trivial yet it initiates the formal internalization process (Rowden, 2001). Export department stage enables the firm to formalize the export operations. It no longer vacillates exporting. The next stages involve the rise of demand for the firm’s products, opening of international offices and branches and eventually the firm developing an international network (Rowden, 2001). Opposing to the stage theory, several researches have stated that internationalization of a firm is not necessarily an incremental process; rather some businesses have natural or embedded capacity to enter international market, also termed as “born global” (Rasmussen & Madsen, 2002).

Another milestone in the history of internationalization is the emergence of foreign direct investment theory. The theory implies that compared to exporting goods and services, a firm can directly invest in the host country by either establishing its own manufacturing plants there or opening small units or subsidiaries on behalf of it. International mergers, acquisitions and joint ventures are similar alternatives (Rowley, 2006). Market imperfection theory which is subset of FDI theory states that a firm will enter into international market if and only if it possesses unique and rare strategies that cannot be replicated by the foreign competitors (Hymer, 1970).

After having discussed the historical contributions towards the topic of internationalization, it is important to shed some light on its push and pull forces. The push factors can be defined as the ones that emerge from within the organizational structure driving the organization to seek out and exploit opportunities of internationalization. Such forces can trigger the internationalization process especially when the firm is capable of producing novel products or services thus giving it an edge to compete. Furthermore, role of entrepreneurship is crucial in activating the push forces (Etemad, 2004). While discussing the pushing forces,

Oviatt and McDougall in their study explained that pace of internationalization increased specially after World War II. Degree of caliber and insight required to turn an SME into an MNE has increased the capability of several businesses to go global. They also discussed the impact of advanced technological resources that are available to the businesses nowadays. New and novel modes of communication have made it possible for the small business investors having appropriate market knowledge and experience to hit the market (Oviatt & McDougall, 1994). The concept of Resource Based View also implies that a firm's successful strategic development and internal strengths helps it achieve the competitive advantage that could shove it in new markets (Grant, 2001). The role of innovation, marketing and exploiting the right opportunity at the right time cannot be ignored in the context of pushing internationalization. Similarly, employee commitment and financial cost minimization techniques are also mandatory factors that promote innovation and successful marketing and branding strategies (Matzler, Bailom, Anschober & Richardson, 2009). While comparing international and domestic new ventures, a research study by McDougall et al discussed a number of variables including the entrepreneurial team knowledge, experience in the relevant industry, technical expertise and sufficient marketing efforts and their potential role in internationalization process. The study found out that entrepreneurial knowledge and experience is higher among the international new ventures. Furthermore, marketing efforts especially innovation is a dominant factor that drives a firm to become international. On the other hand, technical expertise plays a little role towards internationalization process (McDougall, Oviatt & Shrader, 2003).

Gaining competitive advantage is one of the most important strengths of a business. But it also poses as a liability. Global competing firms through competitive intelligence might identify the core and distinct competencies of a business. Thus in order to protect it, some businesses limit the information outflow. Many firms use legal protection against information leak like patents and copyrights. Nevertheless, in order to sustain competitive advantage in the long run, a firm must develop unique and inimitable resources to compete in international markets (Oviatt & McDougall, 1994).

On the contrary, pull forces are derived from the external favorable and encouraging circumstances. There may be unsatisfied needs of international customers, fruits that a firm can reap in international market or exploitable ventures and opportunities also act as pull forces (Etemad, 2004). With the removal of trade barriers among several nations, the magnitude of trade has widened globally. Efficient and clever use of competitive intelligence has enabled the world to

conduct business across the international lines (Oppenheim & Fraser, 1997).

