

Decision-making in the Internationalization Process of Small and Medium Sized Companies: *experience from managers in a small economy*

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Keywords

internationalization, success factors, SMEs, drivers, decision-making

Abstract

Due to globalization, small and medium sized enterprises (SME) increasingly offer their products and services in foreign markets. The main reasons are either to compensate for a decreased market share in their home market, or to exploit opportunities in foreign markets, which are becoming less distant and better accessible than before. International markets are particularly important for companies located in a small economy and offering specialized products. Although more accessible, entering international markets is both expensive and difficult. In order to select the most appropriate markets it is, therefore, important to gain an insight into the factors that have an impact on success, or potential failure. Although there has been a reasonable volume of research into the theory of internationalization, there is still a need to gain further understanding of the decision-making process of SMEs in small economies and the most important characteristics that distinguish between success and failure.

The main objective of this research is to enhance knowledge on the internationalization of SMEs, including the drivers for the decision to internationalize, and the most important factors contributing to success in their internationalization activities. A qualitative approach was found to be most appropriate for this kind of research, with the objective of gaining a deeper understanding and discovering factors which impact a company's decision-making and potential success. In-depth interviews were conducted with 14 companies in different industries located in Iceland, a country extensively dependent on export revenues.

The interviews revealed several factors as drivers of internationalization and, not surprisingly, the most frequently mentioned source of motivation was that the local market is inadequate to maintain a sustainable operation. Good networking relationships were seen as a particular priority for potential success, searching for new markets was mainly carried out through the internet, although sales exhibitions and sales trips were also considered important. When it comes to the final decision as to whether a market should be considered for further analysis, economy, labor cost, legal environment, and cultural barriers were the most common factors to be weighted. The ultimate answer to successful internationalization, however, is largely dependent on a coordinated and experienced management team. The main contribution of this research is offering an insight into factors affecting decision-making in the internationalization process of SMEs, based on the opinion and experience of managers of SMEs in a small economy.
