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The Internationalization as a Mechanism for the Strategic Expansion of Small and Medium-Sized Economic Enterprises

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## Abstract:

In this intervention, we will discuss the internationalization of small and medium-sized enterprises (SMEs), answering the question of how internationalization can contribute to the expansion of SME activities. We used a descriptive-inductive approach in our study, classifying SMEs based on quantitative criteria (number of employees, capital, business volume) and qualitative criteria (independence, market share). It is imperative to provide all necessary facilities to promote SMEs to their rightful economic and social status and fulfill their entrusted role. The study concluded several key points, notably that SME owners should not make internationalization decisions haphazardly but rather through thorough analysis considering opportunities, threats, the enterprise's capabilities, and its likelihood of success.

**Keywords:** Small and Medium-sized Enterprises (SMEs), Economic and Social Importance, Internationalization.

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## 1-Introduction:

In the past decades, the economic arena has witnessed profound changes and transformations, highlighting several diverse problems, leading to increased attention towards small and medium-sized enterprises (SMEs) by both developed and developing countries. This is due to their significant role in ensuring sustainable economic development, given their multiple advantages such as providing employment opportunities and requiring minimal amounts of capital. Today, SMEs face numerous challenges and opportunities, such as intense competition and the need to increase sales, which necessitates

their entry into international markets, known as internationalization. Enterprises approach internationalization differently based on their needs and capabilities.

Some prefer contracting with larger enterprises to produce a portion of their products, while others believe that they can internationalize independently by marketing their products to international markets. To achieve this, SMEs must align their financial, human, marketing, and technological resources to overcome the barriers that govern international trade.

In light of this, we pose the following main question: How can internationalization contribute to the expansion of small and medium-sized enterprises' activities? To answer this main question, we pose the following sub-questions:

- What is the concept of small and medium-sized enterprises?
- What is the importance of developing small and medium-sized enterprises?
- What are the benefits of internationalization for small and medium-sized enterprises?

To address our research topic, we divided it into the following axes:

1. Concepts regarding small and medium-sized enterprises.
2. The importance of small and medium-sized enterprises.
3. Internationalization of small and medium-sized enterprises.

## **2- The topic :**

### **Axis 1: Concepts regarding small and medium-sized enterprises**

In this axis, we will discuss the most important criteria used in Algeria to define small and medium-sized enterprises.

#### **1.1. The most important criteria used in defining small and medium-sized enterprises:**

Through this element, we will address the most important criteria used in defining small and medium-sized enterprises, dividing them into quantitative criteria (number of employees, capital, business volume) and qualitative criteria (independence, market share).

##### **1.1.1. Quantitative criteria:**

These are the most common criteria in the economic world used to renew a unified definition of small and medium-sized enterprises, relying on size. They are divided into three criteria<sup>1</sup>:

#### 1.1.1.1. Number of employees:

This criterion is primarily relied upon in distinguishing the size of enterprises due to the ease of data related to employment. Enterprises are classified into three categories: micro-enterprises, small enterprises, and medium enterprises.

#### 1.1.1.2. Capital:

This criterion is one of the basic criteria for determining the definition and classification of small and medium-sized enterprises, as capital is a fundamental factor in the production capacity of the enterprise. It is divided into three categories: micro-enterprises, small enterprises, and medium enterprises.

#### 1.1.1.3. Business volume:

This criterion is one of the new criteria for defining small and medium-sized enterprises, used to measure the project's activity and competitive capabilities. Enterprises are divided into three categories: micro-enterprises, small enterprises, and medium enterprises.

### 1.2. Qualitative criteria:

Quantitative criteria alone are not sufficient to give a comprehensive definition of small and medium-sized enterprises. Thus, it is necessary to add a set of qualitative criteria<sup>2</sup>.

#### 1.2.1. Independence:

This criterion signifies the independence of the enterprise from any economic bloc. It means that the owner is the supervisor of most of the enterprise's functions, making decisions and bearing full responsibility for them.

#### 1.2.2. Market share:

This criterion uses market share as a reference for defining small and medium-sized enterprises, where enterprises have limited market share due to their small size and low capital compared to larger enterprises.

### **Axis 2: Definition of small and medium-sized enterprises in Algeria.**

Algeria is one of the developing countries that faced challenges in defining small and medium-sized enterprises. Through Article 05, paragraph 01 of Law 17-02, which includes the guiding law for the development of small and medium-sized enterprises, they are defined as every production enterprise of goods or services:

- Employing from one to 250 workers.
- Having a business volume not exceeding 02 billion Algerian dinars.
- Having a capital not exceeding one billion Algerian dinars.
- Enjoying financial independence.

The Algerian legislator classified small and medium-sized enterprises according to several criteria summarized in the following table:

**Table No (01):** Quantitative classification of small and medium enterprises in Algeria

	Number of Workers	capital	Business Number
Micro enterprise	From 01 to 09	Less than 10 million Dr	Less than 20 million Dr
Small enterprise	From 10 to 49	Less than 100 million Dr	Less than 200 million Dr
Medium enterprise	From 50 to 250	From 100 million Dr to more	From 200 million Dr until now

Source: Algerian Ministry of Environment, Guide to Establishing an Institution, WWW.ond.dz

We noticed from the table that Algeria relied on quantitative criteria (number of workers, capital, turnover) to determine the definition of small and medium enterprises.

