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Challenges faced by SMEs in the internationalization process to emerging markets and ways to overcome them: the case of SANITOP in Mozambique

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Dissertation written under the supervision of Laure Leglise

Dissertation submitted in partial fulfillment of requirements for the degree of International Master of Science in Management, at Católica-Lisbon School of Business and Economics, May 2016.

Abstract

Title: Challenges faced by SMEs in the internationalization process to emerging markets and ways to overcome them: the case study of SANITOP in Mozambique

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In today's globalization era, an increasing number of SMEs is expanding its international presence. At the same time, emerging markets present themselves as attractive and growing areas filled with opportunities. However, they also present challenges due to the contrast with mature markets. Therefore, the objective of the current thesis is to study the challenges faced by SMEs in the internationalization process to emerging markets, as well as the ways used to deal with them. The company chosen is a Portuguese SME, SANITOP – Material Sanitário, Lda., which is internationally present in Maputo, Mozambique. The research is conducted using a qualitative method, more specifically a case study essentially based on five interviews with employees of the company. The case study shows evidence of numerous challenges faced by SANITOP in the Mozambican emerging market, some of which match the literature on SME internationalization: shortage of working capital; inadequate quantity of and/or untrained personnel for internationalization; difficulty in matching competitors' prices; and excessive transportation costs. Furthermore, additional major challenges were found in the context of the Mozambican market, especially the devaluation of national currency and the lack of foreign currency, which further extends the current literature on the subject. As for ways of overcoming internationalization barriers, although the literature is fairly matched with three options (networks, external support and technologies), there are numerous other options found in the case study which remain unmentioned in the literature and that are particularly useful for SMEs present in emerging markets.

Resumo

Título: Desafios enfrentados por PME's no processo de internacionalização para mercados emergentes e formas de lidar com os mesmos: caso de estudo sobre a SANITOP em Moçambique

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Na era de globalização actual, um número crescente de PME's está a expandir a sua presença internacional. Ao mesmo tempo, os mercados emergentes apresentam-se como áreas atractivas e em crescimento repletas de oportunidades. Contudo, também apresentam desafios devido ao contraste com mercados desenvolvidos. Assim, o objectivo desta tese é estudar os desafios enfrentados por PME's no processo de internacionalização para mercados emergentes, assim como as formas de lidar com os mesmos. A empresa escolhida é uma PME Portuguesa, a SANITOP – Material Sanitário, Lda., que está presente internacionalmente em Maputo, Moçambique. A investigação é conduzida utilizando um método qualitativo, mais especificamente um caso de estudo essencialmente baseado em cinco entrevistas a funcionários da empresa. O caso de estudo revela evidências de inúmeros desafios enfrentados pela SANITOP no mercado emergente Moçambicano, alguns dos quais correspondem à literatura sobre internacionalização de PME's: falta de capital circulante; quantidade inadequada de e/ou pessoal inexperiente para internacionalização; dificuldade em igualar os preços da concorrência; e custos excessivos de transporte. Além disso, desafios adicionais foram encontrados no contexto do mercado Moçambicano, especialmente a desvalorização da moeda nacional e a falta de moeda estrangeira, o que amplia ainda mais a literatura atual sobre o assunto. Quanto a formas de ultrapassar as barreiras de internacionalização, embora a literatura tenha sido bastante correspondida com três opções (redes de contactos, suporte externo e tecnologias), há inúmeras outras opções encontradas no caso de estudo que permanecem ausentes da literatura e que são particularmente úteis para as PME's presentes em mercados emergentes.

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1. Introduction

In today's globalization era, an increasing number of firms is striving to expand internationally, even though they face several challenges (Zain & Imm 2006). Small and medium-sized enterprises (SMEs) in particular, have been attracting wide interest in the research community (Miesenbock 1988) as a result of more and more SMEs increasing their international presence (Gjellerup 2000) and for representing major sources of growth in the socio-economic landscape (Anand 2015). Their expansion is a consequence of technological advances, lowered trade barriers and the opening up of formerly closed markets (Axinn & Matthysens 2002). These markets, commonly referred to as emerging markets, present themselves as attractive and growing areas filled with opportunities (Cavusgil et al. 2002). However, they also present challenges due to the contrast with mature markets (Meyer 2001). Nevertheless, the internationalization of SMEs in emerging markets is yet an underexplored topic in the literature (Fang 2010, Jansson 2007a,b, Meyer & Gelbuda 2006, Salmi 2000, Yamakawa et al. 2008).

In order to further complement the current literature, this thesis aims at providing an in-depth knowledge of the challenges faced by SMEs in the internationalization process to emerging markets. In the end, the findings of this study provide SMEs' managers with knowledge about the barriers they may face in emerging markets and on the approaches they may undertake in order to surpass those issues. This thesis addresses issues such as currency, corruption, imports, transportation, laws and regulations, working capital and qualifications which are very relevant for managers in the internationalization process.

The current study is divided into two sub-research questions: *“What challenges do SMEs face in the internationalization process to emerging markets?”*; and *“How to overcome those challenges?”*. Both research questions arose from the literature review and from the different situations faced by the company analyzed in this study. To answer the research question, a qualitative method was used, more specifically a case study. The company chosen to star in it is SANITOP – Material Sanitário, Lda., a Portuguese solutions provider in the construction sector. This company seemed suitable since it is an SME which is present internationally in a number of emerging markets, namely in Mozambique where the high management commitment resulted in direct investment in a country where they faced several and various challenges.

The outline of the thesis is structured into eight different chapters. In the next chapter (chapter 2), a literature review is presented concerning internationalization and globalization, SMEs, emerging markets, challenges faced in the internationalization process and ways to overcome them. The following chapter (chapter 3), presents the methodology used in the case study of chapter 4. The case study starts with a presentation of the company and proceeds with a description of the internationalization process to Mozambique. Then (in chapter 5), the findings from the case study are presented through a description of the challenges faced by the company and the ways used to overcome them. Afterwards (in chapter 6), the discussion takes place to compare the findings of the previous chapter to the literature review on the subject. Finally, comes the conclusion of the thesis (chapter 7), followed by the limitations and suggestions for further research (chapter 8).

2. Review of relevant literature

The following literature review features a number of relevant concepts regarding the research question under study by resorting to several investigators. Primarily, the concept of internationalization is addressed, together with the notion of globalization which encompasses the process. Then a definition of SMEs is achieved, before exploring the literature on the internationalization for this type of company. To conclude the review of important concepts prior to the enumeration of major challenges in the internationalization process, as well as the corresponding ways to deal with them, a definition of emerging markets is investigated and integrated with the previously addressed terms of internationalization and SMEs.

2.1 Internationalization and Globalization

With the entry in the globalization era lots of opportunities emerged for businesses to expand into other countries and internationalization had its origin as the barriers between national and international markets were removed (Ruzzier et al. 2006).

The internationalization process of firms is a phenomenon that has been gaining great relevance in the discipline of international business research in recent decades. Its literature ~~is~~ both rich and extensive and includes several types of approaches to investigate the phenomenon” (Ojala 2009, p. 2). The term is usually used to refer to the

geographical expansion of economic activities over a national country's border (Ruzzier et al. 2006). Meanwhile, some scholars attempting to define internationalization put emphasis on the process of increasing involvement in international markets (Johanson & Vahlne 1977, Schweizer et al. 2010, Welch & Luostarinen 1988). Johanson and Vahlne (1977) stand for the development of business networks in other countries, while Welch and Luostarinen (1988) see it as a "gradual and sequential process through which firms become increasingly committed to, and involved in, international markets". Apart from these, Schweizer et al. (2010) define internationalization as a process in which a firm strives to get a better position within a multitude of networks, besides defending the addition of entrepreneurial activity as an aspect to be part of the revised model of business network in the internationalization process of Johanson and Vahlne (2009).

Another view is given by Calof and Beamish (1995, 116), who define internationalization as "the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments". This definition was subject to extended interpretation by Chetty and Campbell-Hutt (2003), who subsequently stated that the definition of Calof and Beamish (1995) also contains the concept of de-internationalization, which corresponds to a reduction of the internationalization exposure of a firm. This definition enables the coverage of opposite situations of adaptation to international environments. On the other hand, Buckley and Ghauri (1993) address the concept in a more natural manner, as they consider internationalization to be a changing state, since internationalization is a consequence of the growth of a firm. However, Ruzzier et al. (2006) point out the existence of significant differences between growth at a national level and at an international level.

Therefore, the concept of internationalization has been thoroughly studied by many authors throughout the years. They offer multiple perspectives on an extensively investigated process that offers several opportunities for companies. According to Jansson (2007a), the main opportunities arising from the internationalization of firms are the exploitation of economies of scale and the seeking of new customers.

Notwithstanding, internationalization is a term that can be directly compared to the phenomenon of globalization. Globalization is usually defined as a process in which a company's operations are managed on a global scale. It embodies the worldwide integration of different markets and firms competing on a global level. Conspicuously,

globalization has a greater –scope, content and intensity of mutual connections, capital and management involvement” (Svetlicic 1996), which makes it a subjective, but more qualitative extension of the term internationalization (Gjellerup 2000). According to Petersen et al. (2001), globalization can sometimes pressure firms to rapidly internationalize in order to protect themselves from global competitors.

In accordance to the literature mentioned, the –term internationalization will be used to refer to a company’s outward movement of international operations, while globalization will refer to the international connectivity of markets and the interdependence of national economies” (Ruigrok 2000).

2.2 Small and Medium-sized Enterprises (SMEs)

2.2.1 Definition of SMEs

The OECD (2005) states that SMEs do not have a single unanimous definition. Generally, SMEs are defined as non-subsidiary independent firms which should not exceed a given value of a certain indicator that economists recommend to be the ‘number of employees’ and ‘turnover’ due to their simplicity, compatibility and practical implication. This value varies across countries (Loecher 2000).

In the European Union, the definition of SME came into force in 2005. If a company meets the criteria, there are some potential benefits such as: eligibility for support targeted particularly at SMEs and fewer requirements or reduced fees for EU administrative compliance (European Commission, 2005). According to the European Commission (European Commission, 2005), –the category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million”. Deepening the category to small enterprises, the number of employees drops to less than 50 persons and the turnover and/or annual balance sheet total to a maximum of EUR 10 million. As for micro enterprises, the number of employees has to be fewer than 10 persons and the turnover and/or annual balance sheet total a maximum of EUR 2 million.

2.2.2 Internationalization of SMEs

Whereas in previous international business literature research was focused mainly on MNEs (Multinational Enterprises), recent research has shifted the focus to SMEs as they represent a hot topic which has attracted wide interest in the research community (Miesenbock 1988). This interest arose from the fact that SMEs are increasingly internationalizing into other countries, while traditionally they restricted their operations to their region of location or national borders (Pleitner 1997). This statement is backed by Gjellerup (2000), who indicates evidence of a transition of SMEs from passive victims into more active players in the international market. According to him, SMEs have an increasingly crucial role on future growth and the impact of globalization on SMEs is likely to be even more intense than in the already highly internationalized large company sector.

SMEs play a crucial role in the socio-economic landscape as they are major sources of growth which contribute to GDP, exports and employment of nations worldwide (Anand 2015). In 2008, small and medium-sized enterprises (SMEs) accounted for 99.8% of firms within the European Union, reaching a total amount of 20 million (EIM Business & Policy Research et al. 2010). If the scope is the OECD economies, SMEs accounted for over 95% of firms and 60% to 70% of employment in 2000, generating a large share of new jobs (OECD 2000).

