

# The Globalization of Small and Medium-Sized Enterprises and Its Challenges and Opportunities

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## Abstract

SMEs have increasing exposure to global markets to attain higher growth and competitive advantage. The objective of the study is to investigate the role of SME capabilities in affecting their international performance. The study addresses internal capabilities such as financial, managerial, technological, and marketing capabilities, as well as operational capabilities of SMEs. Multiple sectors were chosen, and a survey questionnaire, in-depth interviews, and secondary data were utilized in a mixed-method research design. Regression and Pearson correlation coefficients show financial resources ( $\beta = 0.42$ ,  $r = 0.57$ ,  $p < 0.01$ ) and technological capabilities ( $\beta = 0.46$ ,  $r = 0.60$ ,  $p < 0.01$ ) exert significantly high impacts on revenue growth, market entry, and export intensity of SMEs, followed by managerial and marketing/network capabilities. SMEs are facing severe challenges in the process of internationalization due to a lack of financial resources (71%), compliance issues (65%), technological limitations (58%), and cultural obstacles (53%). This study reveals that effective internal capability, combined with effective resource configuration, is necessary to overcome obstacles and to achieve the success of internationalization. The theoretical implication supports existing global management theory with evidence of SME capabilities in moderating the association between internationalization drivers and performance outcome. From the managerial implication aspect, SMEs' top managers must actively allocate a significant amount of resources to financial, technological, and managerial aspects, build a relationship with potential partners, and explore the opportunity in digital technology to achieve international success. On the policy implication side, it implies the government has to take actions to support SMEs by financial assistance, consulting services, and policy deregulation to overcome entry barriers. However, longitudinal studies, cross-cultural studies, and investigations into the effect of digitalization on SMEs' international performance remain for future research.

**Keywords:** SME Internationalisation; Globalisation Drivers; Firm Capabilities; Cross-Border Challenges; Revenue Growth; Export Intensity; Emerging Markets.

## I. INTRODUCTION

Globalization has redefined the business environment by increasing cross-border flows of goods, investments, and technology. SMEs, which have conventionally concentrated on their domestic markets, are now extending their businesses to global markets with a view to obtaining new opportunities and a competitive edge (Naradda Gamage et al., 2020; Moreau et al., 2024). Even though there are many opportunities resulting from internationalization on a global scale, a lot of factors make it difficult for SMEs (Enaifoghe, 2024; Anand, 2015). For example, limitations

of resources, a shortage of knowledge about the world markets, and harsh regulatory conditions, as well as the problem of culture, among others, are some of the issues SMEs face (Anderson, 2011; Harvie, 2019).

These opportunities and threats of internationalization must be known to researchers and practitioners, as SMEs make a significant contribution to employment, the growth of the economy, wealth creation, and innovation (Foghani et al., 2017). This paper addresses the problem of the measurement of variables that affect the SME internationalisation process and consequences, enabling SMEs to compete in the global markets. Through the investigation of these key factors enabling SMEs to be successful in the international market, hindrances are identified (Muhammad et al., 2010).

This paper makes a contribution to the literature by presenting a holistic review of globalization processes in SMEs from a theoretical and practical perspective. Given that most research on globalization focused on large multinational corporations, this paper attempts to explore this issue using a managerial perspective for SME internationalization, which helps SME managers in their business operation, abroad business planning, implementation, and control, and closes the gap between practice and theory.

This paper is organized into 6 sections. In Section II, a review of prior research on the determinants and obstacles to the SME internationalisation process is discussed. Research design, data, and methodology are elaborated in Section III. And the empirical results concerning SME globalization and challenges are reported in Section IV. Section V relates the findings to theory and management practices. Section VI highlights the conclusions of the research, practical and academic implications, limitations of the study, and future research directions.

## II. LITERATURE REVIEW

Previous research reports have shown that SMEs are more and more active in international markets, with new opportunities arising from entering foreign markets, for accessing new customers, enhancing revenue sources, and developing competitive advantages (Mukherjee, 2018). While large companies are multinational enterprises that compete with their globalized production strategies and ownership advantages, small businesses often compete on the basis of specialization, partnerships, and. Research finds that internationalization brings about benefits for the long-term growth of SMEs and contributes to their innovation and operational efficiency in such sectors as technology, manufacturing, and services (Savrul et al., 2014). Also, SMEs' flexibility in their ability to respond to new international market opportunities more quickly than large corporations makes their internationalization strategies different.