Another pulling factor towards internationalization is relationships with the elements of external environment. As identified by Yang and Wu in their study of international new ventures, such relationships can be social, interpersonal or even structural ties with government, suppliers or partners. They emphasized that the relationships with partners can play a significant role in the process of business being internationalized (Yang & Wu, 2008). In their book, "Developing Relationships with Business Networks" Hakansson and Snehota (1995) also discussed the role of relationships between two partnering companies as follows:

*"Elements of cooperation and conflict have been found to coexist in the atmosphere of business relationships. A relationship doesn't mean that all conflicts have been straightened out and resolved once and for all. Some amount of conflict might even be necessary in order to keep the relationship between two companies healthy. It is the concern with cooperation and value creating which is what makes a relationship worthwhile for the parties."* (Hakansson & Snehota, 1995, p. 22).

Expansion of world's capital market has triggered the internationalization process. Convenient mobility of capital has encouraged investors to invest in new international ventures and seek out opportunities in the global market. Availability of infrastructure facilities and their easy accessibility to the investors has further sped up the pace of internationalization (Oppenheim & Fraser, 1997). Some researchers also stated that only those firms can internationalize whose entrepreneurs have international vision of becoming a global business. The web of networking for extending to international markets is indispensable. Marketing strategies can only be successful if the firms possess a strong global network (Oviatt & McDougall, 1994).

### **Situation in Pakistan**

Coming towards the situation of Pakistan, SME sector has a lot of potential for growth and development both in national and international markets. Although there are a large number of hurdles for small business expansion but by promoting this sector, it could have magnificent impact on the economy of Pakistan. According to the statistics, small businesses are contributing 30% towards the gross domestic product of the nation per annum (SMEDA).

Not much research has been conducted on the functioning of SME's. There is a gap of literary studies related to the topic (Ali & Faisal, 2010). Nevertheless here are some research surveys of

internationalization of small business within the context of Pakistan. Firstly, a research has been conducted to examine the factors acting behind the internationalization of light engineering units of Gujranwala district. The authors revealed the results quite similar to the previous studies. According to the survey, product diversification, innovative capabilities of the entrepreneur, trade opportunities and availability of market information are the most driving factors towards internationalization. On the other hand, trade barriers and hindrances as well as the unnecessary increase in non developmental budget have limited the scope of small businesses in Pakistan from entering international markets (Khan, 2011). In another study carried out in order to investigate the trends of internationalization for small businesses in Sialkot. The authors have specifically chosen surgical instrument industry to explore its capacities of expansion both in the local and foreign markets. The authors suggest that there is a great opportunity for the SME sector of Pakistan to start exporting its product internationally. The major reason of expansion is that the cost of production of surgical instruments is significantly low as compared to other countries. Moreover, superior quality can be delivered (Ali & Fasial 2010). The authors further point out that there is a deficiency of research and development in the surgical industry. Germany being the major competitor enjoys the competitive advantage by having the latest research at hand while manufacturing goods and services. Thus by paying more attention to the R&D combined with unique product quality and low prices, surgical industry of Pakistan can gain its own competitive edge (Ali & Faisal, 2010).

Another study exploring the impact of managerial characteristics on internationalization revealed that characteristics of top management play a significant role in internationalizing a business, both directly and indirectly. Moreover, the study also emphasized the role of SMEs in the macro economy by fostering employment and coping with poverty, SMEs cater to the needs of the customers through manufacturing creative products and services. As compared to the large corporations, small businesses contribute more towards national economic growth (Phulpoto, Shaikh & Rahpoto, 2012).

In a nutshell, the major barriers in the way towards internationalization identified by previous literature for SMEs in Pakistan are lack of sufficient amount of capital, managerial talents to get handle on the expanding market and disinterest of government towards the small business sector. In this regard, government should introduce policy reforms to ensure that SMEs acquire the desired resources (Khan, 2011). Additionally, availability of funds should be made to the SMEs to facilitate their effective and efficient operations (SMEDA).

**Structure of Paper**

This study will discuss some contemporary contributions in the field of internationalization of SMEs with a special regard to the situation in Pakistan. Total of six research papers along with supporting literature will be discussed in detail to provide a theoretical overview of how SMEs operate in Pakistan as well as their capacity to enter global markets. The pros and cons of international business as well as various dimensions of globalization will also be discussed. Based on a brief qualitative analysis, controlling factors determining business internationalization in Pakistan would be uncovered.

