How to overcome the barriers in international business
How to overcome the barriers in international business as an SME

When small and medium-sized enterprises (SMEs) want to develop their business across the borders of the U.S. they come across a number of barriers which might decrease their success or even lead to failure of the foreign activities. This is unjust since many foreign markets provide promising reasons for developing businesses. Examples include new and maybe faster growing markets which provide opportunities for expansion, development and most likely increased revenue. Within this paper the different barriers are identified and strategies for how to overcome those barriers are provided. Of course each industry has its own specific barriers and while some strategies work in one foreign market, they might not work in another since every market is different. These differences form an important part of the foreign barriers. However, there are also domestic barriers which need to be overcome first.

The international business environment

The barriers in international business development all concern different forces which influence the state and development of the firm. These are both internal and external forces which together form the environment. The internal forces are the forces a company can control and concern finance, production, marketing and personnel. The external forces are uncontrollable by the company and therefore involve political, legal, distributive, competitive, physical, labor, financial, technological, economic, socioeconomic and sociocultural forces. While a company which is solely operating on the domestic market only has to deal with its domestic environment, an internationally operating company has to deal with those of the foreign companies or strategic business units as well. As can been seen from Figure 1, the interface between the domestic and foreign environment therefore is called the international environment.
Domestic barriers to U.S. SMEs

The domestic environment contains barriers for SMEs to go international. While in the process of internationalization many SMEs focus on the foreign barriers, the domestic barriers need to overcome first. Of course it is advised to map the barriers of the domestic, foreign and the international environment in an early stage, but there is no use for addressing the foreign barriers in case the domestic barriers cannot be dealt with. Above are mentioned the different forces as involved in business. These forces provide the areas which should be looked into when mapping the environment and defining the possible barriers.

<table>
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<th>Domestic barriers</th>
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<tr>
<td>• Limited access to finance, including both trade finance and working capital</td>
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<td>• Certain problematic U.S. government regulations, particularly export controls</td>
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<td>and visas for foreigners to visit the United States</td>
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<td>• High transport costs</td>
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<td>• Small scale of SME production</td>
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Table 1: Domestic barriers to U.S. SMEs (Source: USITC, 2010)

**Limited access to finance**

One of the domestic barriers to U.S. SMEs involves a limited access to finance. This includes both trade finance as well as working capital. Trade finance is required to finance the sales to foreign buyers. Most foreign buyers prefer suppliers that can provide this financing above those who cannot. Therefore it is an unequal competition between the companies which can finance or have a financier and those which are not able to finance. Hence trade finance is a domestic barrier.

Another financial barrier is the limited access for working capital. While this is not directly related to international businesses, it is an important reason why SMEs have a hard time in funding their international businesses. Since working capital is a major concern and imperative for survival, most SMEs rather use their limited financial resources as working capital than for financing for example international businesses. In addition, young SMEs cannot qualify for a bank financing since they are not able to provide the required financial records due to their period of existence.

**U.S. government regulations**

Many SMEs report that both federal and state laws and regulation form barriers to exporting. Thereby the export control regulations limit the possibilities. For example new products involving nanomaterials, chemicals and medical devices are hard to export, but especially the products which are considered to be "dual-use" products. These could have a commercial and a military application and are subjected to Export Administration Regulations and/or International Traffic in Arms Regulations. The involved paperwork and logistics have a high impact on SMEs which work on high-technology and want to export their products.
Obtaining visas might be considered as a barrier as well. Many foreigners find it quite difficult to visit the U.S. as it comes to obtaining the right documentation, but also the entrance procedures and exit requirements and involved lengthily processes. The visiting of (potential) business partners is important for arranging the international business. Therefore the mentioned difficulties are considered as a barrier by SMEs to international business.

**Transport cost**

Certain fixed costs form a barrier for SMEs to international business. In comparison to their larger competitors the SMEs are at a disadvantage as it comes to transport cost. Thereby the costs do not only concern the transport itself but also the obtaining of the right documentation. While larger companies have the advantage of economies of scale, SMEs have to deal with relatively higher costs.

