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Internationalization Opportunities and Challenges for Small and Medium-Sized Enterprises from Developing Countries

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The purpose of this study was to identify opportunities and challenges for internationalizing the small and medium-sized enterprises in developing countries. In this article the author examines the internationalization motives and strategies of the managers of these enterprises. A survey was conducted in Tanzania and the effect of the identified opportunities on the decision to internationalize was modeled using the multinomial logistic regression to determine the relationship between the respondent profile and the decision to be taken in the absence of the internationalization opportunities. The results have revealed the existing opportunities including export rehabilitation incentives, schemes as well as institutional supports granted from the governmental and nongovernmental organizations, development partners, and business associations. However, inadequate international business skills, unawareness of existing export promotion programs, poor access to finance, and imperfect foreign market information are the main challenges. Profit and growth goals and saturation of domestic markets are the key drives to internationalization, with indirect exporting being the main internationalization strategy. The author concludes by drawing attention to managerial and policy implications and future research directions.

KEYWORDS Challenges and opportunities, developing countries, internationalization, small to medium-sized enterprises, Tanzania

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INTRODUCTION

Small and medium-sized enterprise (SME) internationalization is vital for both macroeconomic and export-firm growth. This is because by going abroad, a firm broadens its global market share, which can potentially stimulate a higher sales volume and, eventually, provides the possibility of a higher production volume. Expansion in production capacities to meet the market demands consequently creates employment opportunities for local communities. However, most of the existing studies on the SME internationalization, including Onkelinx and Sleuwaegen (2008), Rutashobya and Jaensson (2004), Alam and Pachers (2003), Zahra and George (2002) and Czinkota (2002), dwell on SME export activities such as the antecedents and export performance. Admittedly, little is known about the opportunities and challenges for expanding beyond national boarders for the SMEs based in developing countries (DC-SMEs). Likewise the DC-SMEs' internationalization motives and strategies have remained underexplored.

The term "developing country" is usually used to describe a nation with low wealth. The World Bank (2008), for example, considers all low- and middle-income countries with gross national income (GNI) per capita below US$11,905 as developing nations. In Tanzania where the GNI was around US$400 during 2008 (World Bank Group, 2008), the full potential of the SME sector has yet to be tapped because of the existing constraints that hamper its development. The constraints include undeveloped infrastructure, limited access to finance, poor business development services, unfavorable legal and regulatory framework, and ineffective and poorly coordinated institutional support framework (URT Ministry of Industry and Trade, 2002).

Nevertheless, it is estimated that 35% to 40% of Tanzania's GDP originates from SMEs (Tanzania Chamber of Commerce Industry and Agriculture [TCCIA], 2007; World Bank, 2004). With the importance and potential of the SMEs realized, the country has, since the 1980s, initiated efforts aimed at fostering their development to trade smoothly both locally and internationally, while addressing challenges faced in marketing, management, infrastructure, technology, and regulations. Some of the efforts include the availability of credit facilities and market exploration for their products. Despite the mentioned efforts, the potential of many SMEs is yet to be tapped, and their products have not yet penetrated foreign markets. The share of manufactured exports from Tanzania, for instance, is still very low (0.2%), which makes the country one of the less export-oriented economies in East Africa (United Nations Industrial Development Organization [UNIDO], 2002).

Even with such internationalization weaknesses, specific opportunities and challenges facing the sector when going global remain underexplored and the exporting motives and strategies used have received insignificant

attention in the SME studies. Obviously, owners of SMEs would like to know the existing opportunities that might convince them to globalize their businesses. Likewise, respective institutions and policy makers are expected to apprehend the challenges facing the sector as a base for establishing coherent SME internationalization policies, which are still missing in most DCs. Studies like this are, therefore, very much needed to inform all SME stakeholders. This report comes in at this juncture, not only by identifying the opportunities and challenges for internationalizing the DC-SMEs but also by examining their internationalization motives and strategies. To accomplish these objectives, the literature review is provided first, followed by the methodology, then the research findings, and finally the conclusion.

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LITERATURE REVIEW

Concept of Small and Medium-Sized Enterprises

There is no single universally accepted definition of what constitutes an SME, as numerous definitions exist, each one being valid in its own context. The definitions of SMEs vary from country to country and between different sources of the SMEs statistics. The differences in defining the term are sometimes attributed to different levels of development between countries. For example, businesses considered as SMEs are those with less than 200 employees in the United Kingdom, less than 500 employees in the United States of America, and a maximum of 100 employees for the Organization for Economic Co-operation and Development (OECD) (MacGregor and Vrazalic, 2008; Mukhtar, 1998). The European Union's Directeur General (DGXXIII) on the other hand, defines business as follows: micro (0 to 9 employees), small (10 to 99 employees), medium (100 to 499 employees), and large (500+ employees) (Blankson & Omar, 2002).

