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Barriers to enter in foreign markets: evidence from SMEs in emerging market

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Abstract

Purpose – Foreign market entry is considered as a key strategy to grow and survive over longer period of time for small and medium enterprises (SMEs). The decision to enter a foreign market is not a straightforward story. Considering resource limitation, SMEs need to analyse the key barriers to entry in foreign markets very carefully. The purpose of this paper is to identify these barriers for the SMEs in a developing country.

Design/methodology/approach – This study has used primary data collected through questionnaires from 212 Bangladeshi SMEs. A mixed method data analysis technique is used to analyse the firms both from micro- and macro-levels. Following the running example-based case study approach, this study has developed and validated a partial least square-based structural model to assess the key barriers to entry in foreign markets.

Findings – This study has identified the key socio-economic barriers faced by the SMEs in a developing country to enter in foreign markets. It has successfully framed the socio-economic barriers to enter in foreign markets for Bangladeshi SMEs as a second-order hierarchical model.

Originality/value – It is often believed that foreign market entry is more affected by social barriers as explained by the existing theories including the Uppsala model. This study, however, revealed that the international market expansions of SMEs in developing countries are more sensitive to the economic barriers.

Keywords Bangladesh, Emerging markets, Internationalization, Market entry, Small-to-medium-sized enterprises

Paper type Research paper

Introduction

The economic development and sustainability of growth both for developed and developing countries depend primarily on small and medium enterprises (SMEs), which play a key role in generating income, creating employment opportunities and even reducing poverty (Ayyagari *et al.*, 2011; Cravo *et al.*, 2012). Therefore, the factors that hinder or limit the growth of SMEs are considered as the most significant constraints for the economic development for those countries (Olawale and Garwe, 2010; OECD, 2004; Syed *et al.*, 2012). Common barriers to growth of SMEs may include limited access to finance, lack of experience, shortage of skill, competition, inability to use advanced technology, improper record keeping and lack of knowledge. Due to these barriers, a large number of SMEs fail to grow or even survive regardless of the size of economy (Hulbert *et al.*, 2013). For example, the studies on the SMEs from the context of USA, UK and Australia identified that almost 80-90 per cent of SMEs fail within the first ten years due to the external barriers to growth and the lack of positive entrepreneurship traits, such as lack of commitment, limited knowledge, deficiency of willingness and absence of flexibility (Zimmerer *et al.*, 2008; Hodges and Kuratko, 2004; Khalique *et al.*, 2011). Similarly, the failure rate of SMEs in Malaysia is roughly 60 per cent (Ahmad and Seet, 2009), in South Africa 75 per cent

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