**Small-scale production**

While this might be a disadvantage in doing business on a domestic market as well, small-scale production is a limitation for cross-border business. Not only because possible foreign customers could desire high-volumes, but also since these (potential) customers might have to deal with demand fluctuations. Thereby, due to the time and cost involved with regulations and transport, small volumes might be less desirable when a customer wants to address these fluctuations in a proper way. In addition, in case high-volumes are desired a small-scale production implies long delivery times or relatively high transport cost due to the lack of economies of scale.

**Foreign barriers for U.S. SMEs**

Next to domestic barriers a SME involved with international business has to deal with foreign barriers as well. As mentioned above, the foreign environment contains several forces which most likely involve different characteristics. Thereby these forces can involve significant barriers for a SME involved in international businesses.

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<tr>
<th><strong>Foreign barriers</strong></th>
<th>Costly and nontransparent foreign government regulations</th>
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<td></td>
<td>Financial barriers</td>
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<td></td>
<td>Language and cultural barriers</td>
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<td></td>
<td>Inadequate knowledge of foreign markets, including the ability of SMEs to hire staff to acquire such foreign market knowledge</td>
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<td>Limited information to locate or analyze foreign markets</td>
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<td></td>
<td>Inability to contact potential overseas customers</td>
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**Table 2: Foreign barriers to U.S. SMEs (Source: USITC, 2010)**
Foreign government laws and regulations

Since foreign laws and regulations might be quite different from the domestic ones, a lot of effort and therefore cost are involved with the understanding and complying with those laws and regulations. Thereby these laws and regulations involve administrative burdens of compliance. When operating with or in several foreign environments the lack of standardization across different countries becomes a problem as well. For example in the EU is made an effort to standardize, but still most countries have their own specific laws and regulations.

While the protection of intellectual property (IP) in the U.S. might be very well arranged this might not be the case in foreign environments. In some foreign countries the IP might be very well protected (as for example those in the EU), but other countries might lack the resources and ability to identify and respond on a possible intellectual property infringement. In worst case scenario the status of intellectual property is worthless in a certain country and the product might get copied.

Products which are exported to another country have to be cleared by the local customs. While in some countries this process occurs without any delays or not at all for example due to a trade-agreement, in other counties significant delays are likely to occur. This might result into high cost, unsatisfied customers and even the loss of the product when the delay exceeds the preservability of the product.

Before starting an international business in a certain country a SME should look into foreign tariffs. Apart from that these might be high and therefore the country might become unattractive to do business in, it might be the case that the local tariffs are in favor of local companies. Thereby these form an entry barrier to foreign competitors. Some foreign countries have specific support programs for the local companies. However, others have government support programs for example for certain industries or trade. These support programs might provide significant lower or even erase barriers.

Financial barriers

For financing foreign business a SME might use its own financial resources. However, depending on its business it might want to make use of foreign capital. This might provide both advantages as well as disadvantages. The barriers to foreign capital might be higher in some countries, while these might be lower in other areas. In addition, a foreign provider of capital might require information or registrations an U.S. SME cannot provide. When doing business between areas which make use of a different currency a SME should take into account the possible exchange rate fluctuations. For one currency these are much more volatile than for another. A high exchange rate volatility can therefore lead to huge losses.

Language and cultural barriers

While in some areas of the world language might form a barrier, in other areas it is not since the same language is spoken or the people are capable to speak the required language. This is very important to any international business since the inability to communicate might lead to
miscommunications which could evolve in high cost. Different languages form a barrier for SMEs since these might imply hiring a translator or staff members who can speak the foreign language. Apart from the cost of hiring, this might imply that the original staff of the SME might experience that it has no full control on possible negotiations.

Cultural barriers might express themselves as a language barrier. While in some cultures people are direct in communication, in other cultures people are much more indirect in there communication. Hereby does direct mean that people say what they mean, while indirect implies that you have to read between the lines to understand the actual meaning. This literally means that in some cultures ‘yes’ could mean ‘no’. Understanding the local culture thereby provides to capacity to understand what actually is meant. Of course, a lot more cultural barriers might be involved. Since the culture in one country could be considered more alike to the culture in the U.S. than a culture in another country, it might be experienced as having a fewer barriers. However, every foreign environment has a different culture with its own habits and unwritten rules. The inability to understand these can lead to unsuccessful business and significant cost.