The commonly used factors in all definitions are the number of employees, invested capital, total amount of assets, sales volume, and production capacity. This study, though, opts for the definition given by the Ministry of Industry and Trade (2002), in its SMEs Development Policy. In this policy, the SMEs have been categorized into micro (up to four employees and up to 5 million shillings), small (between 4 and 49 employees and from 5 million to 200 million shillings) and medium enterprises (from 50 to 99 employees or between 200 and 800 million shillings). The SMEs in the Tanzanian context cover non-farm economic activities—mainly manufacturing, mining commerce, and services.

Theoretical Framework

Firms aspiring to go international are driven by several motives. Hollensen (2004) and Albaum, Strandskov, Duerr, and Dowd (1994) categorize such

motives into proactive and reactive. Proactive and reactive motives have been explained using several internationalization theories ranging from the proclaimed first internationalization theory of mercantilism (which focused on accumulation of treasures, while maximizing the trade surplus) to classic theories of efficiency absolute advantage and comparative advantage that state that nations trade because there are price differences between similar goods in their countries and that price differences are the direct result of cost differences in respective countries (Fillis, 2002; Freeman, 2002).

However, such theories focus largely on the trading nations while ignoring the individual actors and hence cannot assist in understanding the DC-SME internationalization. Modern theories of the born-global (BG) versus stage approach and diamond model take us further. BG theory describes that a firm from its inception seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. In this theory, BG firms are characterized by smallness in size but are growth and technology oriented, which tend to be managed by entrepreneurial visionaries (Fillis, 2002; Oviatt & McDougall, 1994). Nevertheless, the BG theory does not tell us what the sources of being born global are, and it hardly enlightens us as to why most SMEs, especially from the DCs, lack most of the stated characteristics that are supposed to be the major source of internationalization.

Unlike the BG theory, the stage approach of the product life cycle (PLC) theory by Vernon (1966) and the Uppsala Internationalization Model (UIM; Johanson & Vahlne, 1990) advocate that firms start trading in their local markets before successively looking at new countries. According to Vernon (1966), the firm follows the development of the PLC, in which they initially introduce new products only in their home market and then eventually go abroad using cost-oriented FDI during the maturity phase (Cheng, Blankson, Wu, & Chen, 2005). To a certain degree, the DC-SMEs follow this sequence, although most of them start and die before going international (Van Eeden, Viviers, & Venter, 2004) and thus rarely follow the sequential PLC model. There are a few DC-SMEs entering markets that are either geographically or psychologically close to their own countries. This is more related to the UIM than the PLC theory. The UIM maintains that an enterprise increases its international involvement gradually and that entering new markets by the firm is usually linked to the psychic distance; that is, companies start their internationalization from those markets perceived as psychically near (Johanson & Vahlne, 1990).

The Porter diamond model (Porter, 1990) takes us further in understanding why SMEs from developing countries may have less possibility of success in foreign markets. According to this model, the characteristics of the home nation play a central role in a firm's international success. The home base is an important determinant of a firm's strengths and weaknesses relative to foreign rivals. In describing this perspective, the model portrays the different

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interdependent elements that influence industry's competitiveness and internationalization. Such elements include the factor condition; related and supporting industries; firm strategy, structure, and rivalry; and chance as well as the role of government (Sharp & Dawes, 1996; Yetton, Craig, David, & Hilmer, 1992). This theory, therefore, enables us to contemplate how the opportunities and challenges in the exporting countries shape the SME internationalization propensities, which is invaluable to the study.

Internationalization Opportunities and Challenges

Many DC-SMEs are characterized by limited capital, low tolerance for financial risks, and lack of skilled and experienced international personnel (Czinkota, 2002; Pangarkar, 2008). Unless export promotion programs are formulated, it would be difficult for those who wish to enter foreign markets to do so. Export promotion programs refer to all public measures designed to assist the firm's exporting activity to ultimately achieve national, economic, and corporate objectives (Ali, 2000; Gencturk & Koabe, 2001). The main objective of these programs is to act as external resources for firms to provide them with opportunities to enter foreign markets and operate smoothly while surmounting the challenges they face more easily than if these programs were not available. Some of the programs facilitate learning through exporting, creating awareness of exporting being a growth and market expansion opportunity, reducing export barriers, and providing incentives, funding opportunities, and different forms of assistance to exporters (Gencturk & Koabe, 2001; Salomon & Shaver, 2005).

Sometimes, internal weaknesses, such as unawareness of the programs available, are the major challenges. For this, Moini (1998) explored the managers' level of awareness of the existing export assistance programs and found it to be very low. Furthermore, exports from the developing world, especially Sub-Saharan Africa, have experienced a significant loss in their share of world markets, with its share of world trade having declined by 46%—that is from 2.6% of total world trade in 1983 to 1.4% of total world trade in 1998. Both intrafirm and extrafirm factors explain the poor internationalization results, with managerial factors suppressing the rest (Bakunda, 2003). While such studies could not concentrate adequately on the influential factors according to the country's level of development, studies focusing on the insight of the DC-SMEs internationalization influences are needed. Thus, the necessity of this particular study with factual challenges and opportunities arising from the field data is evident.