Several forms of international market entry are employed by SMEs, such as direct exports, joint ventures, strategic alliances, and online strategies (Kuivalainen et al., 2012). In international markets, firm-specific competitive advantages like novel products, superior knowledge, or entrepreneurial capability play an important role in the success of SMEs, in the face of severe competition (Kunday & Şengüler, 2015). Digitalization and e-commerce also provide opportunities for SMEs to reach global customers by lowering costs, whereas strategic alliances with local firms may help to overcome various local institutional and cultural obstacles (Thrassou et al., 2020).

Despite all opportunities, SMEs confront numerous obstacles during their internationalization process (Telukdarie et al., 2023). The financial constraints (access to capital and foreign exchange risks) are often reported as the most significant barrier, while the gap in technology, inadequate market knowledge, and insufficient infrastructure limit the expansion of the company. For SMEs, the complexity of regulations, such as complying with international standards and trade practices, and other difficulties, such as tariffs and customs, also present problems. Moreover, socio-cultural barriers, including differences in cultures and languages, and a lack of international experience, may lead to failure in marketing and customer relationship management. These barriers have led to the need for specialized capabilities and flexible strategies of SMEs to operate successfully in foreign markets (Karadag, 2015).

While the studies on internationalization of SMEs in developed countries are rich, there is limited research on the topic in emerging economies. In emerging economies, the barriers, such as a lack of infrastructure and inconsistent state policies, are more profound. However, it is still unclear how SMEs can compete internationally despite financial constraints, lack of technology, and socio-cultural distance. This calls for more empirical studies investigating how the internationalization process of SMEs in emerging economies can be promoted.