**Knowledge of foreign markets**

The lack of knowledge of foreign markets is a barrier to a SME since it might be unable to hire personnel or get acquainted with the right organizations which have the knowledge of these foreign laws and regulations, and in addition know how to comply with these. However, this knowledge is required for identifying opportunities, establishing relationships, contact potential customers, seeking the right export assistance, understanding the regulations and compliance to rules. Hiring personnel or an organization for this matter of course involves cost. These cost put SMEs in a disadvantage since it raises the price for their products. This puts them in an unfavorable position in the competition against larger competitors.

**Suggested strategies to overcome barriers**

As mentioned above there are a number of domestic and foreign barriers for an U.S. SME which wants to expand its business on an international level. However, of course there are strategies to overcome those barriers. While some solutions provide advantages instead of barriers, others will reduce the effects of a barrier or lower a barrier.

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<td>• Pool resources with other small firms through trade associations or less formal coalitions</td>
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<td>• Collaborate with large firms</td>
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<td>• Take advantage of government programs designated to help exporters</td>
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<td>• Take advantage of favorable regulatory structures in certain countries</td>
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Table 3: Suggested strategies to overcome barriers (Source: USITC, 2010)
**Pool resources**

Several of the mentioned barriers involve costs which are relatively higher for SMEs than for larger companies. This since larger companies can take advantage of the economies of scale; the higher the amount the relatively lower the cost. This puts SMEs in an unfavorable position. However, SMEs can take advantage of economies of scale as well by pooling resources with other small firms. This can be done through trade associations, alliances or less informal coalitions. Thereby all the participating SMEs together reach the scale required to have economies of scale. This could not only involve for example products and logistics, but also with the personnel which has the required knowledge for doing successfully business abroad.

**Cooperation with (larger) companies**

Cooperation with global logistics and shipping firms can help SMEs to access to foreign markets. Thereby these firms have the knowledge of potentially problematic barriers, deal with customs clearance procedures, security issues, provide access shipping and logistic services and might even provide possibilities for warehousing. The network of global logistics and shipping firms could provide them the opportunity with larger competitors.

Of course the cooperation does not necessarily involve large global logistics and shipping firms. There exist companies which are specialized in helping SMEs to internationalize their business. These companies already have the required knowledge, network and abilities to develop a foreign business. These companies might be located in the U.S., but also in the foreign area where the SME wants to develop a business. The latter are focused to internationalize business from a certain area (e.g. the U.S.) to their domestic environment (e.g. Europe). The advantage in this case is that the foreign environment to the U.S. company is their domestic environment, which they most likely know very well. This implies that there is always someone on the job, which does not have to learn about local language and culture. Another advantage of allying with such a company is that these companies want to create a synergy with involves mutual benefits.

**Make use of government programs**

Both U.S. government as well as a lot of foreign governments provide programs which support export and other forms of international business. These programs can be an important source of information about the foreign environments and possible customers. The services and assistance as provide by the governments to help SMEs can include support with laws and regulations, providing a network or even possible financing.

While some governments provide support programs others have created favorable regulatory structures. Most of the time this is done to attract certain industries to start a business in their country, which eventually has to lead to economic and social development. Creating more employment and stimulating the local economy are examples of reasons for these regulatory structures. This implies that sufficient workforce is available and a willingness to cooperate with foreign companies.
Conclusion

When internationalizing business SMEs are confronted with a foreign an international environment. These environments provide both opportunities as well as threads. In order to be successful in internationalizing a business the forces which are part of the domestic as well as the foreign environment should be looked into. Knowledge of these forces includes the possible barriers for entering a foreign market. However, there are several strategies to overcome these barriers. These include for U.S. SMEs: pooling resources, collaboration with other companies, take advantage of government programs and make use of favorable regulatory structures.
Source:


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