RESEARCH METHODOLOGY

The specific SME survey and desk research were conducted in the city of Dar es Salaam during 2009. This city was chosen due to its long history with respect to SMEs and international business. Dar es Salaam is Tanzania's

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commercial capital, where the country's major international and local gateway is found. Also, it is in this city where entrepreneurship and SMEs, especially itinerant trading, were evident even during the colonial period (Mfaume & Leonard, 2004).

To carry out the SME survey, stratified sampling was done from a list of SMEs found in the city business registration office. From that list, the SMEs were grouped according to the nature of their businesses to increase the level of representativeness including *clothing* (*batiki*, textiles, *vikoi*, weaving, and tailoring businesses), *handicraft* (wood carvings, bowls, *tingatinga* paintings, ebony wood, baskets, candles, traditional decorations, and bone jewelery), *food processors* (beverages, green vegetables, cereal processing, cooking oil, fruit processing, and traditional wine), *furniture works* (timber and wood processors), *leather products* (shoes and all kinds of bags), and *pharmaceutical products*.

Once stratified, the specific SME survey was conducted, whereby simple random sampling was used to select the respondents from each stratum. A self-administered semistructured questionnaire was completed by a total of 60 respondents. From this, the main data collected included the internationalization challenges, motives, strategies used, and whether the respondents were aware of or have used the internationalization opportunities available in the country. Also, opportunities were reviewed from secondary sources of data, including official reports and policies, to ascertain their existence and benefactors.

The collected data were analyzed using quantitative and qualitative methods. The correlation between the respondent profile and the decision to be taken in the absence of the export promotion programs was analyzed in the question, "*Could you still internationalize your business even if there were NO export promotion programs offered in the country?*" with the response options "*Yes,*" "*No,*" and "*Not Sure*" that set up the three unordered decision alternatives. To estimate a multinomial logistic model will permit us to model the decisions as the function of the determinants and to determine if there are the significant differences between parameters (Lee, O'Leary, Lee, & Morrison, 2002).

Specifically, the decision to be taken in the absence of export promotion programs was specified as a function of the respondent and business attributes. After several permutations, the choice of the explanatory variables took into account the ones that contributed significantly to the final model. Hence, the estimated model was as follows:

$$P_{i,j} = \frac{e^{X_i'\beta_j}}{\sum_{k=1}^{J} e^{X_i'\beta_j}}$$

where

$$\mathrm{X_i'}\beta_j = \beta_0 + \beta_1 capit_i + \beta_2 Employ_i + \sum_{j=4}^{J} \beta_j Z_{ij}$$

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where $P_{i,j}$ denotes the probability of choosing alternative j (in this case, "*Yes*," "*No,*" *and* "*Not sure*") by the *i*th respondent firm, X_{ij} is the set of predictor variables, *Capit* represents the value of the firm, *employ* stands for number of employees, and Z_{ij} denotes a dummy variable that equals 1 for individuals belonging to category j and 0 otherwise.

FINDINGS

Respondent Characteristics

The response rate was 83%, the equivalent of 50 respondents. As shown in Table 1, the majority of the respondents were male, aged between 36 and 50 years, and primary school leavers who were married. Clothing businesses dominated, with most of the businesses having been in the industry for at most 5 years. Interestingly, women were dominant in the food sector, while men were the majority in the furniture works sector. As pointed out in the two association test columns, the analysis of the differences across the Dar es Salaam municipal councils of Kinondoni, Ilala, and Temeke has shown at the 5% level of significance that there were no statistical differences, meaning that any differences in the respondent characteristics were by chance and not due to the municipal affiliation.

To be able to capture the size of the firms, respondents were asked to give details of the number of employees and the estimated value of the venture. Table 2 summarizes their responses. Noticeably, the firms' behavior in terms of value vís-a-vís the number of employees gives a different sort of information. The results were one-side skewed when classifying them in terms of the number of employees, with micro and small businesses peaking. But using the value (in terms of money), the normal distribution pattern was observed in the three categories of micro, small, and medium-sized enterprises, peaking at small enterprises. This manifestation can imply that having more financial capacity does not necessarily guarantee a corresponding number of employees. Thus, the number of employees and financial indicators cannot be used interchangeably when defining SMEs. This is because a medium-sized enterprise in terms of finance could be a micro one when using the number of employees as an indicator.

Proportion of Internationalization, Export Strategies, and Motives

Generally, the percentage of exports per total annual sales was less than 50, as summarized in Figure 1. A sizeable amount of goods was sold in domestic markets. However, the accidental and internal exportations were not considered. For example, the furniture sellers could not capture the exportation of the products sold to other furniture shops, which are eventually exported. Likewise, handicrafts are naturally attractive and therefore liable to accidental

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TABLE 1 Respondent Characteristics

