INTERNATIONALIZATION OF MSMES: A STRATEGY FOR COMPETITIVE DEVELOPMENT

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ABSTRACT

Small and Medium Enterprises are an important part of any country’s development. In developing countries like India where the infrastructure facilities for development are inadequate and entrepreneurial activities are scarce, MSMEs are doing remarkable by contributing in industrial output, exports, employment generation and creating entrepreneurial opportunities. However, the threats and challenges are also ample in MSMEs way. In this highly competitive world where entire world has become a single place for business, MSMEs also have to become global for the sustainable development. Recession, economic slowdown, competition from MNCs etc are some of the major issues standing before MSMEs and to tackle them they have to have a sustainable strategy. This study focuses on the strategy of Internationalization for the sustainable competitive advantage to fight with the challenges and impediments before MSMEs. The purpose and main objective of this study is to emphasize on internationalization strategies for MSMEs with its procedure. To understand better, descriptive research methodology is used to pinpoint the process of internationalization for MSMEs and analysis is done with the help of Chi-square test on the data collected by a structured questionnaire from a sample of 50 MSMEs situated in Shivane area of Pune (India).

Keywords: Internationalization, Strategies, Competitiveness etc.

INTRODUCTION

The requirement of current business environment is, to make the firm highly competitive so that it can sustain in this globalized world. Globalization, which brought several opportunities for business development, has not come alone. It came with lot of challenges and intense competition. In this heavy competitive and globalized business world, big firms may work upon the strategies for sustainability, however for micro, small and medium enterprise; it’s really a tough and challenging task. MSMEs have to fight in the era where international customers, global supply chain,
international sourcing, and international alliances are becoming the valuable trends of business. And in this era, MSMEs also have to develop the strategies to align with the emerging trends. Globalization has evolved and opened up the doors for business places and as result to these MNCs and big multinationals are growing and tapping and maximum share of the market. In this situation MSMEs also can not stay back at home and dependent on domestic market only for the business. MSMEs too have to make their way to go international to expand their market, business and customer base. By adopting internationalization strategy MSMEs also somehow diversify their risk and make them sustainable in this highly competitive world.

In today’s dynamic world, the evolution from a small domestic firm to an established and international company is a key step for any firm. Globalization has made this issue of internationalization very significant for researchers as well as practitioners and study is also done related to the issue.

India has established the Ministry of Micro, Small and Medium Enterprises (MSME) to develop small and medium enterprises in India and this agency works for the development of MSMEs by creating opportunities and providing several schemes to them still SMEs have to look at their way out to approach foreign market by internationalizing them.

OBJECTIVES

Primary Objective
1. To find out the competitiveness of internationalization strategy for MSMEs.
2. To understand the current scenario and problems of MSMEs.

LITERATURE REVIEW

For this research paper, mainly study of literature is done that cover various problems in SMEs, approaches to go international, focusing on strategies which have been developed to meet the requirement of SMEs in this globalized world. Literature on internationalization defines them as born global firms or international new ventures. The first one is defined as “the firms that view the world as their marketplace from the outset and see the domestic market as a support for their international business” (McKinsey & Co., 1993), and the other one as “business organizations that from inception seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt & McDougall 1994).

Porter put a mark on the fact that international competitive advantage is often achieved through aggressive domestic competition (Porter, 1990). Recent research into internationalization has found that a majority of firms engage in both outward (e.g. sales/export) and inward (e.g. import or access to knowledge) activities in the international field. It has been found that the firms engaged in export business, a majority was not confined to exporting alone but also involved in a range of inward and linked forms of international behavior that interacted.

Problems of SMEs may be divided into two groups – external and internal. External are the problems which are beyond the control of the industrialist such as availability of power and other infrastructural facilities and internal problems such as industrial relation, distribution channel, inadequacy of management etc. Bureaucratic hurdles and financial problems are some major problems in their way. Organized sectors can face the problems effectively however, unorganized sector finds it very difficult to handle. (Vasant Desai, 2007).

The stage approach for internationalization is discussed by various researchers for taking SMEs global. According to the stage approach, first companies sell their products in local market and then sequentially look for the opportunities in international countries. Within the stage approach two main models can be identified: the Product Life Cycle Theory by Raymond Vernon (1966; 1971;
1979) and the Uppsala Internationalization Model (Johanson & Wiedersheim-Paul, 1975). According to Vernon (1966; 1971) the internationalization process of the firm follows the development of the product Life Cycle: companies usually introduce new products only in their home market and then they eventually go abroad in the product maturity phase. The Uppsala Internationalization Model (Johanson & Vahlne, 1977, 1990) talks about the gradually increases of enterprise its international involvement. The entering of new markets by the firm is usually linked to the psychic distance: companies start their internationalization from those markets perceived as psychically near. Many studies have shown that ICT and technology levels are also very higher in internationalized SMEs in various sectors.

CHALLENGES

The challenges may be big or small but if they are not taken care properly, they can be major obstacle in MSMEs way of internationalization. Some of the certain challenges can be categorized as discussed below.