Compared to larger companies –SMEs can better respond to changing market conditions, evolving consumer preferences and shorter product life cycles by customizing and differentiating products” (OECD 2000). Also, resulting from new communications, SMEs find it easier to reach foreign partners to create international strategic alliances and joint ventures, many of which happen with large multinationals looking for maximum efficiency to serve emerging markets (OECD 2000).

2.3 Emerging markets

2.3.1 Definition of emerging markets

The opening up of emerging markets to the global marketplace began in the 1980s with a process of liberalization and privatization (Peng & Meyer 2011). A number of events occurred, consistent with this process: China introduced an “open door policy”

(Sandberg 2012) to attract foreign investment; Latin American countries such as Argentina, Brazil and Mexico also opened up; the fall of the Berlin wall in 1989 and the breakdown of the Soviet Union in 1991 led to the opening of formerly closed central and eastern countries in Europe; and India started to reform in the 1990s by deregulating industries towards the establishment of foreign investors (Sandberg 2012). Most recently, in the late 2000s, a few African countries began to open up and reach the growth levels of countries in Asia, namely China and India (Sandberg 2012).

Besides emerging markets, these areas are also usually named emerging or transition economies and developing or transition countries.

According to Peng and Meyer (2011), emerging markets accounted for 26% of the world's gross domestic product (GDP) and for 84% of the world's population in 2011, besides typically having high economic growth rates. Furthermore, in 2010 foreign direct investment (FDI) inflows to transition and developing economies exceeded, for the first time, the FDI inflows into developed markets (UNCTAD 2011). This growth was higher during the post-crisis, since emerging markets were less affected (Swedish Trade Council 2009). However, according to the World Bank (2016, p. 4), growth in emerging markets fell short of expectations in 2015, slowing to 3.7% from 4.5% in 2014. This was caused by external and domestic factors (see World Bank 2016, p. 179). Nevertheless, the growth is expected to edge up reaching 4.2% in 2016, 4.8% in 2017 and 4.9% in 2018 (World Bank 2016, p. 4).

2.3.2 Internationalization to emerging markets

As reviewed above, SMEs are expanding worldwide as a consequence of technological advances, lowered trade barriers and the opening up of formerly closed markets resulting from globalization (Axinn & Matthyssens 2002). In this expansion, emerging markets present themselves as attractive and growing markets filled with opportunities (Cavusgil et al. 2002). They offer an enormous growth potential to both large companies and SMEs (Jansson 2007b, Meyer & Skak 2002). The inherent opportunities provided make them very important in today's global market (Cavusgil et al. 2002, Ghauri & Holstius 1996), reason why they have attracted researchers to a yet underexplored topic in the literature, SMEs internationalization in emerging markets (Fang 2010, Jansson 2007a,b, Meyer & Gelbuda 2006, Salmi 2000, Yamakawa et al.

2008). However, they can also present challenges (Meyer 2001) due to the contrast with mature markets, especially for inexperienced SMEs (Ghauri & Holstius 1996). In the next chapter, the main challenges faced by SMEs in the internationalization process to emerging markets are presented.

2.4 Challenges faced in the internationalization process

In the present chapter, the main challenges faced by SMEs in the internationalization process are listed according to previous studies. The enumeration covers the review of studies in both developed markets and emerging markets, as there is lack of literature specific to the latter. Furthermore, the challenges described from here on are equally called or interpreted as barriers, difficulties, problems, obstacles, issues or constraints.

As SMEs become more active players in global markets, they are increasingly faced and affected by challenges arising from globalization, even though to a greater extent than larger experienced firms (Cavusgil et al. 2002, Eriksson et al. 2000, Gjellerup 2000, Meyer & Gelbuda 2006). However, the contrasts found in these markets can create significant challenges for inexperienced SMEs (Meyer 2001, Ghauri & Holstius 1996). According to the OECD (2000) globalization increases the severity of many of the traditional problems facing SMEs such as lack of financing, difficulties in exploiting technology, constrained managerial capabilities, low productivity and regulatory problems. Several studies on the internationalization process point out that these challenges arise from governmental, cultural and psychic differences between markets (e.g., Li & Guisinger 1991; Samiee 1995, Reardon et al. 1996, O'Grady & Lane 1996, Dupuis & Prime 1996, Ghemawat 2001). Furthermore, a research from Burt et al. (2002) on the differences between the Canadian and the UK market suggests that the internationalization strategy of attempting to replicate a format in a different competitive environment without identifying market differences is a major mistake.

There is a distinction between internal barriers which are related to the capabilities of a firm and external barriers which are related to the business environment. In terms of the latter, ~~the~~ "the bigger the enterprise's resources the easier it is to deal with external barriers" (European Commission et al. 2010). According to the widely-cited model of Johanson and Vahlne (2009), the main challenges faced during the internationalization are the liability of outsidership, which is the lack of knowledge on the target market and its

players, and the liability of foreignness, which is the psychic distance covering factors such as laws and language barriers.

Nevertheless, there are several barriers on internationalization and it would be impossible to analyze them all in this study, whereby only the 10 top barriers for SMEs will be considered (OECD 2009). According to a study by the OECD (2009) on the internationalization of SMEs in OECD and APEC member economies to both developed and emerging markets, the 10 top perceived barriers are the following:

Table 1 – 10 top perceived barriers for the internationalization of SMEs (OECD 2009)

1	Shortage of working capital
2	Identifying foreign business opportunities
3	Limited information to locate/analyze markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalization
7	Inadequate quantity of and/or untrained personnel for internationalization
8	Difficulty in matching competitors' prices
9	Lack of home government assistance/incentives
10	Excessive transportation costs

2.4.1 Shortage of working capital to finance internationalization

The lack of capital and other resources is indicated as being a leading barrier faced by SMEs in countries such as Canada, China, Finland, India, Indonesia, Ireland, Ireland, Russia, South Africa, Spain, Sweden and Turkey (OECD 2009). The difficulties include allocating and/or justifying expenditure towards exports and accessing finance from governmental agencies, banks and other investors (OECD 2008). This can be due to the perception of risk on exchange rate volatility, different regulatory environments, cultural contrasts, political risks, lack of financial institutions with experience in funding internationalization projects, and/or even due to lack of financial and management skills (OECD 2006).

Other studies on the most contributing factors among SMEs support the lack of capital as a major challenge (Tran 2015, Shah et al. 2014, Shinozaki 2012, Franco & Haase

2010, Vo et al. 2010, Ihua 2009, Macmillan 2008, Zhang & Sarker 2008, Rundh 2007, Wengel & Rodriguez 2006). Hence, the lack of capital is a crucial factor for the internationalization process of SMEs in both developed and emerging markets.

2.4.2 Identifying foreign business opportunities

The second most frequent barrier among SMEs is the difficulty in finding out about business opportunities abroad, as well as selecting them (OECD 2009). According to the OECD (2006), this can be due to limits on time, lack of managerial knowledge and/or financial resources available. This barrier is supported by other authors who argue that the lack of key resources and capabilities, mostly experienced by SMEs, can make it difficult for firms to identify foreign business opportunities (Fletcher 2001, Ruzzier & Konečnik 2006). These opportunities can arise from customers, contacts, business partners and joint ventures (OECD 2008). In this case, the lack of trust and cooperation in the firm's network can pose a challenge as well (Yener et al. 2014).

2.4.3 Limited information to locate/analyze markets

The difficulty in obtaining adequate information that reduces the level of uncertainty of foreign markets also emerged as a major challenge in different studies (EFIC 2008, OECD 2008, European Commission et al. 2010). In fact, this barrier was the most frequently cited among surveys carried out by the OECD (2009). This refers to the difficulty in knowing what sources of information are available or required in the internationalization process (OECD 2008).

In the initial Uppsala model of Johanson & Vahlne (1977), lack of foreign market knowledge was seen as a major deterrent against rapid internationalization of firms (Wai & Noichangkid 2012). SMEs often experience this challenge due to difficulties in accessing information (OECD 2006).

2.4.4 Inability to contact potential overseas customers

This factor refers to the difficulty in contacting new customers overseas –due to the geographical distance and time-zones, poor research by the firm in identifying customers, and limited exposure to sources listing potential customers such as databases” (OECD 2008). Firms lack the necessary knowledge to enter new markets,

identify potential customers and engage them successfully (OECD 2006). This barrier is relatively supported by Yener et al. (2014), who argue in their study that the lack of knowledge on international marketing represents a major difficulty.

2.4.5 Obtaining reliable foreign representation

Obtaining reliable and available representation overseas who meets “the structural (territorial coverage, financial strength, physical facilities), operational (product assortment, logistical arrangements, warehouse facilities) and behavioral (market reputation, relationships with government, co-operative attitude) requirements” (OECD 2008, p. 148) of the company is also a major difficulty faced by SMEs. According to the OECD (2006) several firms, mainly SMEs due to lack of resources, need to engage agents in order to get access to the right customers. However, finding, engaging and managing suitable agents is a difficult task due to their high demand and to the risk of choosing an agent that does not adequately represent the company (OECD 2006).

There are several supporters of this barrier who argue on issues such as: the difficulty in locating and obtaining appropriate representation in target markets (Crick 2007, Kneller & Pisu 2007, Barnes et al. 2006); the difficulty in accessing a suitable distribution channel (Rundh 2007); and the lack of trust and cooperation with international networks (Franco & Haase 2010).

2.4.6 Lack of managerial time to deal with internationalization

This challenge refers to the shortage of time for managers to carry out their roles in foreign markets. This implies insufficient time to make sustainable decisions, develop strategies, allocate resources and conduct the business abroad (OECD 2008). Therefore the internationalization process gains considerable risk, which deters firms from seeking market access (OECD 2006). For instance, lack of managerial commitment was found to represent a major challenge in a study by Yener et al. (2014).

2.4.7 Inadequate quantity of and/or untrained personnel

The insufficient number of employees working on the internationalization and the lack of specialized knowledge in terms of documentation, logistics and communicating

(foreign languages, cultures and hands-on experience) are also important challenges for SMEs' internationalization (OECD 2008).

Supporting researches focus on: the lack of managerial expertise and poor and incapable management (Shah et al. 2014, Rahman & Ramos 2010, Ihua 2009, Kuratko & Welsch 2004, Rwigema & Venter 2004, Megginson et al. 2003, Ntsika 2001, Mundim et al. 2000, Clarke & Gibson 1998); and learning failures (Mundim et al. 2000).

2.4.8 Difficulty in matching competitors' prices

This challenge refers to the difficulty in engaging in price competition (OECD 2008). SMEs may face anti-competitive behavior in foreign markets such as for example dumping (OECD 2006). Also, according to a study on the perceptions of European SMEs (European Commission et al. 2010), one of the most relevant perceived barriers in foreign markets is the price of products or services compared to the general price level in the home market. However, although these studies indicate this has being a major issue, according to a study by Ramukumba (2014) competitive pricing was the lowest ranked factor in terms of importance among SMEs.

2.4.9 Lack of home government assistance/incentives

Difficulties in finding adequate support and assistance for internationalization by government agencies also emerged as a top barrier for the internationalization of SMEs in several surveys (OECD 2008). SMEs often do not use the support available because they do not know about programs or perceive them as being time-consuming, complex and burdensome. However, the companies that do benefit from these programs consider the assistance to be useful (OECD 2006).

Other studies are found in support of the lack of adequate institutional support as a major challenge (Franco & Haase 2010, European Commission et al. 2010).