Characteristics	Kinondoni* (36%), %	Ilala* (34%), %	Temeke* (30%), %	Total ($N=50$), %	Association Test χ^2-Value	p-Value
Gender					28.354	.000
Male	54.0	56.0	60.0	57.0		
Female	46.0	44.0	40.0	43.0		
Respondent age, yr					48.901	.000
≤25	8.7	6.2	7.8	7.5		
26–36	29.5	27.5	33.0	33.3		
37–50	58.0	56.0	52.0	55.0		
>50	3.8	10.3	7.2	4.2		
Education level					73.987	.020
No schooling	5.5	3.0	7.8	7.8		
Primary education	60.5	75.3	54.8	57.5		
Secondary education	21.3	18.7	35.4	27.1		
Above secondary	13.2	3.0	2.0	7.6		
Marital status					78.012	.000
Single	37.0	43.0	34.0	38.0		
Married	53.0	50.0	60.5	56.5		
Widowed	6.0	5.0	3.5	4.8		
Divorced	4.0	2.0	2.0	0.7		
Type of business					42.345	.030
Clothing	47.0	39.6	42.0	42.9		
Pharmaceutical products	3.9	5.6	4.1	4.5		
Food processors	15.1	13.8	23.9	17.0		
Furniture works	3.0	19.0	21.0	14.3		
Handicrafts	23.0	11.0	5.6	13.2		
Leather products	8.0	13.0	3.4	8.1		
Duration of venture, yr					56.045	.000
1–5	45.0	68.0	71.0	61.3		
6–10	35.0	20.0	19.0	24.7		
>10	20.0	12.0	10.0	14.0		

**Note.* Dar es Salaam consists of three municipal councils: Kinondoni, Ilala, and Temeke.

exporting by the tourists. At least 60% of exportation was indirect, mainly using export merchants, with the leader being furniture. Export merchants buy goods outright and sell them under their own names. Markedly, handicrafts were more comfortable with small-volume production and most of their outputs were traditionally designed; their outputs are not quite updated with international market trends and therefore lack aspiration for exporting. Other furniture SMEs find it cumbersome to export their finished products; consequently, they sell them cheaply to export management companies (EMCs) locally. The EMCs include the furniture shops, which collect different kinds of SME finished and unfinished products and, through their workshops, assemble them for exportation.

Direct exportation accounts for at most 40% of the respondent firms, mainly by participating in international trade fairs. Sometimes, though, some

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TABLE 2 Categories of the Selected SMEs

Type of Business	Estimated Value of the Firm (in Tanzanian Shilling '000)*		
	≤5,000	5,000–200,000	200,000–800,000
Clothing	25%	42%	33%
Pharmaceutical products	13	52	35
Food processors	56	40	4
Furniture works	18	67	15
Handicrafts	72	28	0
Leather products	10	56	34
	Number of Employees		
	1–4	5–49	50–99
Clothing	23%	77%	0%
Pharmaceutical products	67	23	0
Food processors	52	44	4
Furniture works	43	57	0
Handicrafts	89	11	0
Leather products	73	27	0

**Notes.* Average exchange rate in 2009 was US$1 = TSHS 1400.
'000 = "in thousands".

of these SMEs have their customers abroad demanding their products directly. It should be noted that 35% of the interviewed firms own websites, which may be sources of information for their abroad markets. Moreover, 10% indicated that they use export development companies (EDCs). EDCs are professional trading companies with a development orientation that form an ideal bridge between small-volume producers and their potential markets abroad.

Also, they develop the SME capacity to produce export-worthy products by providing technical, financial, commercial, and even infrastructure support. The AMKA Trust Fund was mentioned by the majority of the respondents as one of the EDCs that was enabling them to participate in foreign

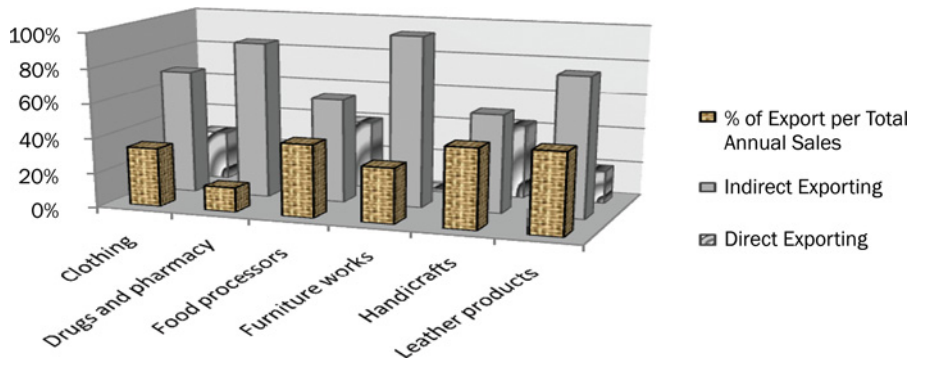


FIGURE 1 Proportions of export and exporting strategies during 2008. (Color figure available online.)

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markets. Respondents were also asked whether they export through joint ventures with foreign companies. Only 5% of the visited SMEs seemed to use this approach. Despite this phenomenon, Tanzanian SMEs ought to be trained and convinced to enter into such contracts. However, many SMEs fail to enter into joint ventures with foreign companies due to lack of management and marketing skills.