*What Does It Take To Succeed In Small Business In Pakistan? The Lessons for Emerging Entrepreneurs* (Mirani & Shah, 2012)

This paper has been written by Mirani and Shah (2012). It elaborates the conduct of small businesses paying little regard to the internationalization process of small enterprises. Nevertheless, keeping in mind that the research study has specifically taken into account the SME sector, it is inevitable to highlight the key points regarding the working of small businesses. The objective of the paper was to determine the factors responsible for the success of small business in Pakistan. It is quite important to weigh the significant factors before going for a business or entrepreneurial venture. The authors studied both individual/personal as well as organizational variables. Individual or personal variables include entrepreneurial or human traits like motivation, vision, sense of purpose and drive. On the other hand, organizational or collective variables usually include interpersonal effectiveness, sound relations with both internal and external stakeholders and environmental analysis. Semi structured interviews were conducted in 50 small business organizations of Sukkur to conduct the study. All the businesses selected were at least three years old. Results revealed that major reasons for small business success in Pakistan are entrepreneurial drive to become self employed and create jobs. Furthermore, another motivation for the small business entrepreneur is the availability of novel opportunities in the marketplace, thus triggering the ideation and creativity of entrepreneurs. The authors emphasized the importance of entrepreneurial patience, especially at the initial level. One of the reasons behind a business failure is the impatience and intolerance of the business owners or entrepreneurs over the peaks and valleys of business. Sound relationship with the suppliers, customers and employees has also been regarded as an important success factor for small business sector. Upfront relationships with suppliers especially ensure speedy movement of supply chain components and thus increase the efficiency of the overall operations. Another factor is

environment which includes the political, social, economic and technological factors. These factors must compliment a business existence. In a region devoid of environmental stability, business organizations cannot flourish. Furthermore, the authors also discussed the role of energy crisis which is nowadays the most intimidating hurdle for business survival in Pakistan. Healthy marketplace competition is yet another facet of small business success. The respondents pointed out that law and order situation is the most threatening and contagious factor with respect to current circumstances and affirmed that peace and order would help Pakistani businesses prosper.

*Determinants of Export Growth at the Extensive and Intensive Margins-Evidence From Product And Firm-Level Data For Pakistan* (Reis and Taglioni, 2013)

Imports and exports are the most common and primary form of entering international markets. Before opening the manufacturing plants and administrative branches abroad, most SMEs prefer to initiate international business through safe mode of import/ export. This paper explores the drivers and barriers of export business in Pakistan. Using secondary source of data and statistical tools to analyze various trends in export business, the paper has calculated export growth margins in Pakistan during the last few years. It categorizes the growth margin into four facets, namely, intensive margin referring to international market share and growth, extensive margin depicting spread (diversification) of export goods, quality margin showing product or service quality or novelty and sustainability margin representing the competitiveness of local products against global products. Pakistan's position has been measured on all four margins and compared with that of certain selected countries, i.e. India, China, Indonesia and Vietnam. According to the paper, Pakistan's export share in the global market has been decreasing in the last two decades. Its competitor countries have acquired position of repute in global marketplace through improved quality and low prices thus increasing demand for their products, major examples are India and China. Contrarily, Pakistan export growth has remained stagnant at multiple points in time, and major reason is inability to meet global standards and unable to achieve price competitiveness. Astoundingly, the export growth rate of Pakistan which was greater than China and India nearly a decade ago is now half their growth rates. This daunting gap is the consequence of poor governance, lack of favorable business environment and global financial crisis. The study identifies that main export markets for Pakistan are USA and EU. And its export goods are less diversified which calls for fostering local businesses that could generate global earnings. Furthermore, exporters need to choose more

disperse markets for exporting thus reducing dependency on few strong buyers. The paper further analyzes how products and the countries where they are to be exported are prioritized and chosen. Usually small businesses export their products within Asian territories as compared to larger enterprises. Interestingly, findings suggest that smaller firms' products are more diversified with more spread in their destinations while larger ones are concentrated in few countries and are less diversified. However smaller firms are usually quick to switch markets. The reason is lack of financial resources and infrastructure along with sound export growth strategies of the home country to facilitate them the small exporters. Secondly, it is difficult to sustain business in a country with unfavorable macroeconomic conditions.