2.4.10 Excessive transportation costs

Excessive transportation costs, which includes in-market transportation and distribution costs, are the 10th top barrier faced by SMEs in international markets (OECD 2009). These costs are caused by large distances to and within foreign markets, poor

infrastructures (Li & Miller 2006), limited availability of transportation, delays in product delivery and insurance costs due to the higher risks of doing business overseas (OECD 2008).

2.4.11 Conclusion

The 10 top barriers for SMEs mentioned above are essentially internal as they mainly reflect the limitations of the investigated SMEs in terms of key resources and capabilities needed for the internationalization process (e.g.: Ojala & Tyrväinen 2007, Vivekanandan & Rajendran 2006, Alexander & Quinn 2002, Burt et al. 2002, Wrigley & Currah 2002).

2.5 Ways of overcoming the challenges faced in the internationalization process

This chapter features a set of ways, present in the current literature, used to overcome the challenges faced in the internationalization process. Literature on the internationalization process of SMEs suggests that the barriers faced are increasingly easy to overcome (Miesenbock 1988, Aaby & Slater 1989, Barkema et al. 1996). In fact, SMEs that are engaged in international activity tend to become aware that “the key barriers relate to the business environment and their own capabilities rather than finance and access” (OECD 2006).

2.5.1 Networks

The internationalization process of SMEs through network relationships has been extensively studied in the past (e.g.: Andersen 1996, Axelsson & Johanson 1992, Coviello & Munro 1997, Ellis 2000, Johanson & Mattson 1988, Johanson & Vahlne 1992). Using the network approach, firms can gain access to knowledge and experience lacking within the firm (Rutashobya & Jaensson 2004) and overcome internal resource deficiencies (Westhead et al. 2001).

According to Johanson and Vahlne (2009), strategic networking can help SMEs overcome barriers of knowledge and psychic distance in the internationalization process. Other authors argue that costs originating from financial and managerial resource constraints can be overcome, or at least better efficiently managed, through

network relationships (Larson 1991, Deeds & Hill 1996, Weaver & Dickson 1998). Therefore, by sharing knowledge and resources with partners, smaller firms can overcome size constraints and obstacles when internationalizing. Hence, Coviello and McAuley (1999) claim that internationalization depends more on a set of network relationships than on a firm's specific advantage.

The social and business network of a company, which may range from friends and family to business and government organizations (Coviello et al. 1998, Apfelthaler 2000), can facilitate its foreign expansion process (Zain & Imm 2006). Attending international trade fairs, hiring managerial talent experienced in international business and communicating with experts outside the firm is also very important to overcome the knowledge gap in the firm (Holmund & Kock 1998, Terziovski 2003).

For the purpose of this paper, a network is defined as the relationship between a firm's management team and employees with customers, suppliers, competitors, government, distributors, bankers, families, friends, or any other party that facilitates the internationalization process (Axelsson & Johanson 1992, Sharma & Johanson 1987).

2.5.2 External support

External support is also considered relevant to overcome some challenges faced by SMEs in their internationalization process. This view is supported by Aappo et al. (2015) who state that external support programs can be focused on different barriers to internationalization through the providing of financial, managerial and market knowledge support. The support can be provided in the form of new managerial talent with experience in international business (Holmund & Kock 1998) or external support such as consultants or government support. In fact, evidence from a study by Hutchinson et al. (2009) shows that SMEs benefit from government and consultancy support to overcome cultural and legislative barriers, by providing them with access to foreign market information and contacts.

According to Morgan and Katsikeas (1997), some firms lacking the market knowledge and necessary capabilities in the internationalization process, resort to external information sources to overcome these issues. By benefiting from external support, firms can skip internationalization stages and grow faster in international markets (McDougall & Oviatt 1994).

2.5.3 Alliances

In the range of network possibilities, strategic alliances have gained increasing popularity among international firms (Beamish 1999). Alliances are suggested by numerous studies to be important in efficiently overcoming resource and capability constraints and achieving successful internationalization (Jarillo 1989, Zacharakis 1997, Beamish 1999). The benefits pointed out by the literature include: the minimization of transaction costs, increased market power, shared risks and better access to key resources (Kogut 1988, Mowery et al. 1996, Gulati et al. 2000). According to Gulati (1998), the main benefit for SMEs is the access to key resources such as capital and information.

An SME can choose to partner with firms from the host country, from the home country or from a third country (Makino & Delios 1996). All these companies can provide the necessary financial and tangible resources, however a local partner has more detailed knowledge about the host country than firms from the home country or from a third country. An alliance with a local firm can provide an SME with local knowledge on consumers, competitors, contacts and other information that has been found to be useful when entering new markets (Beamish & Banks 1987, Makino & Delios 1996). According to an analysis on the internationalization of Japanese SMEs, a key strategy for overcoming resource limitations is the use of alliances with firms that have local knowledge (Lu & Beamish 2001).

2.5.4 Technology

Technologies are regarded as being significantly important to overcome some of the challenges faced by SMEs. The literature has shown that an increasing number of SMEs begins exporting right from their inception (Zhou et al. 2007). According to Johanson & Vahlne (2009), this phenomenon is due to the fast-changing economic, technological, social and networking conditions. The advances in technologies and telecommunication in particular have considerably reduced the costs and risks involved in the internationalization process, making it increasingly possible for SMEs to exploit opportunities in foreign markets (Onkelinx & Sleuwaegen 2008).

Analyzing the Internet in particular, it is a very important communication tool that prevents SMEs from being left behind (IFC 2012). According to Poon and Jevons

(1997), Internet is an essential tool for SMEs to find out partners and establish and maintain networks. This view is supported by Prashantham and Berry (2004) and Petersen et al. (2002), who state that the Internet lowers the cost of accessing and leveraging network relationships, enabling firms to interact more easily with their partners. On the other hand, Hornby et al. (2002) focus on the overcoming of information-related barriers.

3. Research methodology

3.1 Methodological approach

We adopted a qualitative methodology for several reasons. In general, international business research has been using mainly quantitative research. In fact, a review of six international business journals from 1991 to 2001 found nearly 90% of published articles to be quantitative (Andersen & Skaates 2004). This is valid also for research on SME internationalization (Coviello & McAuley 1999, Fillis 2001). However, the Strategic Management Journal encourages the use of qualitative empirical methods since it generates important insights which allow the identification of patterns concerning the research question (Bettis et al. 2015). According to Coviello & McAuley (1999, p. 249), qualitative and inductive research provide “rich, context specific description, insights, and explanations”. Since using a qualitative approach provides an in-depth knowledge about the research question, the current thesis is conducted as such in order to understand what challenges are faced by SMEs in their internationalization process and how to overcome them.

Among the different qualitative methodologies, a case study was chosen in order to answer the research question. A case study examines “contemporary events, but when the relevant behaviors cannot be manipulated” (Yin 2009, p. 11). Since the objective is to examine challenges and overcoming ways actually used by a company, the case study is a suitable means to explore these issues.

Furthermore, the exploratory approach was chosen in order to explore previous research from a different perspective. The use of more open-ended sub-research questions allows the pursuance of this goal (Bettis et al. 2015).

The company chosen to be analyzed in this case study was SANITOP – Material Sanitário Lda. It complied with the required criteria: meeting the requirements of an SME according to the European Commission; and being internationally present in an emerging market. Additionally, from the countries available, Mozambique was the one where the team was more focused due to the direct investment in the country and to the numerous challenges faced. Also, the general director of Sanitop Mozambique was coming to Portugal, which would facilitate the gathering of information in a personal meeting. Therefore, SANITOP was chosen in order to study the challenges faced in the internationalization process to Mozambique and the ways to overcome them.

3.2 Concrete approach

In order to obtain in-depth information for the case study, the primary data was collected through an adequate number of five interviews to five employees of the firm. Each interview lasted 45 to 75 minutes and the interview questions were mostly the same (Annex 1: Interview Structure), although more focus was put on the questions related to the area of expertise of the interviewee and also on the previously unanswered questions by others. The main themes addressed in the interview were the legal framework for foreigners, the motivation to internationalize and choice of market, the corruption, the import and transportation processes, the impact of the devaluation of the national currency and the lack of foreign currency, the financing process, the qualifications of human resources and the daily problems faced. However, as requested by the employees, the interviews were not recorded, which on the one hand facilitated the exchange of information. On the other hand, only notes were taken during the interview. In addition to that, they also requested that the names were not revealed.

The secondary data was also useful and extensively used in the case study. The information includes two documents and one website:

- “Presentation of the Company 2015” containing institutional information about SANITOP in Portugal.
- “Business Plan for Mozambique” which contains information about the business plan used in the internationalization process to Mozambique. The information includes financial prospects, SWOT Analysis and necessary resources. However, this document is confidential.

- And the website of the company¹ which contains important information about the company, its history and products.

3.3 Data analysis

We started the data analysis by writing a description of the story of the internationalization process in order to link “the contexts, content and process of change over time together with their interconnections through time” (Pettigrew 1990, p. 268). Based on the data gathered from primary (interviews) and secondary sources (company’s website and documents provided by the company), a chronology was used to achieve this objective (Annex 2: Chronology).

In a second step, coding was done through a choice of categories to answer each of the two sub-research questions. A first table (Annex 3: Coding for challenges faced in the internationalization process) answers the first research question by identifying the information provided in the interviews concerning the challenges found in the internationalization process. A second table (Annex 4: Coding for the ways to overcome the challenges) answers the second research question by identifying the information provided in the interviews about the ways used to overcome the challenges faced.

4. Case Study

4.1 SANITOP

SANITOP – Material Sanitário, Lda. is a Portuguese international SME with headquarters in Viana do Castelo, Portugal. It operates in the construction sector, where it provides a wide range of solutions in three different product areas: systems for installation (SANITOP Systems); heating, solar energy and air conditioning (SANITOP Climate); and sanitary/decorative equipment (SANITOP Collection). SANITOP is currently the leader of its sector in Portugal, with a market share around 10%, a total turnover of 27 million euros in 2015 and 18 points-of-sale structured in two business concepts – Professionals Assistance Center (CAP) and “Estúdio Água” (Water Studio) – employing 149 workers (Annex 5: Evolution of Turnover and Number of Workers).

¹ <http://www.sanitop.pt/>

4.2 International Presence

SANITOP is currently present internationally with products in Mozambique, Angola, Cape Verde, Belgium and Spain², either exporting indirectly to construction works such as the hotel Epic Sana Luanda, the clinic Girassol and the towers of the Atlantic in Luanda, Angola or directly to the center of professional training in renewable energies and industrial maintenance in Praia, Cape Verde, or through their large-scale distribution network in Belgium and Spain. However, SANITOP only exports directly to Cape Verde and Spain, as in Angola the exports are done through clients that export the products themselves. These exports have been happening occasionally since 2011. As for Mozambique, the company is currently present through a CAP and a logistics base.

4.3 Reason to internationalize and timing

SANITOP is the market leader in Portugal, however the market is very fragmented, which makes it very challenging to stand out from the competition. In addition to that, the company had to face the financial and economic crisis of 2008, which had a deep impact in Portugal, bringing the country into recession and consequent austerity. The construction sector was too in a critical situation. In 2011, after a long period of steady growth, SANITOP had a shortfall in net profit around 40%. In the following years, revenues kept decreasing and the company had to get into cost containment, leading to the dismissal of some workers. But that did not prevent the company from seeking new opportunities. With the economic slowdown happening in Portugal, the management team decided to look for better conditions to grow the company abroad and recover the losses obtained in previous years. Therefore, after two years of decrease in turnover since 2011, the company opted to enter a new market in 2013. The strategy looked simple: to replicate the successful business model in another country.