On the other hand, the motive behind going international was attributed to saturation of the domestic market, acquisition of foreign market opportunities, profit and growth, and extension of sales of seasonal products (Table 3).

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Opportunities for Internationalization

In the theoretical section, it is asserted that the characteristics of the home nation play a central role in a firm's international success. In other words, the opportunities and challenges in the exporting countries shape the SME internationalization tendencies. In that regard, the internationalization opportunities in Tanzania are usually created by the ministries, financial and nonfinancial institutions, other government entities, and nongovernmental organizations, development partners, and business associations.

Specifically, since the 1980s Tanzania has put in place export promotion programs in respect of various export-oriented production sectors including the Export Rebate Scheme, Export Credit Guarantee Scheme, Seed Capital Revolving Scheme, FOREX Retention Scheme, and Trade Facilitation, although not all of them are currently active. The leading policies and strategies geared toward SMEs include the Sustainable Industrial Development Policy (1996–2020), SME Development Policy (2003–2013), National Trade Policy (February 2003), the National Microfinance Policy (2000), and the Export Development Strategy and Action Plan (2000–2004)

TABLE 3 Major Motives for Going International

Major Motives for Going International	Totally Agree	Agree	Totally Disagree
Profit and growth goals	75%	20%	5%
Managerial urge	50	48	2
Technology competence/unique product	23	32	45
Foreign market opportunities/market information	85	11	2
Economies of scale	34	48	18
Competitive pressures	56	44	0
Domestic market is small and saturated	92	7	1
Overproduction/excess capacity	54	43	3
Unsolicited foreign orders	31	20	49
Extend sales of seasonal products	67	27	6
Proximity to international customers/psychological distance	13	75	12
Tax benefits	33	45	22

(URT Ministry of Industry and Trade, 1996, 2000, 2003a, 2003b; URT Ministry of Finance, 2000).

The promulgation of the SME Development Policy (2003–2013) was one of the efforts toward promoting SMEs, with the objective being not only the creation of new SMEs but also improving the performance and competitiveness of the existing ones so as to increase their participation and contribution to the Tanzanian economy. The policy advocates for financial reforms aiming at furthering liberalization of the financial sector and the creation of financial intermediaries. This can be achieved through opening SMEs windows in financial institutions and promoting innovative financial products, such as hire purchase schemes, and mobilizing resources to promote the development of new financial institutions for SME financing. A major initiative includes the establishment of the National Microfinance Bank (NMB) to cater to SMEs banking service. One major policy shortfall is on its institutional capacity, leadership, and coordination as there are many diverse players in SMEs with neither clarity regarding responsibilities nor coordination path.

The Export Development Strategy and Action Plan (2000–2004) is among the direct measures taken by the government to develop the export sector. The objective of the plan was to expand and diversify the Tanzanian export market by facilitating access to the foreign market through information, financial support, trade fairs, and other strategies.

The establishment of the Export Guarantee Fund with the Bank of Tanzania, for instance, aimed at guaranteeing exporters access to credit from commercial banks that is geared towards promoting exports from SMEs. Ironically, the scheme appears to benefit larger enterprises.

Tanzania's decision to join the World Trade Organization (WTO) and the deepening process of globalization in the country have added new momentum to the need for building a competitive market economy to withstand the competitive fervor in the domestic market and to participate more effectively in regional trade arrangements and the multilateral trade systems. The initiative to formulate and implement a comprehensive trade policy that responds to the consequences of these developments, particularly due to the fact that the concept of internal trade is no longer valid as the domestic market has become an integral part of the global market, has called for the review of the National Trade Policy (2003) as required by the WTO to its members.

The National Microfinance Policy (2002) provides a basis for the evolution of the Export Credit Guarantee Scheme (ECGS), administered by the Bank of Tanzania to support SMEs in accessing credit from commercial banks. The ECGS covers three aspects: comprehensive shipment guarantee, pre-shipment finance guarantee, and post-shipment finance guarantee. Participating financial institutions maintain the responsibility of credit scoring, approval, monitoring, and recovery, whereas the Bank of Tanzania manages the scheme. Once an exporter has applied for a loan from any banking institution that requires collateral, then the relative identified guarantor, including

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the National Income Generation Programme and Small Industries Development Organisation, in collaboration with Bank of Tanzania, would assess the possibility of becoming guarantors.

Development partners and business associations provide capacity building, advocacy, and financial support in the formulation and implementation of policies and programs. The support of development partners is demonstrated by the Danish International Development Assistance (DANIDA) Guarantee fund under the Tanzania banks such as CRDB, which aims at SMEs' credit delivery and international trade facilitation for the SMEs. The Tanzania Export Revolving Fund provided by the government of the Netherlands in collaboration with the UNDP largely assists genuine and potential exporters to achieve better results from eligible, worthwhile export activities. The Management Committee of the Fund has initially selected horticulture and handicraft exports to be pioneer beneficiaries.