There has been however improvement in diversification of exports. Furthermore, service export industry has shown signs of progress during the last few years. The ability of the country to enter new untapped international markets is constrained by lack of innovation and creativity in export goods. At last, the paper gives recommendations as how to improve the current export growth rate. Firstly, facilitating the small exporters could have substantial results. Tariff reduction, cost cutting at firm level and export incentives can shove the exporters to bring innovation and newness to their products.

*Business, Society, Science and Technology* (Ishrat Hussain, 2012)

The next paper not only examines the contemporary issues of international business within Pakistani context, but also sheds light on the global macroeconomic factors and trends effecting Pakistan. The paper first spells out the most dominating shifts in the last decade that have had profound impact on economic and financial conditions of various nations across the world, including Pakistan. Firstly, the author Hussain talks about the financial crisis of 2008 that have had devastating effects on the western economies. On the other hand, eastern economies like China and India soon recuperated from the crisis. Countries like Pakistan did not suffer the ferocious consequences of economic recession. Secondly, the rising population of Asia's most emerging economies further depicts an astounding increase in the potential customers in the region which is significant for the investors and economic growth. Compared to this, population in the western countries has been declining posing a fatal threat to the availability of workforce and strong markets. The study further discusses what the author calls, "demographic transition" i.e. decline in the population that comes within the age bracket of roughly 15-40. In other words, these countries would probably face the problem of insufficient labor and lack of skilled workforce in near future. The purpose of discussing the above factors is

to chalk out plans and line of action so that developing countries like Pakistan can capitalize on the opportunities available in the global business environment. The author suggests that a long term approach to business development should be adopted. Rather than focusing on short term trophies, long term sustainability has been emphasized. Moreover, the term, “shareholders’ value” should be replaced by “stakeholders’ value” that takes into account all the stakeholders, inside or outside the organization. A business must realize its environmental and social responsibilities towards the community and society as a whole. The notion of “play by rules” must be embedded in the economic environment. Every organization must ensure that it is complying by the prescribed rules and laws. Furthermore, the author emphasizes the crucial role of innovation in business. The emerging economies can increase the attractiveness and worth of their products in the global market through innovation and newness.

Coming towards the situation in Pakistan, certain discrepancies need to be addressed. The stark reality shows that not only Pakistan is lagging behind in the export sector, but also not much steps have been taken to rectify the problem. As pointed out in the previous study, lack of both human and technological capital and innovation is stifling the country from exploiting global opportunities. Despite availability of untapped markets, it cannot even sustain its position in the current markets. Ironically, consumers of Pakistani products have been shrinking worldwide due to lack of newness and low quality products. Moreover, substitute products introduced by countries like India and China have curtailed the market share of Pakistani exports. India especially has surpassed China in service export industry. Its continuously flourishing research industry and technical expertise enables it to earn huge sums of foreign exchange through designing products for international companies. Conversely in Pakistan, not much attention has been paid to research oriented projects and programs that could foster economic activity. As a matter of fact, Pakistan is facing shortage of skilled and trained professionals in a number of fields. Therefore, in order to compete in global marketplace and meet the challenges, there is a pressing need to allocate more resources for the development of human capital. Organizations and structures need to be reengineered catering to the demands of modern organizational model. At last, dormant talents and resources must be unlocked and utilized for achieving high growth.