**Second Axis: The Importance of Small and Medium Enterprises.**

Small and medium enterprises (SMEs) hold significant importance for both developed and developing countries due to their economic and social roles, particularly in job creation and economic development, making them more competitive institutions.

1. Economically:

SMEs play a crucial role through the economic functions they perform at the following levels:

1.1. Mobilizing Savings:

SMEs have a significant and effective role in attracting savings and converting them into various investments, especially considering their limited capital requirements, which opens the door for savers to contribute to their establishment and expansion<sup>3</sup>.

2.1. Export Development:

SMEs contribute to alleviating the severity of the trade deficit through a policy of encouraging non-fuel exports pursued by the Algerian government, especially in the handicraft industries that witness increasing demand from advanced industrial enterprises<sup>4</sup>.

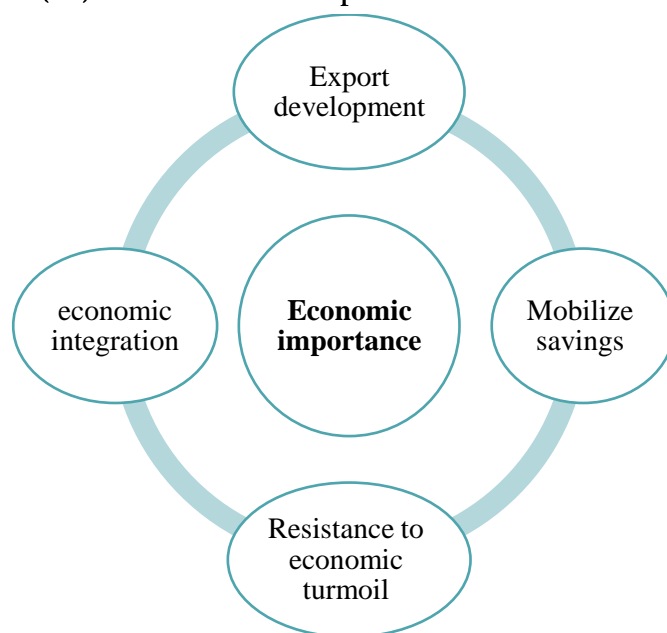
3.2. Economic Integration:

Small and medium enterprises play a vital role in the success of large enterprises by providing their needs beyond assembly lines, acting as suppliers or distributors. For example, Toyota relies on assembling various parts of its cars from several small and medium enterprises that supply them with different car components<sup>5</sup>.

#### 4.2. Resisting Economic Disruptions:

SMEs have the ability to adapt to various economic conditions. In case of increased demand, their investment capabilities increase, while in times of recession, they have the ability and high flexibility to reduce production. According to several international reports, SMEs have greater resilience and resistance to economic disruptions compared to large enterprises<sup>6</sup>.

Figure No (01): The economic importance of small and medium enterprises



Source: Prepared by the researcher

#### 2. Socially:

The role of small and medium enterprises (SMEs) is not limited to the economic aspect alone but extends to the social aspect, represented by the following points:

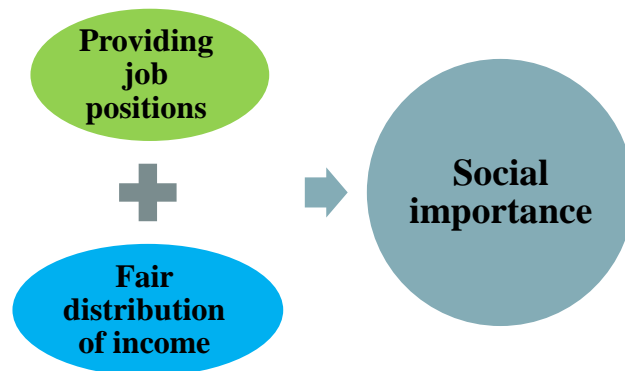
##### 1.2. Job Creation:

Small and medium enterprises play a significant role in job creation, being among the most important sectors in terms of generating employment opportunities. They often surpass large enterprises in this regard despite their modest resources, and this role has a wide impact globally<sup>7</sup>.

##### 2.2. Fair Income Distribution:

When there is a large number of small and medium enterprises of similar size operating under competitive conditions, they employ a significant portion of the workforce, contributing to achieving fairness in income distribution<sup>8</sup>.

Figure No (02) The social importance of small and medium enterprises



Source: Prepared by the researcher

### Third Axis: Internationalization of Small and Medium Enterprises.

#### 1. Definition of Internationalization:

Researchers differ in defining a unified concept for the internationalization process, as it is considered an economic concept with multiple dimensions. Researcher Ruzzier sees internationalization as the geographical expansion of economic activities beyond national borders, while others view it as consecutive stages based on a mix of different skills possessed and controlled by the enterprise, allowing it to gradually gain experience in foreign markets<sup>9</sup>.