Modeling the Internationalization Decisions

The effect of the existing export promotion programs on the decisions to internationalize has been modeled using the multinomial logistic regression. With the export promotion programs clarified to respondents, the question was "*Could you still internationalize your business even if there were NO export promotion programs offered in the country?*" with "*Yes*," "*No,*" and "*Not sure*" response options. The choice of the explanatory variables has considered the ones that contribute significantly ($\alpha = 5\%$) to the final model as it is summarized in the likelihood ratio test illustrated in Table 4. Thus, at the 5% level of significance, the considered variables are significant contributors to the model.

TABLE 4 Likelihood Ratio Test of Internationalization Decision

Effect	Model Fitting Criteria −2 Log Likelihood of Reduced Model	Likelihood Ratio Tests χ^2	*df*	Sig.
Intercept	1025.751[a]	.000	0	–
Capit	1029.602	28.011	3	.000
Employ	1112.908	5.117	3	.033
Gender	1025.437	11.055	3	.005
Age	1048.333	22.663	6	.002
Education	1025.716	12.132	3	.000
Marital status	1017.227	23.656	5	.000
Business type	1021.881	18.410	4	.000
Duration of venture	1029.374	13.303	4	.013

The chi-square statistic is the difference in −2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

[a]This reduced model is equivalent to the final model because omitting the effect does not increase the degrees of freedom.

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In addition, Table 5 presents the estimated parameters in the model that deliver the estimated probability of choosing one option, either "*Yes,*" "*No,*" or "*Not sure,*" about internationalizing in the absence of the export promotion programs, depending on the selected parameters, to allow for testing of what attributes are related with each response. The coefficient signs (i.e., B-column) express the effect of the independent variable to increase or decrease the probability of responding in a certain way, with respect to the reference category, which in this case is "*No.*" For quantitative variables (in this case, *Capit* and *Employ*), the parameters with significant positive (negative) coefficients increase (decrease) the likelihood of the response category with respect to the reference category. However, as the qualitative attributes were statistically significant, the most important element for the individual dummy variables is their coefficients for the model specifications.

Precisely at the 5% level of significance, as the value of the firm in terms of money increased, the more likely it was that the firm was intending to go international even in the absence of export promotion programs. Likewise, compared to secondary school leavers, respondents with a higher level of education were more likely to internationalize their businesses even in the absence of export promotion programs. The possible explanation for this could be that this group can easily access market information compared to the less educated.

Regarding gender, compared to female counterparties, males were more likely to internationalize their business. Again, compared to married individuals, widows were less likely, while divorced persons were more likely to go international in the absence of export promotion programs. Sectorwise, compared to handicrafts, leather firms were 1.630 times less likely to go international in the absence of promotion programs. The possible reason could be the complications involved in processing leather compared to that of handicrafts. In general, while some variables were increasing the probability to make a certain type of decision, others were reducing such probability. With the reference category set as "*No*" to the question, variables that were increasing the probability of saying "*Yes*" with respect to "*No*" include the high value firms in terms of money, with more employees, owned by males whose level of education is above secondary school and have been in business for at least 10 years. Conversely, variables that were decreasing such probability with respect to "*No*" include the uneducated, widowed, those dealing in clothing or leather works, and those having been in business for less than 5 years.

Internationalization Challenges

The specific challenges assumed to face SMEs that expand their businesses beyond domestic markets were itemized in a closed-ended question, with "*Yes*" or "*No*" being response options supplemented by an open-ended

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TABLE 5 Parameter Estimates

Could you still internationalize your business even if there were no export promotion programs offered in the country?[a]							95% Confidence Interval for Exp(B)	
Parameter	B	Std. Error	Wald	*df*	Sig.	Exp(B)	Lower Bound	Upper Bound
Yes								
Intercept	5.667	1.755	6.408	1	.002			
Capit	1.563	.453	1.458	1	.004	.796	.892	2.000
Employ	.091	.036	3.380	1	.000	.770	.689	.861
Male	.502	.062	.013	1	.002	1.016	.846	1.222
Female	0[b]	…	…	0	…	…	…	…
≤25 years	−.492	.825	1.360	1	.237	.292	.038	2.245
26–36 years	−.443	.764	.876	1	.502	2.091	.242	18.025
37–50 years	0[b]	…	…	0	…	…	…	…
> 50 years	−1.381	.002	16.867	1	.231	.523	.181	1.511
No schooling	.011	.221	.248	1	.056	1.897	.983	3.661
Primary education	.883	.389	.957	1	.996	1.006	.125	8.079
Secondary education	0[b]	…	…	0	…	…	…	…
Above secondary	.822	.336	1.997	1	.042	.382	.144	1.017
Single	.737	.392	4.887	1	.863	1.101	.366	3.315
Married	0[b]	…	…	0	…	…	…	…
Widowed	−1.329	.897	11.702.	1	.941	1.050	.289	3.809
Divorced	−.209	.348	3.223	1	.001	.211	.085	.528
Clothing	−.025	.372	.015	1	.001	.202	.077	.529
Pharmaceutical products	−.443	.592	1.328	1	.279	.394	.073	2.124
Food processors	−.755	.678	2.229	1	.758	.812	.141	4.674
Furniture works	−.195	.871	28.027	1	.048	.533	.036	7.948
Handicrafts	0[b]	…	…	0	…	…	…	…
Leather products	−1.630	1.019	4.887	1	.085	.976	.077	12.346
1–5 years in operation	−.209	.738.	2.229	1	.006	.989	.981	.997
6–10 years	0[b]	…	…	0	…	…	…	…
>10 years	−1.555	.600	1.897	1	.006.	1.016	.846	1.222
Not sure								
Intercept	4.987	1.655	8.408	1	0.000			
Capit	.097	.057	21.177	1	.789	.770	.537	10.388
Employ	.049	.094	.030	1	.862	1.016	.911	5.487
Male	−1.600	.004	7.652	1	.126	.989	.216	4.660
Female	0[b]	…	…	0	…	…	…	…
<25 years	−.648	1.063	.000	1	.996	1.006	.501	3.380
26–36 years	−.961	1.040	1.398	1	.037	.292	.124	.013
37–50 years	0[b]	…	…	0	…	…	…	…
>50 years	1.405	.335	3.645	1	.056	1.897	.130	1.360
No schooling	−.086	1.099	.450	1	.354	.382	.381	1.458
Primary education	−.492	.541	1.434	1	.231	.523	.264	11.702
Secondary education	0[b]	…	…	0	…	…	…	…
Above secondary	−.261	.562	.030	1	.763	1.101	.309	.248