² "Empresa De Viana Vai Investir Um Milhão Em Angola". 2014. *Tvi24*. <http://www.tvi24.iol.pt/economia/empresas/empresa-de-viana-vai-investir-um-milhao-em-angola>.

4.4 Internationalization to Mozambique

4.4.1 The choice of Mozambique

Mozambique in particular was a market of great potential with gradual economic growth and relative stability. Although it was a country affected by the civil war from 1977 to 1992, this brought a major opportunity for companies to be part of the rehabilitation of the country's infrastructures. It was considered a country with several advantages: numerous clients from Portugal; a construction sector at its peak with large projects and clients; greater political and economic stability at the time; lack of customized services provided by the competition, namely product delivery; proximity to the ocean, which forces surrounding countries to cross Mozambique; similar culture to Portugal; few discounts on products compared to Portugal; similar legislation in terms of accounting, tax law, constitution of societies; etc. These factors allied with the existing reserves of coal, gas, petroleum, diamonds and other natural resources with such great potential, gave the company and other business leaders hope that the country would emerge quickly. As a result various companies were entering the market, many of which SANITOP's partners, which would create a "boom" in the construction sector. Furthermore, the company could count on the experience of the current General Director of Sanitop Mozambique in the country, since he had been there numerous times, owned various connections and knew the business.

As for the decision on the city, Maputo was the chosen one due to the centralization of everything in the capital.

4.4.2 The New Market - Mozambique

Mozambique is a former Portuguese colony located in Southeast Africa with a population of 25,303,144 inhabitants³ (July 2015 estimate). The official language is Portuguese due to the influence from the former colonizer Portugal, from which

³ "The World Factbook". 2016. *Cia.Gov.* <https://www.cia.gov/library/publications/the-world-factbook/geos/mz.html>.

Mozambique became independent on the 25th of June of 1975⁴. Two years later the country faced the Mozambican Civil War which lasted until the 4th of October of 1992⁴.

In terms of economic situation, the country's total GDP is at \$19 billion⁵ (2016 estimate), while the annual growth rate has averaged 7% over the past five years, driven by large-scale foreign investment and relative macroeconomic stability⁶.

The national currency is the Mozambican Metical (MZN) which exchange rate per US Dollar is around 49 Meticaís after having been around 30 in September of 2014⁷. In fact, the US Dollar is extensively used in commercial transactions in the country. However, most recently the government took measures to stop the devaluation of the Metical through the disappearance of foreign currencies in the market. In the end of 2015, the government decreed that all banking accounts in dollars were to be automatically converted into local currency when used for any transaction. Previously, there had already been imposed limits to the use of credit and debit cards abroad to prevent the outflow of capital⁸.

Mozambique is a country that lacks infrastructures, skilled labor and investment, where all human development indicators are at its lowest values⁹. However, in 2011 the country discovered a large amount of gas and coal reserves which could boost the economy. Thus, in 2018 the country expects to begin exporting natural gas, after it develops all the necessary infrastructure that will, according to the consultant Business Monitor International (BMI), contribute to reach a growth peak of 15% in 2020⁹.

Portugal is a country that still has a strong relationship with Mozambique since its independence. In 2013 there were more than 25,000 Portuguese living in Mozambique, with the number of contacts between companies of both countries increasing at a high

⁴ "Mozambique's 40 Years Of Independence - Past And Present Challenges". 2015. *Allafrica*. <http://allafrica.com/stories/201507311355.html>.

⁵ "World Economic Outlook Database October 2015". 2015. *International Monetary Fund*. <https://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx>.

⁶ "2016 Index Of Economic Freedom - Mozambique". 2016. *The Heritage Foundation*. <http://www.heritage.org/index/country/mozambique>.

⁷ "XE.Com - USD/MZN Chart". 2016. *Xe.Com*. <http://www.xe.com/currencycharts/?from=USD&to=MZN&view=5Y>.

⁸ Mabunda, Lázaro, Isabel Vicente, and João Palma-Ferreira. 2015. "Moçambique Decreta Conversão De Dólares Em Meticaís". *Jornal Expresso*. <http://expresso.sapo.pt/economia/2015-12-05-Mocambique-decreta-conversao-de-dolares-em-meticais>.

⁹ Fernandes, Ana. 2013. "Moçambique, O País Pobre Que Tanto Promete". *PÚBLICO*. <https://www.publico.pt/economia/noticia/o-pais-pobre-com-promessas-de-1609940>.

pace⁹. According to the Investment Promotion Center (CPI) of Mozambique, Portugal was the third largest foreign investor in Mozambique in the first trimester of 2015, after closing 2014 in fourth place with 336 million dollars, almost double the previous year. In 2015, the ranking is led by Spain and China, although they only represent 8 projects against the 22 of Portugal, which remains as the main foreign job creator¹⁰.

As for the construction and infrastructure sector, it is growing at an extraordinary pace, particularly in Maputo. In the last decade, it increased 12% annually until a weight of 3% on GDP worth 400 million dollars. Large Portuguese companies such as Mota-Engil, Teixeira Duarte and Soares da Costa are already present in Mozambique and competition is increasing, namely Chinese and South African, however there is an increasing number of projects. In fact, in the next years the country has potential projects in infrastructures worth 30 billion dollars¹¹.

According to Lourenço Sambo, the general director of the Investment Promotion Center (CPI) –the shortcomings that the country has are exactly proportional to the existing business opportunities. Greatly vast”¹¹.

4.4.3 Market research

Before entering the Mozambican market, the company did its research using numerous sources. In 2009 the team began prospecting the country in person and from then on started going three to four times a year. There they would visit partners, locations, clients, etc. Most of this work was done door-to-door. However, the current General Director of Sanitop Mozambique already knew the country from going there since 2002.

4.4.4 Entry mode

SANITOP had already been exporting to other countries, but clients had been discovering out the origin of the products and getting them directly from Portugal at cheaper prices. Therefore the company opted for a physical presence with stock in Mozambique from the very beginning, since according to the General Director of

¹⁰ "Investimento Português Em Moçambique Mantém-Se No Topo Mas Exportações Descem". 2015. *RTP Notícias*. http://www.rtp.pt/noticias/mundo/investimento-portugues-em-mocambique-mantem-se-no-topo-mas-exportacoes-descem_n844399.

¹¹ "O Que Faz Mover Moçambique". 2015. *Jornal Expresso*.

<http://expresso.sapo.pt/iniciativaseprodutos/ligacoes-fortes/2015-08-07-O-que-faz-mover-Mocambique>.

Sanitop Mozambique –business opportunities are much greater when present” (Annex 4: Coding for the ways to overcome the challenges). After personally prospecting the city of Maputo, the team chose a location in a central avenue with very good accessibility and visibility. There, the company settled its new base in 2013.

In order to facilitate the entrance in the new market, the team also visited the Maputo International Trade Fair (FACIM) in 2009 and in subsequent years, a fair which is focused on agriculture, trade and industry, and where they raised some new clients¹². In addition to that, before initiating the activity they also visited constructors, installers and others in person, with the purpose of developing a network of partners.

4.4.5 Sanitop Mozambique

In June of 2013, the owners of SANITOP – Material Sanitário, Lda., Johan Stevens and Elisa Carvalho, created Sanitop Mozambique, Lda. The goal of the new company was to import sanitary systems, heating and other products, with the strategy of supplying wholesalers and installers in Mozambique. All the stock was to be provided by only one supplier, SANITOP in Portugal, in order to fully capitalize the company in the origin country. Only in specific situations would the company order stock from other companies in Mozambique. As a way of avoiding any direct impact on the company in Portugal, the new firm was created independently, with limited liability.

The overall business strategy was, according to the CEO, “to replicate the successful business model in the new market”, which in his opinion is the only way to internationalize a commercial company (Annex 4: Coding for the ways to overcome the challenges). As agreed upon by the management team responsible for the project, the objective was to reach profitability in the new country in the space of six years.

Thus, in September of 2013, the company initiated its activity in Mozambique with a presence through a logistics base and a CAP totaling an area of 1700 m² in the capital of the country, Maputo. The commercial activity would extend up to a 50 kilometers radius, covering areas such as Tete, Beira, Pemba, Nampula and Nacala Porto.

¹² Sevilha, Ana. 2014. "Sanitop Moçambique Faz Balanço Positivo De Participação Na Feira Internacional De Maputo". *Construir*. <http://www.construir.pt/2014/09/12/sanitop-mocambique-faz-balanco-positivo-de-participacao-na-feira-internacional-de-maputo/>.

4.4.5.1 Team

Given the singularity of the project, which was the first direct investment in another country, the company considered crucial to ensure the transfer of know-how. Therefore, it was necessary to take three collaborators of SANITOP in Portugal into Mozambique: one to lead the unit as a general director, another one as a commercial in the front-office and the third one to manage the logistics in the warehouse. Thus, a secure and reliable team of three employees was selected to ensure the functioning of these critical areas.

Furthermore, the company hired the following personnel locally: one financial manager, one commercial, eight workers for the warehouse, one driver and one cleaner. In total, the company reached a number of 15 employees, 3 Portuguese and 12 Mozambicans.

4.4.5.2 Results

As stated above, the initial goal was to be profitable in six years. Sanitop Mozambique has been operating in Mozambique for almost three years now and that objective was achieved in just two years, when the company reached break-even in 2015. Furthermore, since the entrance of the company in the country in September of 2013, the turnover of SANITOP in Portugal also started to increase, by 13.64% in 2014 and 8% in 2015, after it had been decreasing since 2011 (Annex 5: Evolution of Turnover and Number of Workers). These positive results have led the company to consider the opening of a new Water Studio during this year and, as according to the business plan, the opening of one more physical presence in Matola, a suburb of Maputo. The General Director considers that the high margin by selling quality customized products is very good and a critical success factor. Other factors such as the low minimum wage, which goes from 3298 to 8750 Metical¹³, and the lower VAT at 17%, which is low compared to Portugal at 23%, are also contributing factors that were not previously mentioned. However, although Sanitop Mozambique has had 85% more revenue in 2015 compared to the previous year, results were not positive, mainly due to the devaluation of the Metical. The company faced numerous challenges in the country that it had to deal with, many of which directly increased its costs and significantly reduced its margin.

¹³ "Salário Mínimo Em Mozambique, A Partir De 01-04-2016 A 31-03-2017". 2016. *Meusalario.Org*. <http://www.meusalario.org/mocambique/main/salario/salario-minimo>.

5. Findings

Since initiating its activity in Maputo in 2013, Sanitop has gone through numerous challenges that contributed to the development of an excellent notion of what it is doing business in a contrasting country as Mozambique. In this chapter are presented the major challenges the company had to face in Mozambique one by one, followed by the corresponding ways found by Sanitop to deal with them or not.

Financing difficulties

- **Challenge:** Obtaining financing was a relatively long and difficult process. In order to get financing SANITOP first contacted SOFID, a financial credit institution for Portuguese companies. However, its assurances were more from a perspective of creating industry and infrastructures. Since the objectives of both entities did not match, the company went on a different direction. Afterwards, SANITOP contacted Banco Único, a Mozambican bank. However, the company did not succeed in obtaining financing. Therefore, it turned to Moza Banco, a Mozambican bank, after convincing its partner, Banco Espírito Santo (BES)¹⁴, with several guarantees. Finally, the company managed to get financing in Meticaís for 65% of its investment at an extremely high annual interest rate around 20%. In addition to that, the company had to deal with the risk of exchange rate volatility and the requirement to pay banking fees of an average of 4000 Meticaís per transaction.