As per the OECD-APEC report 2007 some of the major challenges stated in MSMEs way described as such.

1. Inadequate quantity of untrained personnel for internationalization.
2. Shortage of working capital to finance exports.
3. Limited information to locate/analyze markets.
4. Identify foreign business opportunities
5. Lack of managerial time to deal with internationalization.
6. Inability to contact potential overseas customers.
7. Developing new products for foreign markets.
8. Unfamiliar foreign business practices.
9. Unfamiliar exporting procedure/paperwork
10. Meeting export product quality/standards/specifications.

Some other major problems in Indian context can be considered as:-

1. Shortage of working capital to finance exports
2. Identification for foreign business opportunities
3. Limited information to locate or analyze markets
4. Inability to contact potential overseas customers
5. Lack of managerial time, skills and knowledge

DATA ANALYSIS

Data is been collected from various sources including primary and secondary to conduct this study. Secondary data is collected from various journals and past studies on the topic whereas primary data from 50 MSMEs with direct interaction with a questionnaire. From secondary data mainly found models discussed above as the stage approach of internationalization. To conduct this study descriptive research methodology is used. The responses were tabulated and a Chi Square test was conducted to test the hypothesis.

There were 15 questions in questionnaire which were pre-tested with the consultation of 10 employees of different MSMEs in sample area. The type of questions was dichotomous (Yes/No). There were 15 questions so the mean value 9 has been taken as the acceptance rule. From the attributes, questionnaires received were analyzed by calculating the total number of yes or no. If yes
were 9 or <9 then the questionnaire was taken as yes else no. This is how the attribute table is created and number of responses was tabulated (See table no. 3) and hypothesis is tested with the final calculation of $\chi^2$.

**Ho:** “Internationalization is not a competitive strategy for the development of Micro, Small and Medium Enterprises.”

**Ha:** “Internationalization is a competitive strategy for the development of Micro, Small and Medium Enterprises.”

Following table shows the responses received:

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>10</td>
<td>13</td>
<td>23</td>
</tr>
<tr>
<td>Small</td>
<td>11</td>
<td>07</td>
<td>18</td>
</tr>
<tr>
<td>Medium</td>
<td>08</td>
<td>01</td>
<td>09</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29</td>
<td>21</td>
<td>50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table-2: (Calculation of Chi-square)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Obs. Freq.</strong> (Oij)</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>13</td>
</tr>
<tr>
<td>11</td>
</tr>
<tr>
<td>07</td>
</tr>
<tr>
<td>08</td>
</tr>
<tr>
<td>01</td>
</tr>
<tr>
<td><strong>Total</strong>:</td>
</tr>
</tbody>
</table>

From the above table it is clear that $\chi^2$ calculated = 5.5874

Now, $\chi^2$ from std. statistical table value, with 2 degree of freedom at 10% level of significance is 4.605. The calculated value of $\chi^2$ (5.5874) is more than standard value of $\chi^2$ (4.605).

**Since $\chi^2$ calculated > $\chi^2$ as per the Table value,**

Hence, the null hypothesis that, “Internationalization is not a competitive strategy for the development of Micro, Small and Medium Enterprises” is rejected.

The alternate hypothesis that, “Internationalization is a competitive strategy for the development of Micro, Small and Medium Enterprises” is accepted.
DISCUSSION

Table one was created by taking the responses from the sample size. The table recorded the responses on the basis of the mean value of the asked questions in questionnaire. There were 11 dichotomous type of questions in questionnaire and if there 6 yes then it was recorded under yes else no. Then Chi square calculation was done and as calculated value is more than standard value so null hypothesis is rejected and alternate in accepted.

FINDINGS

From the analysis of data and also acceptance of the hypothesis that Internationalization is a competitive strategy for MSMEs,

1. It can be understood that the MSMEs are facing many challenges especially the competition from global firms and internationalization strategy can help them to explore into a larger market and mitigate the impact of competition. Through the primary data collected it was understood that micro level firms were not so sure whether this strategy can help them completely.
2. The analysis of the data also confirms that such strategies over a period of time shall enable competitiveness in MSMEs performance as they get experience of the global market. Considering current situation, MSMEs need more assistance from government to go ahead.

LIMITATION

This study is limited to 50 respondents (MSMEs) from Shivane region of Pune.

CONCLUSION

The strategy of internationalization emerges on account of intensive competition coming form global world and MSMEs have to focus on this issue critically. Though such strategies have been proposed by eminent researchers but still implementation has been very slow. It was observed that in this competitive world MSMEs also have to link themselves with the global market. MSMEs also have to become global for sustainable development. Similarly, it is also imperative to know that Pune being an industrial place in India with lot of industrial hubs, MIDCs and global linkages facilities here, MSMEs need to have thorough information about emerging avenues useful for global reach. Hence, the study signifies that internationalization strategy could be one of the best strategies to achieve sustainable competitive advantage for small and medium enterprises to compete with global competition.

REFERENCES

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