According to Javalgi, Griffith, White, internationalization is the process through which a company operating in the local market moves into international markets<sup>10</sup>. Researcher Gankema considers internationalization as a process consisting of a set of steps that enable the enterprise to regularly market its products in foreign markets. Others consider internationalization as expanding the enterprise's activities beyond national borders to international markets<sup>11</sup>.

From the above definitions, it is clear that enterprises do not move into international markets randomly but through deliberate strategies to gain experience or with the intervention of intermediaries.

#### 2. Motivations for Internationalization of Enterprises:

The motives for internationalization vary from one enterprise to another depending on various factors related to its internal and external environment.

##### 2.1. Business Factors:

These are factors within the enterprise that drive it to seek foreign markets. These factors include<sup>12</sup>:

- Market saturation: When the local market becomes saturated due to numerous producers or importers of a particular product, the enterprise seeks alternative foreign markets to market its products and increase sales.
- Proximity to international markets: The proximity of the enterprise to international markets serves as an incentive for it to move towards the international market.
- Seasonality of the local market: Some products have seasonal demand, prompting the enterprise to search for foreign markets to ensure stable marketing of its products.
- Specialization of the enterprise: The specialization of the enterprise in a specific product makes it susceptible to fierce competitive attacks against the backdrop of the limited local market in accommodating its products.
- Extending the product's life cycle internationally: In the maturity stage of the product life cycle, the enterprise moves production abroad, especially in countries with low costs, then re-exports to the original country.

## 2.2. Financial Factors:

The financial conditions of the enterprise push it towards internationalization by penetrating foreign markets. These factors include:

- Reducing production costs: The aim of moving to the international market is to reduce production costs compared to those in the local market, achieved by benefiting from incentives granted to investors in recipient countries for investments, in addition to the low labor costs.
- Seeking economies of scale: The unit price of the produced unit decreases with increased production, prompting the enterprise to consider international markets to double its production, allowing it a competitive price advantage.
- Recovering investments: Sometimes the local market is saturated, preventing the enterprise from recovering its investments, prompting it to move to international markets to expand its sales and accelerate the pace of recovering its investments.
- Risk reduction: Internationalizing the enterprise allows it to reduce economic, political, legal, and financial risks.

## 2.3. Environmental Factors:

Sometimes the internationalization of enterprises occurs haphazardly only due to favorable environmental conditions, represented by opportunities summarized as follows:

- Spontaneous demand: Some enterprises initiate their international dealings through an opportunity to meet with a representative of a foreign enterprise at an economic event, which supports the international marketing of their products.
- Change in the international environment: The evolution of international trade works to overcome obstacles and raise barriers to stimulate international transactions, facilitating communication between global markets, encouraging small and medium enterprises to internationalize.
- Availability of information: The availability of vast amounts of information about a specific market may not be available to other enterprises, giving them priority in internationalization.

3. Stages of Internationalization of Small and Medium Enterprises: According to the economist Philip Kotler, the internationalization process of enterprises, in all its sizes, goes through several stages illustrated in the following figure.

Figure No (03) Stages of the internationalization process according to Philip Kotler



Source: Ben Hamou Abdallah, Bel Ayachi Boumediene, The internationalization of Algerian small and medium enterprises: conditions and requirements for an exploratory study of a sample of small and medium enterprises at the level of Mostaganem Province.

#### 4. Methods of Entry into International Markets:

There are several entry methods into international markets, including traditional methods such as direct and indirect exporting, joint or cooperative exporting, licensing and international franchising. There are also other specialized entry methods such as management contracts and direct foreign investment, either through joint ventures or ownership strategies.

It is worth noting that choosing one of these methods for internationalization and entering foreign markets depends on the circumstances of each market, the ease or difficulty of entering it, and the opportunities it offers to enterprises for internationalization. The following figure illustrates this.



Figure No (04): Forms of entry into foreign markets



Source: Philip Kotler, Marketing Management, Pearson Education edition, France, P774.

### 3- Conclusion:

The sector of small and medium-sized enterprises (SMEs) today represents an alternative approach to achieving economic and social development, and serves as an effective contributor to driving productivity and enhancing competitiveness. The process of internationalization of SMEs is not merely a random trend towards entering international markets; rather, it has significant importance for several economic aspects such as:

- Economic integration
- Export development
- Mobilization of savings
- Resilience against economic disruptions

From a social perspective, it includes:

- Job creation
- Fair income distribution

According to the economist Philip Kotler, there are five stages in the process of internationalization:

1. Choosing the organizational method
2. Making the decision to internationalize
3. Selecting internationalization methods
4. Developing an international marketing plan

We have also become acquainted with various forms of entry into foreign markets, such as direct and indirect exporting, among others. The decision to internationalize passes through stages that may not be fruitful in developing countries. Hence, achieving the desired goal for institutions requires concerted efforts at all management levels, alongside the state playing its stimulating and encouraging role by adopting clear, targeted policies and providing financial and material support to achieve stability and gain experience in expanding and increasing the market share of small and medium-sized enterprises.

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