- **Overcoming:** After looking into banks with connections between Portugal and Mozambique, SANITOP finally managed to get financing. Also, the loan was provided in Meticaís because the company excluded other options from the beginning. The perception was that, to avoid the volatility of the Mozambican currency, the financing had to be provided in Meticaís.

Investment law

- **Challenge:** If the company doesn't provide justification documents through the Investment Promotion Centre (CPI) such as custom duties, invoice stamped by custom services, customs clearance and VAT payment, it has to pay about 20% more to transfer the money back to Portugal.

¹⁴ BES was a Portuguese bank which is now called Novo Banco, after its assets and liabilities have been rescued by the Bank of Portugal.

- **Overcoming:** Sanitop soon found out that all the investment in Mozambique must be communicated to CPI, a Mozambican government agency which objective is to attract and retain domestic and foreign direct investment. The approval of investment projects by CPI provides the granting of guarantees to investors, particularly: freedom to import and export capital and to contract loans for investments; transfer of profits and amortizations and interest from international loans to the exterior, etc. All the imports of goods have to be communicated to CPI so that the company can transfer the money back to Portugal, therefore proving that there is no outflow of capital. Furthermore, the company hired the services of a lawyer and an accountant to manage the excessive paperwork.

Lack of security

- **Challenge:** Maputo is a city where there are many thefts¹⁵. To ensure safety in the city, there are often police officers in the streets to keep them safe, at the store's entrance to ensure nothing is stolen and accompanying products' containers.

- **Overcoming:** Sanitop sells its products over the counter to avoid any robberies inside the store and the warehouse is protected by an electric grid and video surveillance.

Corruption

- **Challenge:** Mozambique is ranked 112nd place in the Corruption Perceptions Index of 2015, with a score of 31 points on a scale from 0 (highly corrupt) to 100 (very clean)¹⁶. In fact, Portuguese employees in Mozambique have faced numerous consistent situations of this problem: they are approached almost every day by policemen, many of which are looking for extortion; the company has to pay extra in order to get the containers out of the port; sometimes it has to pay fines over occurrences such as publicity in places deemed as forbidden or water from the hose going on the road, etc.

¹⁵ E.g.: "Com Recurso A Chaves Falsas: Dispara Roubo De Carros Em Maputo". *Rádio Moçambique*. Accessed May 6, 2016. <http://www.rm.co.mz/index.php/programacao/88-arquivo/759-com-recurso-a-chaves-falsas-dispara-roubo-de-carros-em-maput.>; Mueia, Marcelino. 2015. "Vítimas Das Cheias Em Moçambique Enfrentam Roubos". *DW.COM*. <http://www.dw.com/pt/v%C3%ADtimas-das-cheias-em-mo%C3%A7ambique-enfrentam-roubos/a-18203692>.

¹⁶ "Corruption Perceptions Index 2015". *Transparency International*. Accessed May 6, 2016. <http://www.transparency.org/cpi2015>.

Political instability

- **Challenge:** Mozambique was a stable country at the time of the company's entry, however most recently it has been living one of the greatest political and military tension moments since the end of the civil war in 1992¹⁷. The main opposition party does not recognize the elected government, which has been causing several frictions between both parties. This tension along with the decrease in foreign investment and the increase in public debt makes Mozambique a very unstable country¹⁸.

Growth slowdown

- **Challenge:** Mozambique owns several natural resources such as coal, petroleum and natural gas, which gave SANITOP hope that the country would grow quickly, however the country does not exploit them yet. The plan is to begin exporting natural gas only in 2018¹⁹. This situation, allied with other factors, contributed to the slowdown of the country's growth²⁰. Furthermore, this devaluation also resulted in the withdrawal of some construction companies out of the country.

Devaluation of currency

- **Challenge:** Metical, the country's national currency, has also been devaluing throughout the years. The devaluation in 2015 was close to 70% compared to 2010²¹. Furthermore, the exchange rate relative to each US Dollar even happened to go from 38 to 65 Meticaís in a 6 month period during 2015, which makes it a very unstable currency²². The company is exposed to something it cannot control. It is also very difficult to repatriate capital since banks do not have foreign currency, condition that can last up to three months, or have it at prohibitive prices. This situation makes it

¹⁷ Coelho, Helena. 2015. "Tensão Política E Riscos Económicos Agravam Clima De Instabilidade Em Moçambique". *Económico*. http://economico.sapo.pt/noticias/tensao-politica-e-riscos-economicos-agravam-clima-de-instabilidade-em-mocambique_234844.html.

¹⁸ "Momentos De Instabilidade Política Em Moçambique - Uma Cronologia". 2014. *DW.COM*. <http://www.dw.com/pt/momentos-de-instabilidade-pol%C3%ADtica-em-mo%C3%A7ambique-uma-cronologia/a-16912568>.

¹⁹ Fernandes, Ana. 2013. "Moçambique, O País Pobre Que Tanto Promete". *PÚBLICO*. <https://www.publico.pt/economia/noticia/o-pais-pobre-com-promessas-de-1609940>.

²⁰ "Angola E Moçambique Crescem Em 2015 Ao Ritmo Mais Fraco Desde A Recessão, Prevê FMI". 2015. *Dinheirodigital.Sapo.Pt*. http://dinheirodigital.sapo.pt/news.asp?id_news=237588.

²¹ "Desvalorização Do Metical Já Começou Há Cinco Anos - Carlos Castel-Branco". 2015. *SAPO24*. http://24.sapo.pt/article/lusa-sapo-pt_2015_12_21_1139323557_desvalorizacao-do-metical-ja-comecou-ha-cinco-anos---carlos-castel-branco.

²² Ramos, Miguel. 2016. "Recuperação Do Metical Vai Ser Difícil, Reconhece Banco De Moçambique". *VOA*. <http://www.voaportugues.com/a/recuperacao-do-metical-vai-ser-dificil/3166877.html>.

impossible for Sanitop Mozambique to pay for the merchandise ordered from SANITOP in Portugal, the main and practically the only supplier of the company. This resulted in the permanence of a large amount of cash flow stuck in the country, to be worth significantly less, and leading only to an increase in debt relative to SANITOP in Portugal. A solution would be to fix the exchange rate of the Metical towards a strong currency, however the company considers that to be too expensive. In addition to all this, there can even be maximum transfer limits, such as 50,000 or 100,000 Meticais at a time. To make matters worse, this devaluation is driving a rise in inflation, which makes the internationalization process virtually unsustainable.

Inflation

- **Challenge:** With inflation in Mozambique, the profit margin of the company decreased, as that meant a rise in costs of about 30%. However, the market does not accept any rise in prices, so it was difficult to deal with the country's delicate context.

Bureaucracy

- **Challenge:** According to the purchasing manager, there is a lot of bureaucracy in the country. The formalities can be seen in the long and expensive process of constituting a society, in all the licenses and permits, in the variety of documents necessary for the investment process, etc. The manager considers that the excessive bureaucracy is a contributory factor for the level of corruption in the country.

- **Overcoming:** Sanitop hired the services of a lawyer and an accountant to manage the excessive paperwork.

Legal framework for foreigners in Mozambique

- **Challenge:** The legal framework in Mozambique requires the practice of a share of 8% foreigners in medium companies (10 to 100 workers), a value that has the tendency to increase. This means that per expatriate, in this case Portuguese, there should be 12.5 Mozambican workers in the company. Since SANITOP considered essential the presence of 3 Portuguese workers in Mozambique, there was no way the company could operate with only 12 Mozambicans.

- **Overcoming:** Therefore, the company registered in fact only one Portuguese as employee of the company. The solution found for the two remaining Portuguese expatriates, was to enlist them as independent workers providing an external service.

Human resources

- **Challenge:** The lack of qualified human resources in Mozambique was also a major challenge faced by the company. According to the interviewees it is very difficult to find qualified workers due to the low level of education. Furthermore, although the accounting system is very similar to Portugal's, it is mandatory to have a chartered accountant (TOC) from Mozambique. In addition to that, the company also has to be prepared for the sporadic absence of the Portuguese employees who come back to the country about three times a year to visit their families and/or spend vacations, besides reporting in person to the headquarters on the company's progress.

- **Overcoming:** To overcome this situation the three Portuguese expatriates provided on-the-job formation to new employees and outsourced activities such as information technology, accounting, financial management and technical studies to SANITOP in Portugal, besides being provided with external services from an accountant, more focused on taxation (tax returns, social security, deadlines, etc.), and a lawyer. These two persons were crucial to deal with the excessive bureaucracy. Both were very useful to: constitute the society; transfer funds; obtain licenses, permits and working visas; etc. Additionally, the qualified and experienced team of three Portuguese always leaves at least one employee in Mozambique when going back to Portugal.

Imports

- **Challenge:** The imports of products are very lengthy. Sanitop Mozambique has to rely on more or less two months from the date of the order to Portugal to the arrival of the container. From the moment the company places the order, it takes about 15 days to get the order organized with all the necessary products. Then, it takes about one week to load a container of 12 meters and a stock value between 40,000 and 120,000 euros depending on the product, costing approximately 3,500 euros. Afterwards, the transportation to Maputo takes about one month to complete. However, once it arrives the company faces difficulties to take the container out from the port, so on average one more week must be added. This adds up to the required communication of all imports to

the CPI, along with all the necessary documentation for customs clearance. Furthermore, the import costs are expensive. Custom fees might go from 7% to 20% depending on the product (average on 20%) and this fee coupled with the transportation costs and respective taxes, amounts to a total import cost between 25% and 30% of the retail price.

- **Overcoming:** Sanitop loads the containers to the fullest in order to maximize its value over the corresponding shipping cost. In addition to that, the long process requires the company to always have a minimum of six months stock in Mozambique.

Transportation

- **Challenge:** There are numerous challenges for transportation that make it a long and expensive process: lack of infrastructures (there is only one highway with one toll between Maputo and Matola), risk of theft, roads are a chaos, cities do not allow great speeds, cars have increased wear, etc. These factors can make a delivery of 15 kilometers last up to two hours, which makes it costly and time-consuming for the company. In fact, it is more expensive to send an order from the South to the North of Mozambique, then from Portugal to Mozambique.

- **Overcoming:** Sanitop provides a value added service with the delivery of products to its clients up to a radius of 50 kilometers. If further, transportation is on the customer's expense.

Choice of location

- **Challenge:** The choice of location was difficult due to the unavailability of spaces in the prime area which is expanding. Additionally, the rent was so expensive that it represented a significant weight on the budget around 10%.

- **Overcoming:** After personally prospecting the city center, the CEO and his team found an excellent space for rent. In accordance with the company's strategy in the market, the space was leased. To counter the weight of the rent on the budget and any fluctuation in the national currency, the team negotiated the lease contract in a strong currency, the US Dollar.

Living conditions

- **Challenge:** As for living conditions, food and accommodation are very expensive. The house has a monthly cost around 1500 dollars. Furthermore, flights to Mozambique are very long and expensive, taking 12 hours to get there from Portugal and costing around 1000 euros.

- **Overcoming:** To counter this issue the Portuguese employees share the same house.

Clients

- **Challenge:** According to the General Director, a difference between the Portuguese and the Mozambican clients is that Mozambicans take a longer time to make a deal.

- **Overcoming:** This is something the team had to adapt to in the new market by adjusting the negotiation approach.