*The Issues and Development of Critical Success Factors for the SME Success in a Developing Country* (Hee Song Ng and Daisy Mui Hung Kee, 2012)

The next study takes into account critical success factors of SMEs in developing nations. In view of paramount importance of small business sector in Pakistan and its being a developing nation, a thorough analysis of the following issues can be worthwhile.

Critical factors are the ones that have an eminent impact; positive or negative and demand heed. These can be standards, procedures or elements of the business that are vital for survival and profitability. These factors need to be focused and addressed by SMEs in order to flourish. SMEs have long remained under the umbrella of attention and they still do because they are considered to be assembling units of national economy.

The significant success factors considered vital for business cannot be catered with aid and entrepreneurial expertise. However there are certain managerial areas that can be mastered. These include the Resource division (including human resource, capital resources, information resources and other business resources), Owners division (including managerial talent, expertise and strategic vision of the owner). Since these factors are multifaceted and multi-dimensional, in case of SMEs it's hard to focus on all of these, so we focus only on the factors that are critical for SME performance. These factors are categorized into 12 classifications of variables. These are Leadership and management, Capital resources, Human resources, Organizational innovation, Organizational competence, Entrepreneurial characteristics, Motivation, Market orientation, Entrepreneur reputation, Firm characteristics, Strategy and Organizational culture.

The challenges faced by SMEs in developing countries are unskilled human resource, lack of technological adaptation, low levels of R & D, inaccessibility to markets, weak infrastructure, legal and regulatory setting, internal sourcing of funds, greater government intervention and greater competition out there. Other issues facing are either financial or lack of expertise, acquisition of raw materials, inadequate sites, marketing issues, competition and slow technology embracing. Though these challenges can be converted into opportunities for the growth of SMEs, nonetheless, failures also play an important role in growth as they provide the best-learned lessons. However it's a fact that most of the SMEs breathe their last within 10 years of inception and many of those that survived yielded very less growth and profitability. Failure factors to SMEs may be lack of managerial expertise, negligence, inadequate capital and weak control techniques. How managers deal with the crisis situation can also be a critical factor.

This study concludes that SMEs need to surmount the core issues and derive lessons out of its failures in order to prosper. With the achievement and exploitation of the crucial factors identified, the SMEs

can be turned into vigorous, universally competitive and robust businesses for long-lasting organizational victory. In this regard, it is necessary to acquire and leverage the important factors to develop competitive edge for optimal business growth and success.

*Network Classification on the Basis of Functions they Perform and its Relationship with Internationalization Process of SMEs in Developing Countries: Exploratory Research On Pakistan* (Seerat Fatima, Dr. Mujahid Ali, Sheraz Arif, 2011)

Entrepreneur has always been the centre of discussion but comparatively lesser attention is paid to the context and utility of networks in the launch. The case for SMEs in going global greatly differs from that of large enterprises. The major issues facing SMEs are lack of sufficient resources, inability to carry out R&D and lesser intellectual capital. Networking gives a hand-on access to resources and competitive edge without any expenditure incurred. This linkage and interaction forms Social Capital. This study groups networks into --- functional divisions; discussion networks, information networks, advice networks, emotional support networks and resource acquisition networks.

People usually talk over significant matters with the people around them. In this study the authors clarify the significance of networks in internationalization of SMEs by telling the story of an entrepreneur who meets a fellow by chance. That fellow offers him help and supports him to expand his business internationally and helps him gather useful and necessary information about the market abroad. On consultations with friends, he gets motivation and encouragement. His mates also give useful advice and emotional backing. Eventually network relations help him in resource acquisition for fulfillment of orders. Authors introduced four other case studies also as to highlight the importance of network relationships in rapid internationalization of SMEs.

Networking may not merely propel internationalization; it can also define the investing decision configurations. Network relationships greatly influence the decision to go global, the selection of target market and adequate mode of entry, expanding the network of concern and building more networks in the markets abroad.