(Continued)

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TABLE 5 Continued

Could you still internationalize your business even if there were no export promotion programs offered in the country?[a]							95% Confidence Interval for Exp(B)	
Parameter	B	Std. Error	Wald	*df*	Sig.	Exp(B)	Lower Bound	Upper Bound
Single	.016	.658	.005	1	.941	1.050	.212	.957
Married	0[b]	…	…	0	…	…	…	…
Widowed	−.931	.467	11.071	1	.003	.211	.759	1.997
Divorced	1.543	.491	10.615	1	.001	.202	.866	4.887
Clothing	.081	.859	1.173	1	.279	.394	.251	2.229
Pharmaceutical products	1.164	.499	3.707	1	.199	.976	.439	5.524
Food processors	−.722	1.379	.209	1	.648	.533	.264	3.223
Furniture works	.883	.893	.055	1	.815	.812	.152	.015
Handicrafts	0[b]	…	…	0	…	…	…	…
Leather products	−1.676	1.295	.000	1	.344	2.345.	.130	1.328
1–5 years in operation	−.630	.382	3.899	1	.148	.470	.381	28.027
6–10 years	0[b]	…	…	0	…	…	…	…
>10 years	1.546	.458	12.999	1	862	.989	.981	.997

Notes. [a]The reference category is "No."
[b]This parameter is set at zero because it is statistically redundant.

question. The results are summarized in Figure 2, which shows that lack of sufficient capital (LC), lack of international marketing skills (LMS), lack of market information (LMI), poor technology (PTC), inefficient legal and

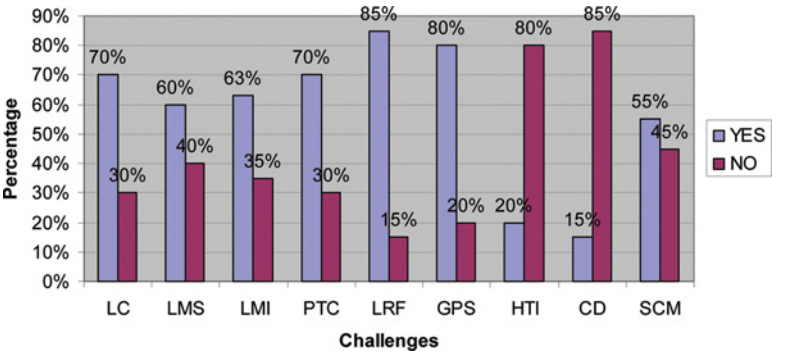


FIGURE 2 Challenges for Tanzanian SMEs to expand in international markets. *LC,* lack of sufficient capital; *LMS*, lack of international marketing skills; *LMI,* lack of market information; *PTC,* poor technology; *LRF,* inefficient legal and regulatory framework; *GPS,* inefficient government policies for SMEs development; *HTI,* high tariffs for imported inputs; *CD*, cultural differences; *SCM,* stiff competition in international markets. (Color figure available online.)

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regulatory framework (LRF), inefficient government policies for SMEs development (GPS), high tariffs for imported inputs (HTI), cultural differences (CD), and stiff competition in international markets (SCM) were hampering them in going international at different levels. While respondents indicated that inadequate capital was an obstacle to expansion to international markets, Figure 3 shows the sources of their capital, whereby half of them finance their businesses out of their own pockets.