Competition in the sector

- **Challenge:** The market Sanitop is present in is divided in price competition for about 90% and quality competition for the remaining 10%. The market of price is controlled by companies from countries such as China, India and United Arab Emirates. As for the quality segment, there is one strong competitor which offers a very similar service.

- **Overcoming:** Sanitop is present, not in the price competition market segment, but in the quality segment where competition is not so fierce.

Systems

- **Challenge:** Sanitop owns, among other systems, a management and billing system in Mozambique, which is very important as it control bills and accounts, finds the location of products in the store, avoids staff from taking money from the company, etc. However, the company also found several challenges to keep the systems operational. First of all, the management and billing system used in Portugal was too expensive for Mozambique. Then, the energy could fail for hours or even days and, consequently, so could the internet. With the system being 100% online, this meant that the company was unable to receive orders and payments from clients, check prices, find products in the store, make payments, do backup copies, etc.

- **Overcoming:** In order to fix this problem, the IT department implemented a new system in Mozambique that they already knew and created an interface with the system in Portugal so they could access all the information remotely. Furthermore, they provided formation on the new system, not only in Portugal, but also in Mozambique through the internet. To counter the power failures, the company still introduced a power generator that works on gasoline in case it was necessary.

6. Discussion

In this chapter, the challenges and ways to overcome them highlighted in the findings are analyzed and discussed in comparison to the literature review.

6.1 Challenges faced by SMEs in the internationalization process

The table present in Annex 6: Matching of Barriers to the internationalization of SMEs matches the 10 top perceived barriers to the internationalization of SMEs mentioned in the literature review with the barriers from the findings, besides highlighting additional challenges unmentioned in the literature. The table (Annex 6: Matching of Barriers to the internationalization of SMEs) is further analyzed below.

6.1.1 Shortage of working capital to finance internationalization

With the company in need of financing to initiate its activity in the country, the literature suggests that the access to it should have been a major challenge in the internationalization process.

Although it was a challenging process, the search for financing could have been a lot more difficult if not for the close relationship between Portugal and Mozambique, which resulted in the obtaining of financing from a bank with roots in both countries. Despite this advantage, the loan was obtained in unfavorable conditions, reason why this barrier can be considered a big challenge in this case study. Nevertheless, the company was still able to finance and never had to deal with shortage of working capital, so this factor is far from being the biggest challenge.

6.1.2 Identifying foreign business opportunities

The difficulty in identifying and selecting foreign business opportunities abroad is considered to be a major barrier in the literature. This can be due to limits on time and/or lack of managerial knowledge, financial resources available and/or trust and cooperation within the network.

In this case study, the company did not mention any particular challenge of this kind. This can be explained by the firm's experience and network in the process. Sanitop Mozambique is managed by a qualified and experienced team, namely the general director who owns extensive experience in the host country, supported by the necessary resources to conduct the business, whereby no relevant issues were found for this barrier. Also, all the activity is carried out jointly with the company in Portugal, which facilitates the overcoming of the barrier of knowledge and network reliability and cooperation. Furthermore, the company already owned numerous Portuguese clients in Mozambique, so there was a major business opportunity in the foreign market. In order not to lose any potential good opportunity, the team is also present in trade fairs and only occasionally faces time limits that constrain the management of the business.

6.1.3 Limited information to locate/analyze markets

The company did not face any particular difficulty accessing adequate information about the market. Before entering Mozambique, the company had a lot of information from numerous sources: staff experience, visits to the country, news and partners (lawyer and accountant). Thus, lack of knowledge on the market was not a major challenge for Sanitop.

6.1.4 Inability to contact potential overseas customers

The difficulty in contacting new customers overseas is also a top barrier for SMEs. However, Sanitop managed to overcome this barrier through its experience and network. The firm already owned numerous Portuguese clients in Mozambique, so this was not a major difficulty. Furthermore, the company can count on the experience and knowledge of the expatriate management team to reach new customers in the foreign market, whether through their physical presence, or through their portfolio of clients.

6.1.5 Obtaining reliable foreign representation

Finding, engaging and managing reliable and suitable representation in the foreign market is the fifth major difficulty faced by SMEs according to the present literature. Furthermore, there are also difficulties found in the access to a suitable distribution network. However, since the company decided to enter the market directly with a physical presence as a way to replicate the business model in another country, it did not require any foreign agents, which is a strategy more suitable for exporting. Anyhow, the company did take three Portuguese employees that already worked in the company to represent it in the new market. This team met the necessary structural, operational and behavioral requirements. The general director in particular already knew the Mozambican market, which only benefited Sanitop. As for the distribution network, the company always took care of all the distribution process internally. In addition to all this, the company hired two qualified external service providers, a lawyer and an accountant. Therefore, this was not necessarily a major challenge for the company.

6.1.6 Lack of managerial time to deal with internationalization

The literature mentions the lack of managerial time to be a top barrier in the internationalization process of SMEs, however this was not a major challenge for Sanitop. Both management teams in Mozambique and Portugal always found the time to discuss issues, develop strategies, allocate resources and conduct the business. The absence of difficulties for this barrier might be explained by the fact that the company is replicating the business in another country with the presence of a qualified and experienced team and the support of a team in Portugal. However, the company still had to face the sporadic absence of these employees who come back to home country about three times a year for personal reasons. Furthermore, the management team had to provide on-the-job formation to newly hired employees in Mozambique, which was time-consuming but contributed to provide the skills necessary to maintain the store operational in their absence. Hence, this barrier did not have a significant impact on the company's internationalization process.

6.1.7 Inadequate quantity of and/or untrained personnel

The insufficient number of employees working on the internationalization and the lack of specialized knowledge in the subject are also considered top barriers to the internationalization of SMEs in the literature. In terms of quantity, the company has always had a large team of people from both Portugal and Mozambique working on the internationalization process. As for specialized knowledge, in this particular case the team had already been exporting to other countries, so it had developed the necessary expertise on the subject. Furthermore, the knowledge of the general director on the target market proved itself very useful. Such knowledge, allied with the recruitment of some local employees, could have resulted in a good preparation against any eventuality that could have faced the organization. However, the lack of qualified human resources in Mozambique represented a major challenge due to their low level of know-how. Anyhow, the management team provided on-the-job formation to new employees.

6.1.8 Difficulty in matching competitors' prices

The difficulty in engaging in price competition is also perceived as being one of the top barriers to internationalization of SMEs. In fact, Sanitop is inside a market divided in price competition for about 90% and quality competition for the remaining 10%. Since the price competition market segment is completely controlled by other companies and Sanitop could not compete with them, it opted, among other reasons, to invest in the quality market segment. Thus, this barrier actually created a challenge for the company, who would, in case it decided to enter the price competition segment, be unable to match the competitor's prices. Anyhow, even in a different segment, this barrier represents a major challenge for the company.

6.1.9 Lack of home government assistance/incentives

In terms of home government assistance and incentives, the literature also points out its absence in support of internationalization. In fact, Sanitop never obtained support from a governmental institution. The company did try to get financial support from a financial credit institution called SOFID, which is majority-owned by the Portuguese state, however the objectives of both entities did not match since the incentives were directed to a different kind of investment. As for assistance, nothing was mentioned.

The company relied mainly on private institutions/partners for support. Therefore, the firm did face the barrier of inadequate public support, although it may still have been caused by lack of knowledge on assistance programs, as pointed out in the literature.

6.1.10 Excessive transportation costs

The barrier of excessive transportation costs mentioned in the literature actually matches the findings of the case study to a great extent. The transportation costs represent a major challenge for the company due to the lack of infrastructures, excessive traffic, speed limits, risk of theft, increased wear of vehicles, etc. All these factors make the transportation a long and expensive process, which may cause the delivery of products within the country to be more costly than importing them from Portugal.

As for additional barriers unmentioned in the literature, the company faced numerous ones as visible in Annex 6: Matching of Barriers to the internationalization of SMEs. Their description can be found in the findings of the case study in the previous chapter.

6.1.11 Most challenging barriers

It is also important to find out which barriers faced by the company, both from the literature and from the findings in the case study, constituted the biggest challenges for the company. Although the literature points out 10 top barriers for the internationalization of SMEs, the company only faced four major challenges: shortage of working capital; inadequate quantity of and/or untrained personnel for internationalization; difficulty in matching competitors' prices; and excessive transportation costs. As for additional barriers unmentioned in the literature, the most challenging were: the political and economic environment; the import process; the day-to-day conditions; the laws and regulations; and the choice of store's location. These additional challenges give the indication of being related to emerging markets, which further extends the literature as it does not have a particular focus on this type of market.

6.2 Ways to overcome internationalization challenges

The table in Annex 7: Matching of ways used to overcome barriers matches the top 10 perceived barriers to the internationalization of SMEs mentioned in the literature review

with the ways used by the company to overcome them. It's important to mention that some challenges that were not sufficiently relevant for the company are still mentioned because they were overcome on time. Furthermore, the table contains also the ways used to overcome the additional barriers unmentioned in the literature (Annex 7: Matching of ways used to overcome barriers).

Although the company was able to face and overcome a large number of barriers, there were still some that it wasn't able to do much about such as: corruption, currency devaluation, lack of foreign currency, inflation, withdrawal of construction clients from the market, expensive custom fees, and others. Nevertheless, the company was able to overcome numerous challenges, mostly due to:

- **Experience and knowledge**

The previous experienced knowledge of the company: exporting to other countries; on the new market due to the previous experience of the general director of Sanitop Mozambique in the country; and in various business areas such as technologies, finance, logistics and sales.

- **Relocation of employees to target market and selection of general director**

The relocation of three qualified Portuguese employees of SANITOP from Portugal to Mozambique in order to manage critical areas and the designation of an employee with previous experience in Mozambique as general director of the new company.

- **Availability of resources**

The company financed the international expansion with 35% equity and provided all the necessary inventories to supply the new company in Mozambique.

- **Management commitment**

The management team, including the CEO, visited the market in person and allocated all the necessary resources, time and knowledge.

- **Formation**

The team provided on-the-job formation to newly hired Mozambican employees.

- **Organization among teams from different countries**

Both teams in Portugal and in Mozambique worked well together due to effective organization and delegation of tasks and constant communication.

- **Technologies**

The management and billing system is very important to run the business, as well as the internet and telecommunications to provide better customer service and save time contacting employees, the company in Portugal, partners and potential new clients.

- **Mutual clients in both countries**

The company already owned clients with projects in both Portugal and Mozambique.

- **Networks**

Sanitop attended trade fairs where it interacted with new clients.

- **External support**

The company hired the external services of both a lawyer and an accountant in order to deal with laws and regulations and taxation and accounting, respectively.

As seen in the list above, besides three ways of overcoming barriers mentioned in the literature (networks, external support and technologies), the company still used other forms of overcoming several additional challenges. However, the use of alliances, which is mentioned in the literature, was never implemented by the company in the internationalization process. Furthermore, another barrier highlighted in the literature, the network, was not very relevant to overcome barriers although it was useful to interact with new clients in the target market.

7. Conclusions

The present case study aims at providing a much required in-depth knowledge on a yet underexplored topic in the literature - the challenges faced by SMEs in the internationalization process to emerging markets and ways to overcome them. Although the internationalization of SMEs in emerging markets is a hot topic, its literature is lacking in terms of challenges specifically faced in emerging markets and how to overcome them particularly for SMEs in emerging markets.