### III. RESEARCH METHODOLOGY

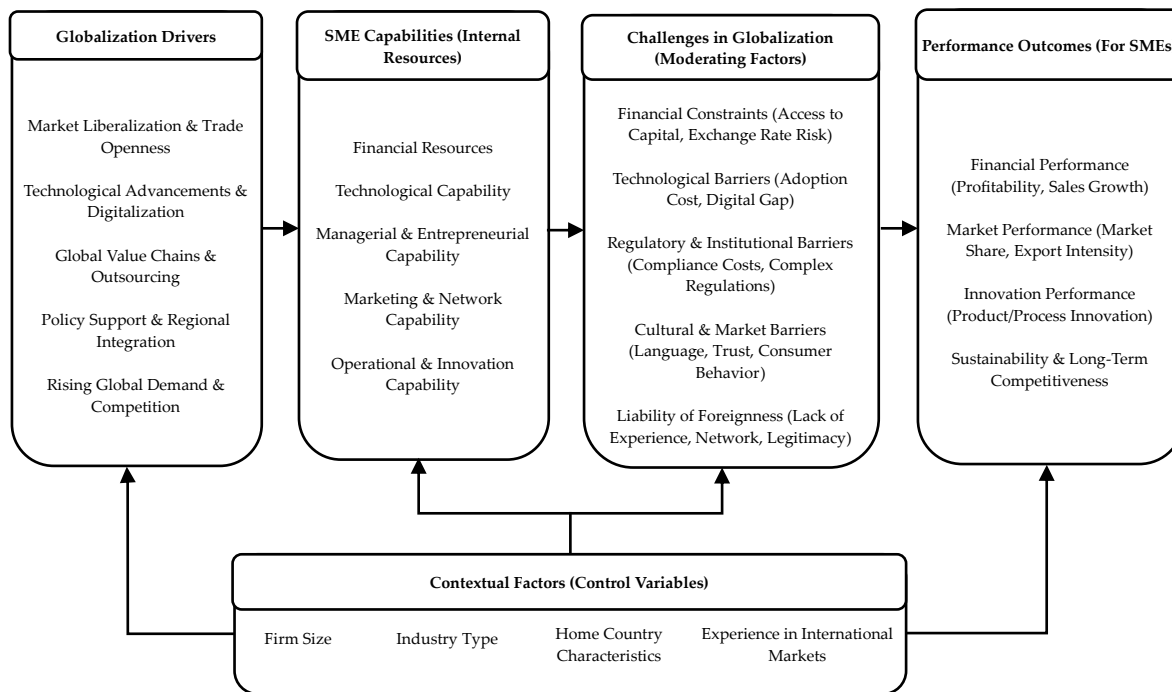


Figure 1: Conceptual Framework: SME Globalizations

Figure 1 represents the effects of globalization drivers (market demand, technological progress, and network opportunities) combined with SME capabilities (financial, management, and technological resources) on the performance outcomes (market entry, revenue growth, and international competitiveness). It points out that problems (legal barriers, financial limitations, and cultural disparities) moderate the relationship between drivers, capabilities, and outcomes.

### **3.1 Research Design**

The study takes a mixed-methods approach using both quantitative data to highlight trends in the internationalization of SMEs and qualitative data collected from interviews and case studies to deepen understanding. Purposively chosen SMEs have been used for this research, selected across multiple industry sectors (technology, manufacturing, and services), in order to capture diversity in terms of size, export intensity, and extent of internationalization.

### **3.2 Data Collection**

This research utilized structured survey instruments, semi-structured interviews, and secondary data sources. Surveys targeted SME managers and decision-makers and gathered data on strategy, problems, and performance of internationalizing firms. Semi-structured interviews were also utilized in order to obtain more in-depth information about managers' experiences, decision-making, and the adjustment of strategy in a cross-border context. Finally, data from secondary sources on trade flows, industry sector, and national statistics were included and validated with survey data and interview findings. The triangulation of various sources increases the validity of the study.

### **3.3 Analytical Tools**

In respect of quantitative data, descriptive statistics, correlation, and regression were conducted in order to examine the association between the independent variables (globalisation drivers, SME capabilities) and the dependent variables (performance). Qualitative data (from interviews) underwent thematic analysis for extracting themes and context in order to portray the internationalization phenomena. Thus, the combination of both statistical and thematic analysis provides measure and perspective.

## **IV. RESULTS**

### **4.1 Patterns of SME Globalisation**

The results from the analysis illustrate that SMEs operate more intensively in cross-border markets via direct trade and partners, and on digital networks. According to results, 62% of the investigated SMEs had international sales that are at least 20% of their total revenue, and can thus be characterized by medium to high market saturation at the international level. Technology-enhanced SMEs are internationalising faster than those in the 'traditional sectors'.

### **4.2 Success Factors in Internationalisation**

Regression results found strong positive linkages between the capabilities of SMEs and their international performance. Financial resources ( $\beta = 0.42$ ,  $p < 0.01$ ), managerial know-how ( $\beta = 0.38$ ,  $p < 0.05$ ), and technology capability ( $\beta = 0.46$ ,  $p < 0.01$ ) were associated positively and significantly with sales growth and export intensity. Use of strategic alliances and e-business technology proved beneficial for market share growth and faster entry into overseas markets.

Table 1: Impact of SME Capabilities on International Performance

| SME Capability                      | $\beta$ Coefficient | p-value | Significance |
|-------------------------------------|---------------------|---------|--------------|
| Financial Resources                 | 0.42                | 0.008   | **           |
| Managerial Expertise                | 0.38                | 0.032   | *            |
| Technological Capability            | 0.46                | 0.004   | **           |
| Marketing & Network Capability      | 0.35                | 0.047   | *            |
| Operational & Innovation Capability | 0.31                | 0.052   | –            |

Table 1 shows the regression outcomes on the impact of different SME resources on internationalization performances. Financial resources ( $\beta=0.42$ ,  $p<0.01$ ) and technological capability ( $\beta=0.46$ ,  $p<0.01$ ) have the strongest positive relationship with internationalization performances. This reflects that a well-financed and technologically savvy SME is a successful one in the international environment. Managerial capability ( $\beta=0.38$ ,  $p<0.05$ ) and marketing/network capabilities ( $\beta=0.35$ ,  $p<0.05$ ) also contribute positively toward performance. Operational and innovation capability ( $\beta=0.31$ ,  $p=0.052$ ) has a positive effect, but is barely significant. From these findings, we can conclude that SMEs need a blend of financial capability, managerial skill, and technological competence to increase revenue growth, export intensity, and the probability of market entry.