The results prove the importance of network relationships in internationalization process for SMEs. SMEs initiate with the objective of transnational expansion, and this is aided when entrepreneurs discuss their desire with their trusted friends. This process is facilitated by the relationships; formal and informal, by attainment of useful information and potential approach to beneficial markets. For this reason, entrepreneurs like to maintain a few reliable relationships. In deciding

the entry mode, entrepreneurs rely on the useful pieces of advice from their trusted contacts and use their knowledge so that they avoid making any mistakes. To expand the concerns in the foreign markets entrepreneurs need to take pretty daring measures at times and plunge into risk with the emotional support network that is not very diverse. Representatives of resources procurement, on the other hand, are diverse and assist in obtaining essential resources and add to social capital by building more connections abroad.

*SMEs' Export Problems in Pakistan* (Jamhed Khan Khatak, Muhammad Arsalan, Muhammad Umair, 2011)

SME offers several different definitions but the one put forth by SMEDA (the body liable for promotion and development of SMEs in Pakistan) says that SME is an organization having up to 250 employees, paid up capital of rupees 25 million and an annual sales figure of up to 250 million. Initially SMEs were deemed unimportant and focus was only on large enterprises but with the development of certain economies relying on their SMEs, their potential was discovered and they drew attention. However in Pakistan, this sector still remains neglected. It is the need of the hour to realize the importance of this factor in growth of the national economy.

Export is a building unit of bilateral trade, whereby the services or the goods manufactured in one country are shipped to another country spurring its GDP. A huge potential lies with the SMEs to export and contribute to the reserves of foreign exchange. SMEs play a vital role in alteration of economies from low to medium income levels and countries like Pakistan need to reach medium income level stage.

This is a descriptive study in which data was collected from 25 Pakistani SMEs, detailed interview and analysis was conducted. This study concludes with identification of several export barriers for Pakistani SMEs grouping them into two broad groups; Internal and external. Internal barriers are namely the energy issues, environmental, marketing and functional. Energy crisis is one of the biggest problems contributing to shut down of many SMEs along with large enterprises. It leaves the suppliers unable to match up with the demand. On the other hand the continuously rising prices of energy and fuel resources are aggressively shrinking the profit margin. Environmental issues in Pakistan are political instability causing exchange rate risk, strict trade regulations, tariffs and quota issues, poor economic conditions causing severe drifts in exchange rates. Marketing barriers result when the product is not up to the demand of the customer or it does not meet the quality or export standards, inadequately priced goods that dissatisfy the customers, unawareness about the product and inability of exporters to

make in-time delivery. Functional barriers are internal inabilities of the SMEs such as lack of required capital resources or production capability. Functional barriers result in inability of the suppliers to meet the demand.

External inconsistencies result in barriers such as competitive, environmental and procedural. Competitive barriers usually arise out of relatively higher prices or low quality and they prevent the exporting country to plunge into competition resulting in potential dominance of competitors. Environmental barriers are simply the PEST factors; political, economic, social and technological hindrances that dampen the export potential of a country. Procedural barriers result due to complex procedural obligations faced by the exporters that demoralize the exporters. These may be lengthy documentations, delayed payments and communication troubles with the customers on the other side of the border.

The findings of this study show that the impact of internal barriers is way greater than that of external barriers however in external barriers competitive barrier is a tough one. With a grip on these barriers providing regulation and assistance, export problems for SMEs can be minimized which will be highly conducive for the economic growth of a developing country like Pakistan.

### **Conclusions**

Having discussed the key factors and issues concerning the internationalization, it is concluded that Pakistan's small business sector has a lot of potential for growth. Keeping in mind the inevitable events and trends in the global marketplace, the decision makers must realize the need to enter new markets across the borders in order to survive in today's continuously changing environment. A theoretical analysis of the research papers included in the study indicated that key factors effecting the internationalization of SMEs are lack of financial resources, internal and external export barriers, entrepreneurial ideation and innovation. Another factor that is indispensable to address is government support to this sector, including provision of adequate facilities to SME development, establishment of research centers, improvement of infrastructures, initiation of export promotion programs and timely decision making to foster international trade.

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