This thesis shows evidence of numerous challenges faced in the internationalization process of SANITOP in the Mozambican emerging market, some of which match the current literature. The literature points out 10 top perceived barriers to the internationalization of SMEs (OECD 2008). However, only four of them were in fact major challenges for SANITOP in Mozambique: shortage of working capital; inadequate quantity of and/or untrained personnel for internationalization; difficulty in

matching competitors' prices; and excessive transportation costs. Furthermore, additional barriers unmentioned in the study of the OECD (2008) have been found to represent major difficulties for the company: political and economic environment, import process, day-to-day conditions, laws and regulations and choice of store's location. As for ways of overcoming those challenges, the literature presents four options: networks, external support, technologies and alliances. However, only the first three were actually used by the company in the case study. Additionally, other ways were found to overcome the internationalization challenges of SMEs: specialized knowledge, relocation of employees to target market and selection of general director, availability of resources, managerial commitment, formation, organization among teams from different countries and mutual clients.

In conclusion, although perceptions point out to 10 major challenges on the internationalization of SMEs, only a few were found to be greatly valid in this case study for Mozambique, in addition to several more found in this specific internationalization process. This somewhat proves that the actual main challenges faced can be significantly different from the literature in the context of an emerging market. As for ways of overcoming internationalization barriers, although the literature is fairly complete, there are numerous other options that remain unmentioned, particularly useful for SMEs also in emerging markets. Even though the company overcame several challenges in the internationalization process, the devaluation of the national currency and the lack of foreign currency had an extremely negative impact on the company's profits, which in the particular case of Mozambique, represents a top barrier.

In terms of research limitations, the current case study covers the internationalization process of a company from Portugal to a former colony, Mozambique. As seen in the study, both countries have a similar accounting system, identical language, mutual clients and banking institutions, etc. This connection between countries influences the range and impact of the challenges faced as well as the ways to overcome them at a certain level. Therefore, the current thesis should not be generalized to other internationalization processes, although it can be considered a valid foundation for the study of the internationalization of SMEs to emerging and former colonies.

As for further research, in order to extend the findings of this thesis, the specificity of studies on different sizes, growth rates, geographical locations, development stages, and business cultures can further benefit firms striving to internationalize their activity. For a comparison with this particular case study, it would be interesting to research the challenges faced by Portuguese SMEs internationalizing into former Portuguese African colonies such as Angola and Cape Verde, as well as the ways to overcome them. The fact that these are similar markets to Mozambique in relation to Portugal, would make the research an interesting complement to this case study. It would allow Portuguese SMEs to extend their knowledge on a hot topic for Portuguese SMEs.

8. Appendices

Annex 1: Interview Structure

Dados sobre entrevistado: Nome, e-mail, função, funções anteriores na empresa, experiências de trabalho anteriores, estudos, anos na empresa, presente em Portugal ou Moçambique (nº de deslocações ao outro país por ano)

Grupo I

1- Qual é o capital social? Qual foi o investimento total? Qual o valor da renda das instalações em Maputo? Qual é a evolução do volume de negócios? Qual é a evolução da margem bruta (preços de venda - preços de compra)? Problemas de dinheiro para investir?

2- Qual é a nossa política de crédito? Qual é a percentagem dos pagamentos a pronto e dos pagamentos a crédito? Qual é o prazo médio de recebimento? Temos crédito malparado/incobráveis? Quais são os principais meios de pagamento utilizados pelos nossos clientes?

3- Quais são os principais bancos? Quais são os nossos bancos? Quais são as taxas de juro para os empréstimos e para os depósitos? Qual é o montante, prazo, taxa de juro?

4- Quais são os principais impostos? Qual é a taxa de IRC? Quais são as taxas do IVA (única:17%)?

5- Qual é o salário mínimo nacional (530 euros em Portugal)? Qual é a taxa social única para a Segurança Social (23,75% em Portugal)?

6- Quem faz a contabilidade? Uma empresa externa? Quanto custa? Estamos satisfeitos?

Grupo II

1- Considera que o investimento da empresa, isto é, o seu comprometimento foi adequado? Pediu feedback regular, mostrou confiança?

2- É fácil receber dinheiro de clientes em Moçambique?

3- É fácil obter crédito (empréstimo) para as empresas? Nós contraímos algum empréstimo bancário em Moçambique?

Grupo III

1-Modo de entrada em Moçambique, como é que estão presentes?

2-Quem são os nossos principais concorrentes em Moçambique? Mesmos que em Portugal? O que os diferencia de nós?

3-Porque é que ainda não foram para mais cidades?

4-Qual é o futuro? Qual é a segunda maior cidade? Fica a que distância de Maputo?

Grupo IV

1-Porque é que decidiram internacionalizar? Qual foi o timing e porquê? Porquê Moçambique?

2-Informação sobre o mercado estava acessível e completa ou foi limitada? Ou conseguiram informação por causa da network? Que tipo de método: prospecção, informação?

3-De acordo com a informação que tinham, fizeram alguma estimativa? As expectativas foram atingidas?

Grupo V

1-Fácil encontrar clientes e parceiros (agentes de representação/comerciais)? Podem visitar empresas facilmente e apresentar o negócio? Se não é fácil, foi por isso que optaram por investimento directo na loja em vez de um comercial/comissionista? Para controlarem as operações?

2-Quantos clientes temos? Quem são os nossos clientes? São os mesmos que em Portugal? São essencialmente empresas portuguesas ou moçambicanas? Qual é a distribuição geográfica?

Grupo VI

1-Qual é a evolução da estrutura em termos de meios humanos?

2-Qual é o nível de estudos dos nossos trabalhadores moçambicanos? Como se ultrapassa a questão da "quota" (10%?) para os expatriados? Contratam localmente ou trazem de Portugal? Fácil encontrar trabalhadores qualificados? Para altas ou baixas posições? Treinam os empregados em caso necessário? De que forma?

3-Comunicação diária entre Portugal e Moçambique? Difícil por causa da distância (não poder estar presente nos dois sítios ao mesmo tempo)? Voos caros e longos? Quando vem falam do quê?

Grupo VII

1-Problemas de legislação, "quota" (10%?) para os expatriados, Visa (é preciso visa para ser gestor da empresa legalmente)?

2-Problemas culturais (procura é igual ou há muitos períodos mortos...)

3-Os nossos produtos vêm todos de Portugal? Compramos produtos em Moçambique? Quanto tempo demora um contentor a chegar a Moçambique? Qual o custo de um contentor? Quais são as taxas alfandegárias para um contentor? Problemas encontrados no transporte (corrupção)...

4-Quais as consequências (para nós) da desvalorização do Metical (-35% no último ano, 1 Euro = 40 Meticais -> 55 Meticais)?

Grupo VIII

1-Têm uma network de suporte? Consultores, advogados, parceiros que ajudem a empresa a tomar decisões e a resolver problemas, parceiros... Foram fácil de arranjar, estão satisfeitos?

2-Como fazemos a distribuição (as entregas nos clientes)? Nós próprios ou uma empresa externa? Qual o preço da gasolina/gasóleo? Há portagens?

Grupo IX

1-Adaptação do produto? Vendem os mesmos produtos? Vendem mais baratos?

2-Problemas específicos com clientes? Falta de pagamento, baixo rendimento, clientes preferem importar eles mesmos, etc. Como é que o cliente Moçambicano é diferente do Português? Mais B2B ou B2C?

3- Quais os serviços providenciados em Moçambique, os mesmos que em Portugal? Serviços, preços e orientação do negócio para o cliente.

Grupo X

1-Dificuldades gerais para internacionalizar e preocupações/necessidades/erros.

2-Como é que a entrada em Moçambique afectou o negócio em Portugal? Em termos financeiros, em termos de aprendizagem, de estratégia. Coisas aprendidas lá e trazidas para Portugal. Impacto na Sanitop Portugal.

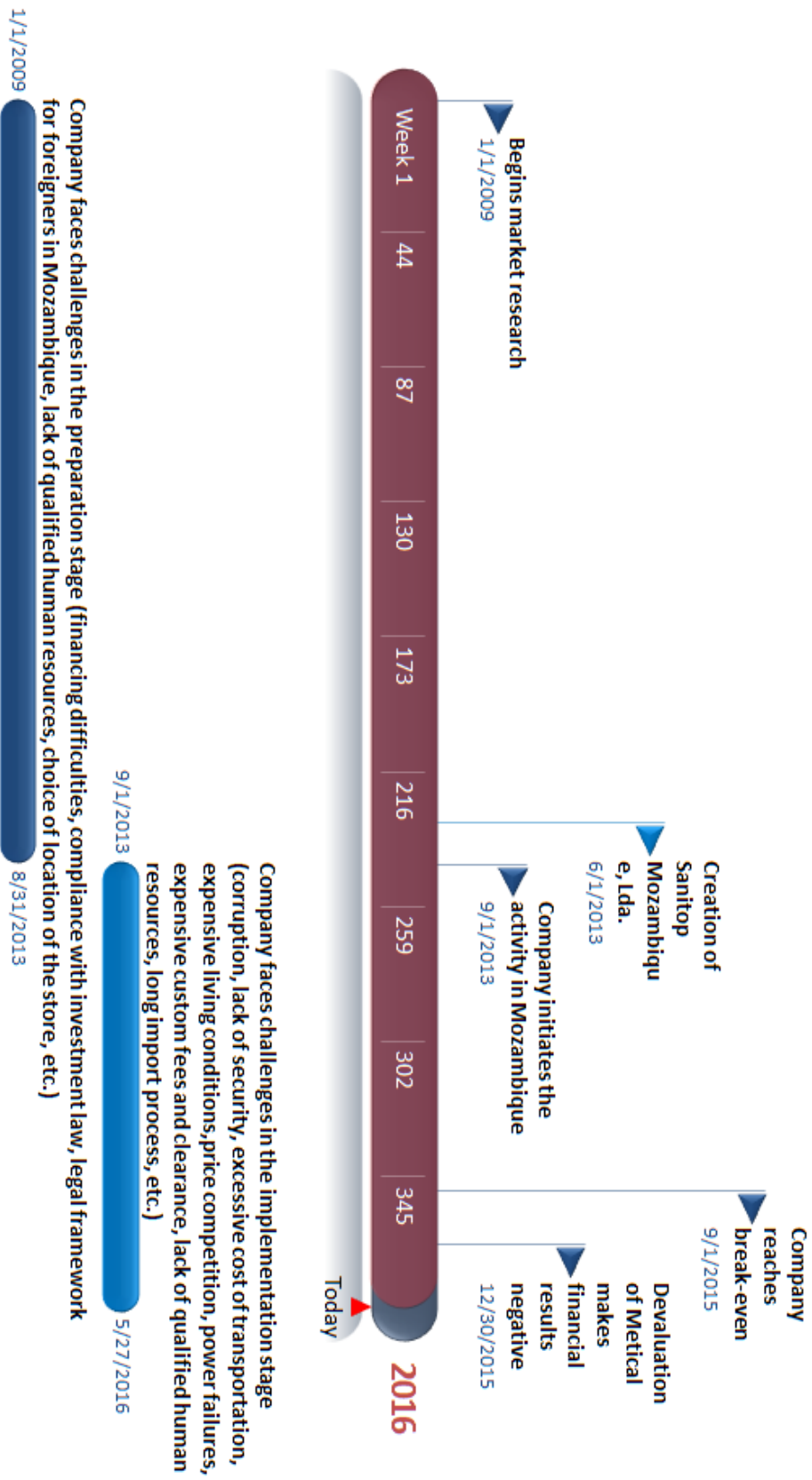
3- Factores de sucesso – adaptação do modelo de negócio, serviço ao cliente.

4- Estrutura de capital da empresa.

