# The internationalization process of small – to - medium size enterprises (SMEs) in the African context: A comparative study.

**By**

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## EXECUTIVE SUMMARY

This thesis is based on a cross-sectional survey design that employed the simple random sampling technique. From an original sample size of 1900 that was split between the South African market (1300) and the Zimbabwean market (600), a total of 494 usable responses were obtained representing a 26% response rate. Several statistical tools were applied to the results that included: cross tabulations, frequencies, correlations, factor analysis and discriminant analysis.

The results showed that in contrast to traditional internationalization theory that suggests that firms internationalize sequentially along an establishment chain, the vast majority of firms (86%) completed their entire internationalization cycle within one foreign market entry mode that was in this case exporting. The two major explanations for this behaviour are that firstly, exporting is preferred as a deliberate strategic option through which small firms can maintain optimum profit-risk levels. Secondly, rigorous exchange control regimes maintained by governments within the Southern African region have traditionally favoured the export-only method of internationalization and consequently many firms have since developed inertia in experimenting with other forms of internationalization.

Within that single mode of exporting, six stages and four developmental patterns were identified. In short, there are complex sub-processes at work within the export-only option and there are different levels of sophistication that offer a firm growth options that enable it to complete its entire internationalization through export. Similar observations were made in respect of other international market entry modes, such as licensing, foreign manufacture and integrated foreign manufacture on a worldwide basis. Mutual dependency among the stages could not be established for most firms in the survey implying that mode entry can be direct. Thus a firm can enter a foreign market via foreign production for example without necessity of having exported before.

Not only do small firms internationalize within a single mode, they do so relatively fast. 72% of the firms internationalized within the first 10 years of their existence and this was attributed to factors such as: the international experience of the key managers in the firm, the perception that domestic economic conditions present a risk to the firm's future earnings, the total lack of a domestic market for the products that are made by some firms, for example certain kinds of software, the desire to take advantage of a product with a relatively short life cycle or a product that is cheap and or easy to market and finally a firm's involvement in project work as a network partner. The results also show that managers in the 31-40 year age group are more likely to internationalize their firms faster than any other age group. The willingness to internationalize fast remains high until the age of 50, but from then on it drops appreciably, however it does not stop altogether.

Furthermore, the evidence presented shows that the internationalization process is pursued independently by small firms in the region in contrast to the European and New Zealand experience that suggests that small firms and in particular those that internationalize fast, do so with the assistance of other firms that are part of its formalized business network. Consistent with traditional internationalization theory, small firms in southern Africa were found to generally fan out from geographically close markets to geographically distant markets. However, unlike in traditional theory, this was not for reasons of psychic proximity but rather for practical economic reasons.

A new internationalization model that details the motivation domain as consisting of specific antecedents, enablers, information sources and precipitators, is presented in this thesis. The barriers, accelerators, selectors and market outcomes that shape the internationalization process are also given. The major limitation of the study was the use of the simple random sampling technique, while the main recommendation centred on the need for policy initiatives that focus on profiling managers and providing targeted assistance as well as formally networking firms for export through the creation of industrial clusters.

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