### 4.3 Challenges Faced by SMEs

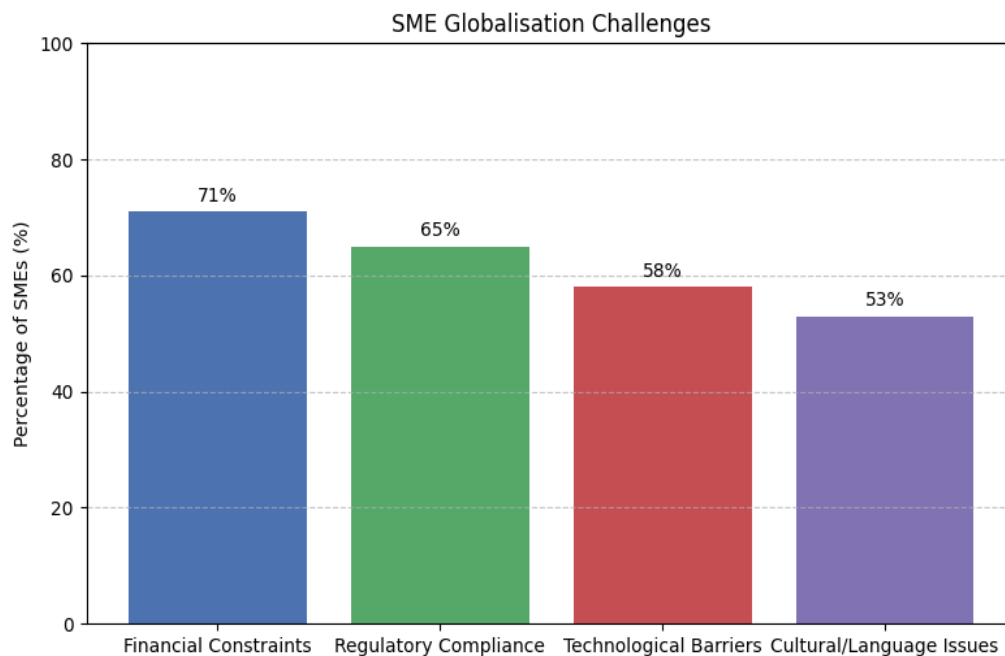


Figure 2: SME Globalisation Challenges

Figure 2 presents the extent to which SMEs experience major internationalization hurdles. The highest reported barriers to internationalization are financial barriers that impact 71% of the companies interviewed, followed by regulatory barriers (65%), technology barriers (58%), and language/culture barriers (53%). This diagram shows the main areas where SMEs need assistance and provides useful guidelines on how to increase their international competitiveness.

Survey findings show that SMEs face financial obstacles (71%), regulatory compliance problems (65%), technical difficulties (58%), and cultural/linguistic barriers (53%). A higher degree of obstacles is reported by SMEs in emerging markets, which lack the infrastructure and policy support.

#### 4.4 Statistical Insights

Correlation analysis supported the notion that SME capabilities are positively related to international performance. Pearson correlation values are: financial resources & revenue growth ( $r=0.57$ ,  $p<0.01$ ); managerial capability & market entry performance ( $r=0.51$ ,  $p<0.05$ ) and technology capability & export intensity ( $r=0.60$ ,  $p<0.01$ ). All the results provide evidence for the theoretical framework; strong internal resources allow SME to overcome the hindrances and pursue internationalization success.