Grupo XI

Escolha de mercado; 2- Modo de entrada; 3- Comprometimento da empresa; 4- Problemas encontrados.

Annex 2: Chronology



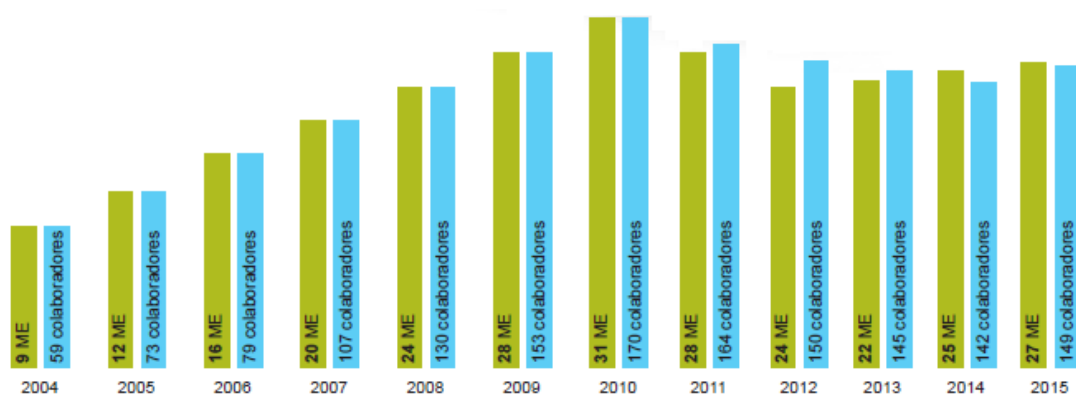
Annex 3: Coding for challenges faced in the internationalization process

Code	Interview 1 – general director of Santitop Mozambique	Interview 2 – CEO of SANTITOP	Interview 3–Purchasing Manager at SANTITOP	Interview 4 – Financial Manager at SANTITOP	Interview 5–Accountant at SANTITOP	Interview 5 – IT at SANTITOP
Challenges faced in the internationalization process	<ul style="list-style-type: none"> - the legal framework for foreigners in the country and the obligation to have 12.5 Mozambican workers per Portuguese; - the low level of qualifications in the country; - the competition in the market, 90% price competition, 10% quality; - the corruption with police guards; - the problem of Metical and its impact in the company; - the excessive costs of logistic around 30%; - the long and costly process of imports, reaching a total of about 2 months to arrive; - the contrasting context in Portugal and the instability; - the excessive transportation process, the risk of theft, the lack of infrastructures; - sporadic absence to come back to the home country. 	<ul style="list-style-type: none"> - the results of the company and the motivation to internationalize due to the crisis in the sector in Portugal and to the withdrawal of clients to Mozambique; - the market choice between Angola, Mozambique and Cape Verde; - human resources in Mozambique are very low; - some costs they couldn't predict for the business plan: visa, customs, corruption, publicity; - examples of corruption with publicity, customs, police guards; - the competition segment in Mozambique is mostly on price, but Santitop is in the quality segment. 	<ul style="list-style-type: none"> - expensive fees on the transfer of money; - the choice of market between Mozambique and Angola and the corresponding context; - custom fees if company does not use CPI; - the effect of inflation of 30% on costs; - created company independent in order not to influence the company in Portugal; - transportation costs are very expensive. 	<ul style="list-style-type: none"> - the business plan to Mozambique and the predictions; - choice of market between Angola, Mozambique and Cape Verde; - the team of three Portuguese employees chosen to go to Mozambique and their roles; - the complete story on the process to seeking for finance; - the interest rate and conditions of financing around 20%; - currency volatility in the country, the Metical; - excessive bureaucracy - difficult to find a location for the store due to the unavailability of spaces and expensive rent; - lack of foreign currency or at prohibiting prices. 	<ul style="list-style-type: none"> - length of the import process and custom fees and clearance; - financing conditions and investment, banking commissions of 4000 Meticals; - clients payment methods, nationality, cultural differences; - VAT; - wages paid to employees; - living conditions, trips, accommodation, food; - lack of infrastructures in Mozambique; - Justification documents to the CPI; - the context in Angola and Mozambique, the resources, the instability, the growth; - Mozambican clients take a long time to make a deal. 	<ul style="list-style-type: none"> - system used was too expensive for Mozambique; - numerous power and internet failures; - slow internet.

Code	Interview 1 – general director of Santitop Mozambique	Interview 2 – CEO of SANTITOP	Interview 3–Purchasing Manager at SANTITOP	Interview 4 – Financial Manager at SANTITOP	Interview 5–Accountant at SANTITOP	Interview 5 – IT at SANTITOP
	<ul style="list-style-type: none"> - business opportunities are much greater when present? - try to load the containers to the maximum; - Portuguese employees share the same house; - always use a minimum of 6 months stock in Mozambique; - provided on-the-job-formation to new employees; - limited the delivery to a radius of 50 kilometers; - previous experience in the country was useful; - the prospection in the country and the visits to trade fairs and clients in person. 	<ul style="list-style-type: none"> - to replicate the successful business model in the new market? is the only way to internationalize a commercial company; - outsourcing of supporting activities to Portugal; - opted to compete in the quality market segment 	<ul style="list-style-type: none"> - the process of investment and imports through CPI and its advantages. 	<ul style="list-style-type: none"> - contacted a bank institution with connections in both Portugal and Mozambique; - hired the services of an accountant and a lawyer to deal with the paperwork; - strategy used to overcome the legal framework for foreigners was to register only one Portuguese in the company; - they negotiated the rent of the new location in USD; - obtained the financing in Meticaís. 	<ul style="list-style-type: none"> - explained they went around the legal framework for foreigners, registered only one Portuguese in the company and the rest as external service providers; - accounting regulations; - justification documents requires by the CPI 	<ul style="list-style-type: none"> - developed a solution to access the information remotely through another system; - installed an energy generator to counter the power failures; - sell on the counter to avoid theft; - video surveillance to avoid theft; - provided formation to teach the new management system.
	Ways to overcome them					

Annex 4: Coding for the ways to overcome the challenges

Annex 5: Evolution of Turnover and Number of Workers



Annex 6: Matching of Barriers to the internationalization of SMEs

Comparison of the 10 top perceived barriers to the internationalization of SMEs with the barriers from the findings and the additional barriers from the findings unmentioned in the literature.

	Barriers from the literature review (OECD 2008)	Barriers from the findings
1	Shortage of working capital	Risk of exchange rate volatility Difficulty in obtaining financing Unfavorable loan conditions
2	Identifying foreign business opportunities	None
3	Limited information to locate/analyze markets	None
4	Inability to contact potential overseas customers	None
5	Obtaining reliable foreign representation	None
6	Lack of managerial time to deal with internationalization	Sporadic absence of employees who come back to the home country On-the-job formation to newly hired employees takes time from managers

7	Inadequate quantity of and/or untrained personnel for internationalization	Lack of qualified human resources
8	Difficulty in matching competitors' prices	About 90% of market players competes on price
9	Lack of home government assistance/incentives	Inadequate public support
10	Excessive transportation costs	Transportation is a long and expensive process (lack of infrastructures, excessive traffic, speed limits, etc.)

Additional barriers from the findings unmentioned in the literature

Political and economic factors	Devaluation of currency	Growth slowdown
	Lack of foreign currency	Political instability
	Inflation	Withdrawal of clients
Imports process	Imports are lengthy Expensive custom fees	Customs clearance process
Day-to-day conditions	Electricity and internet failures	Expensive living conditions
	Corruption	Long and expensive flights
	Lack of security	
Cultural factors	Clients take a long time to make a deal	
Laws and regulations	Legal framework for foreigners	Excessive bureaucracy
	Investment law compliance	
Choice of store's location	Unavailability of spaces	Expensive rent

Annex 7: Matching of ways used to overcome barriers

Ways used to overcome the 10 top perceived barriers to the internationalization of SMEs and the additional barriers from the findings unmentioned in the literature.

Barriers from the literature (OECD 2008)	Ways used to overcome the barriers
1 Shortage of working capital	<ul style="list-style-type: none"> – Loan in Meticaís in order to avoid currency volatility – Searched for a bank with links between Portugal and Mozambique
2 Identifying foreign business opportunities	<ul style="list-style-type: none"> – Chose an employee with experience doing business in Mozambique to run the new company as general director – Activities carried out jointly by both teams from Mozambique and Portugal – Contacted clients in common with Portugal – Attended trade fairs for networking
3 Limited information to locate/analyze markets	<ul style="list-style-type: none"> – Internet research – Regular visits to the country – Chose an employee with experience doing business in Mozambique to run the new company as general director – Partners (external services - lawyer and accountant)
4 Inability to contact potential overseas customers	<ul style="list-style-type: none"> – Contacted clients in common with Portugal – Chose an experienced and qualified team of three Portuguese employees to manage the business in Mozambique – Visited trade fairs in order to contact new clients
5 Obtaining reliable foreign representation	<ul style="list-style-type: none"> – Chose an experienced and qualified team of three Portuguese employees to manage the business in Mozambique – Chose an employee with experience doing business in Mozambique to run the new company as general director – Distribution process performed internally – Hired the services of a lawyer and an accountant

6	Lack of managerial time to deal with internationalization	<ul style="list-style-type: none"> – Chose an experienced and qualified team of three Portuguese employees to manage the business in Mozambique – Rotation between three Portuguese employees going back to Portugal – Formation to newly hired employees to prepare them to work independently – Outsourced some activities to the team in Portugal
7	Inadequate quantity of and/or untrained personnel for internationalization	<ul style="list-style-type: none"> – Large team from both Portugal and Mozambique working on the internationalization, including newly hired Mozambican personnel – Previous experience of the company exporting to other countries – Chose an employee with experience doing business in Mozambique to run the new company as general director – On-the-job formation to new employees
8	Difficulty in matching competitors' prices	<ul style="list-style-type: none"> – Opted to compete in the quality market segment
9	Lack of home government assistance/incentives	<ul style="list-style-type: none"> – Relied on private institutions/partners for support
10	Excessive transportation costs	<ul style="list-style-type: none"> – Limited the delivery of goods to a radius of 50 kilometers

Additional barriers from the findings unmentioned in the literature

Ways used to overcome the barriers

Political and economic factors	<ul style="list-style-type: none"> – Negotiated the lease contract of the new company base in a strong currency, the USD – Obtained the financing in Meticaís in order to avoid any currency volatility
Imports process	<ul style="list-style-type: none"> – Loads containers to the fullest to maximize its value over the correspondent shipping cost – Always has a minimum of six months stock in Mozambique – Hired the services of a lawyer and an accountant to manage the paperwork associated with custom clearance
Day-to-day conditions	<ul style="list-style-type: none"> – Implemented a new system to access the information remotely even without internet

	<ul style="list-style-type: none"> – Introduced a power generator to counter the power failures – The Portuguese employees share the same house – Sells its products over the counter and the warehouse is protected by an electric grid and video surveillance
Cultural factors	<ul style="list-style-type: none"> – The team adapted their negotiation approach with Mozambican clients
Laws and regulations	<ul style="list-style-type: none"> – Hired the services of a lawyer and an accountant to manage the excessive paperwork – Communicated all investments to the Investment Promotion Centre (CPI) and provided all the necessary justification documents – Registered only one Portuguese as employee of the company and the remaining two as external service providers
Choice of store's location	<ul style="list-style-type: none"> – The CEO and his team personally prospected the area looking for a space for rent – Negotiated the lease contract of the new company base in a strong currency, the USD

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