Other firms financed their businesses from micro finance institutions, bank loans, and the credit guarantee schemes. However, most enterprises do not receive bank loans and credit guarantee schemes because SMEs are considered to be high-risk borrowers, and therefore interest rates applicable on their loans are usually on the high side. Some banks do not operate as the SME financing window because of the high cost of screening and administering small loans spread over large areas and the inability of borrowers to prepare applications that meet bank requirements. Documentation requirements for loan application are cumbersome, including preparation of financial statements, business plans, and cash flow projections. This requires the knowledge that few operators of SMEs possess. Actually, the operators refrain from borrowing lest they risk their business by the failure to service bank loans.

Noticeably, while most owner-managers and start-up entrepreneurs are experts in their products and services, they often lack broader managerial and international marketing skills, thus hindering their long-term prospects. Strategic planning, medium-term vision, desire to get rich overnight, management of innovation and technology, commitment to quality, and knowledge of quality systems are just a few of the critical elements of management that pose challenges to SME operators in the market economy, especially in the international marketing environment.

But also, indigenous technology used by manufacturing SMEs to produce their products is the cause of low-quality products that do not meet international standards. This was a major concern for the handicrafts producers because their products lack consistency in measurements and quality or standards. Access to external markets to keep track of trends with changing tastes and preferences of

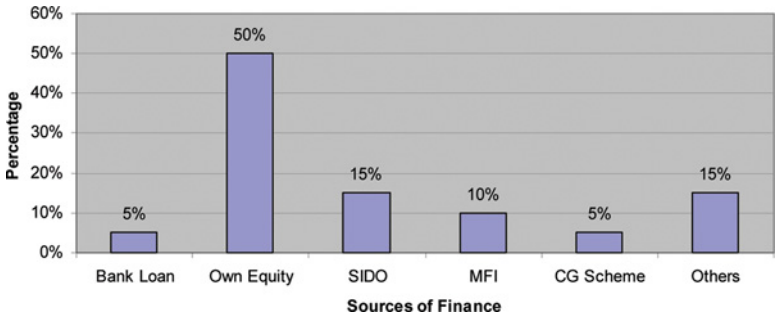


FIGURE 3 Sources of finance for SMEs. (Color figure available online.)

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foreign customers was also a great concern. Moreover, inadequate marketing services have prohibited SMEs from becoming competitive due to the difficulty involved in getting the relevant information about the existing markets.

CONCLUSION

In this article I identified opportunities and challenges for internationalizing the SMEs in developing countries, with special attention given to Tanzania. I also examined their internationalization motives and strategies. The internationalization opportunities were identified as efforts made to facilitate SMEs to go international. These included the creation of awareness of exporting being a growth and market expansion opportunity, reduction of export barriers, and provision of incentives, funding opportunities, and different forms of assistance to exporters, all of which could have been missed by firms if they did not engage in exporting.

Thus, using primary and secondary data, I identified existing opportunities including export rehabilitation incentives, schemes, and institutional supports. Institutional supports were granted by the responsible ministries, financial and nonfinancial institutions, other governmental and nongovernmental organizations, development partners, and business associations. On the other hand, specific respondent attributes confirmed that the presence of export promotion programs contribute significantly to their internationalization decisions. However, inadequate international business skills, unawareness of existing export promotion programs, poor access to finance, and imperfect market information are the main challenges. Profit and growth goals, the saturation of domestic markets, and capturing foreign market opportunities are the key drives to internationalization, with indirect exporting being the main internationalization strategy.

SME internationalization contributes greatly to macroeconomic and microeconomic growth by developing local industries, generating foreign earnings, improving productivity, and creating employment for local citizens. It is therefore worthwhile for developing country governments to institute more transparent frameworks for the SMEs to have access to attainable financial aid and formulate procedures of obtaining loans from development and financial institutions. This ought to be coupled with making an accurate collateral measurement system as well as lending capital at reasonable interest rates. Certainly, the effort of the government to establish an export credit guarantee scheme for SMEs and current government challenges to commercial banks to open a business financial services window for SMEs to access credit should be encouraged. Nonetheless, the lack of market information and links remains one of the critical challenges to SMEs. It should be borne in mind that SMEs can hardly succeed to access foreign markets without market information and links.

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Responsible stakeholders should provide the necessary information about foreign markets and, where possible, establish information centers to bridge the gap between SMEs and the target markets. Likewise, organizations supporting SMEs to penetrate foreign markets should be strengthened to be able to encourage as many SMEs as possible to capitalize on the services they provide. Strengthening management capacity is one of the essential factors to the success of the national economic development. Training business managers is so vital because they are the ones who decide on the fate of the enterprises. Training centers should therefore be encouraged to organize more training courses on international business.

Many internationalization challenges enumerated by the SMEs were directed toward external forces like the government and associated environments. However, it is important that the DC-SME managers be more proactive and, above all, possess the internal locus of control as entrepreneurs. Implementing marketing programs that meet the foreign market requirements is important. Today, the Internet has brought everything to our working desks. It is a matter of using available resources to obtain what is wanted. Finally, studies are encouraged to explore foreign markets for the DC-SMEs; this goes together with identification of the gaps between the goods and services offered for sale by DC-SMEs and the actual requirements of the potential international markets. They are also encouraged to advise responsible bodies on the way to fill the identified gaps.

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