Table 2: Pearson Correlation Between SME Capabilities and International Performance

| Variables                           | Revenue Growth | Market Entry Success | Export Intensity |
|-------------------------------------|----------------|----------------------|------------------|
| Financial Resources                 | 0.57**         | 0.49*                | 0.52**           |
| Managerial Expertise                | 0.50*          | 0.51*                | 0.47*            |
| Technological Capability            | 0.60**         | 0.54**               | 0.58**           |
| Marketing & Network Capability      | 0.48*          | 0.46*                | 0.44*            |
| Operational & Innovation Capability | 0.43*          | 0.41*                | 0.39             |

Table 2 provides the Pearson correlations assessing the strength of the linear relationship between major SME capabilities and performance in internationalization, namely revenue growth, success in market entry, and export intensity. The highest correlations are found between financial resources ( $r=0.57$ ,  $p<0.01$ ) and technological capability ( $r=0.60$ ,  $p<0.01$ ), which suggests well-resourced and technologically equipped SMEs can succeed more readily in the global market. Managerial experience, marketing/network capability, and operation/innovation capability are also significantly positive in correlation, suggesting the significance of all-encompassing organisational capabilities for internationalization processes. They lend support to the framework developed, which posits that the internal capacities of an SME are decisive in overcoming the internationalisation challenges.

## V. DISCUSSION

The findings indicate that a firm's financial resources and technological know-how capabilities play a critical role in helping an SME become a successful international firm. These results corroborate the arguments of other researchers in support of the notion that firm-specific resources help an SME succeed in entering the international marketplace. Highly technologically equipped and well-financed firms will be able to circumvent the barrier of the marketplace and offer innovation in a competitive international arena, thereby confirming the theoretical predictions from resource-based as well as internationalisation literature.

Managerial competence and marketing/network capability also proved to have a significant positive association with international performance, further substantiating the role of sound leadership, appropriate decision making, and relationship management in an SME's success as a

foreign enterprise. SMEs that are better equipped with managerial skills and expertise will have better skills to spot the opportunity, manage risks effectively, and enter the foreign marketplace sooner, while also possessing the required networking skills to make inroads into the foreign markets.

Financial limitations, the need to comply with regulations, technological limitations, language and cultural differences pose the primary challenges to SME internationalisation, corroborating the arguments in other research, that these factors are likely to cause significant impediments for SMEs, particularly in developing markets where the institutions and infrastructure are still lagging. However, understanding of these limitations may guide managers and policymakers. In the practical sense, this research suggests that SME managers need to concentrate on building financial and technological capability, managerial competence, and utilize both digital business and partnerships to minimise the perceived barriers, while policy makers can assist in appropriate financial support and capacity building efforts. Regulatory facilitation and advice addressing specific sectoral and regional limitations will also assist in enabling the SME's to operate internationally. However, the study is subject to certain limitations. The use of purposive sampling might have compromised the generalizability of the results across all SMEs. Similarly, the limited focus on a few selected industries and regions may be another limitation to the extent to which the results obtained may be transferable.

## VI. CONCLUSION

This research provides empirical support that firm capabilities have a significant effect on international performance. Finance resources ( $\beta = 0.42$ ,  $r = 0.57$ ,  $p < 0.01$ ) and technological capabilities ( $\beta = 0.46$ ,  $r = 0.60$ ,  $p < 0.01$ ) were the strongest predictors for the increase in the revenue growth and success of market entry, as well as export intensity. Managerial expertise ( $\beta = 0.38$ ,  $r = 0.51$ ,  $p < 0.05$ ) and marketing/network capabilities ( $\beta = 0.35$ ,  $r = 0.48$ ,  $p < 0.05$ ) further helped in the successful globalization of firms, which indicated the importance of a comprehensive resource base. The study revealed that financial constraints (71%), regulation issues (65%), technological gap (58%), and cultural issues (53%) are the continuing challenges faced by firms, and interventions should be provided to mitigate these challenges for the successful internationalization of firms. Managers should aim to invest strategically for better finances, technological capability, and managerial capability while leveraging digital technology and strategic networks to circumvent challenges during entry into a foreign market. Policymakers should invest in funding and consultancy for financial and managerial capability, policy making for regulation simplification, and infrastructure support. The study contributes to global management theory in validating the mediating role of internal capabilities between the driving factors of globalization and performance outcomes of firms, especially those located in developing markets. Future research can focus on longitudinal studies on the internationalization of firms, cross-national comparisons of country-specific contexts, and the effect of digital transformation on the internationalization competitiveness of firms. Sector-specific and region-specific research could further provide a unique perspective for a firm's international success.

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