
Challenges and Strategic Approaches in SME Internationalization: A Literature Review

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Abstract. *This paper explores the challenges and strategic approaches in the internationalization of small and medium-sized enterprises (SMEs). By conducting a systematic review of key literature, the study identifies three main challenges: resource constraints, regulatory and compliance barriers, and risk management. These obstacles significantly impact SMEs' ability to expand globally. However, the review also highlights strategic approaches that can help SMEs mitigate these challenges, including forming strategic alliances, adopting digital technologies, and diversifying leadership teams with international expertise. The findings suggest that SMEs must integrate market knowledge, local networks, and technology to enhance their international competitiveness. The paper offers practical recommendations for SMEs and policymakers to facilitate smoother international expansion.*

Keywords: *SME internationalization, resource constraints, regulatory barriers, risk management, strategic alliances.*

1. INTRODUCTION

The internationalisation of small and medium enterprises (SMEs) has become a significant focus of research, particularly as globalisation creates new markets and heightens competitive pressures. Nevertheless, SMEs encounter distinct hurdles relative to larger enterprises owing to their constrained resources, expertise, and competencies while penetrating international markets. The principal challenges include cultural disparities and market characteristics, necessitating that SMEs maneuver through varied cultural environments and fluctuating market conditions (Sulaiman, 2018). Comprehending local consumer behaviour, corporate practices, and regulatory frameworks is crucial for achieving effective market entry and enduring sustainability (Philippi et al., 2020). Inability to adjust to these elements may lead to misaligned tactics, reducing growth potential in international markets.

Alongside cultural and market-related challenges, institutional forces in the home country often act as drivers for internationalisation. Small and medium-sized enterprises may face challenges from economic fluctuations (Sulaiman et al., 2017), alterations in government regulations, or intensified industry competition (Jugend et al., 2018), prompting them to pursue new growth prospects internationally (Gamage et al., 2020). External pressures frequently require substantial internal modifications, including the improvement of operational efficiency

and the alignment of organisational structures with worldwide standards. Furthermore, SMEs frequently encounter difficulties concerning logistics and product quality, especially when entering transitional economies. These regions frequently display inadequate infrastructure, which might hinder supply chain management and the prompt delivery of items. Upholding superior product quality is essential, since it directly impacts customer trust and market acceptance in international marketplaces (Paul et al., 2017).

To navigate these hurdles, some SMEs have adopted novel techniques to enable international expansion. One technique involves implementing head-of-bridge strategies (Rusydi et al., 2019), which entail creating a modest yet strategic presence in the target market prior to completely allocating resources. This incremental strategy enables companies to evaluate the market, analyse risks, and progressively expand their operations, thus minimising the likelihood of expensive failures (Neupert et al., 2006). The significance of network development in the internationalisation process is paramount. Establishing strong international business networks and improving marketing capabilities are essential for surmounting market entry obstacles and securing a presence in new areas (Maupa et al., 2019). Through the utilisation of partnerships and local experience, SMEs can more effectively manage regulatory complexities and tailor their offers to consumer preferences, so enhancing their competitive standing in global marketplaces (Barney, 1991). This study seeks to deliver a thorough assessment of the literature concerning the internationalisation of SMEs, in light of the complex obstacles and innovative solutions utilised by these enterprises. The study will concentrate on pinpointing the primary challenges and strategic responses recorded in recent research, providing insights into how SMEs might more effectively traverse the global marketplace.

2. RESEARCH METHOD

Search approach

A systematic search approach was conducted to identify relevant studies related to challenges and strategies in SME internationalization. The search process was carried out through the following steps:

- a. **Databases Used.** The literature was searched through several leading academic databases, namely Scopus. This database was chosen because of its multidisciplinary coverage covering management, international business, entrepreneurship, and economics publications.
- b. **Search Keywords.** The search was conducted using keywords arranged based on the main concepts of the study. A combination of keywords was used to narrow the

search, namely “challenges” AND “SME” AND “internationalization”; and “strategies” AND “SME” AND “internationalization. The keyword search focused on the title, abstract, and keywords of each article.

- c. Time Range. The literature searched was limited to the time range from 2020 to 2024 to ensure relevance to current trends and challenges faced by SMEs in the internationalization process. However, older seminal articles that have major theoretical contributions were also included.
- d. Publication Language. Only studies published in English were considered, as most leading international publications are in that language.

Selection Criteria

After the initial search, the obtained studies were screened based on the following inclusion and exclusion criteria:

- a. Inclusion Criteria:
 - 1) Study Focus: Articles that discuss SME internationalization from a challenge or strategy perspective.
 - 2) Methodology Used: Empirical studies and literature reviews that use quantitative, qualitative, or mixed methods approaches to identify challenges and strategies.
 - 3) Geographic Context: Studies that cover a variety of geographic contexts, both developed and developing countries, to provide a broad picture of the SME internationalization process.
 - 4) Publication Type: Only peer-reviewed journals were included to ensure high research quality.
- b. Exclusion Criteria:
 - 1) Non-SME Context: Studies that focus on large or multinational companies were excluded.
 - 2) Overly Specific Studies: Articles that only discuss a particular aspect of internationalization (e.g., only international tax) without linking it to broader strategic challenges.
 - 3) Non-Peer-Reviewed Publications: Articles that have not undergone a peer-reviewed process, such as opinion or news articles, are not included.

Analysis Techniques

Thematic analysis was used to identify themes and patterns emerging from the reviewed literature. Relevant studies were grouped based on the challenges they identified and the strategies they suggested. Key themes identified included:

- a. Resource constraints
- b. Regulatory and compliance barriers
- c. Risk management in internationalization
- d. Market knowledge and local networks, and
- e. Use of technology in internationalization

3. RESULTS

The search results from the Scopus database provide valuable insights into the recent scholarly discourse surrounding the challenges and strategic approaches in SME internationalization. Using the search keywords “challenges” AND “SME” AND “internationalization”, the initial findings yielded 8 articles within the subject areas of Business, Management and Accounting, as well as Economics, Econometrics and Finance, with publication years spanning from 2020 to 2024. After applying additional selection criteria, including the focus on high-quality, peer-reviewed journals and the use of English as the primary language, 3 key articles were chosen for further analysis. These articles were published in reputable journals such as *Global Strategy Journal*, *Journal of World Business*, and *Journal of Innovation and Knowledge*.

These selected articles provide a comprehensive examination of the primary challenges SMEs encounter in the internationalization process. From the literature, themes such as resource constraints, regulatory barriers, and the complexities of entering unfamiliar markets emerge as the most prominent difficulties faced by SMEs. The articles from *Global Strategy Journal* and *Journal of World Business* delve deeper into the regulatory and compliance challenges that affect SMEs’ ability to expand internationally, particularly in volatile political or economic climates. Meanwhile, the article from the *Journal of Innovation and Knowledge* highlights how knowledge gaps in market intelligence, consumer behavior, and local networks can significantly hinder internationalization efforts. These articles collectively underscore the multidimensional nature of challenges, emphasizing that they are not only financial but also managerial, strategic, and operational in scope.

When expanding the scope of research using the search keywords “strategies” AND “SME” AND “internationalization”, the Scopus database yielded 13 articles from the same

subject areas (Business, Management and Accounting; and Economics, Econometrics and Finance). Again, the search was limited to articles published between 2020 and 2024 in English. After a rigorous selection process, 2 articles were chosen from Journal of Competitiveness, and Administrative Sciences. These articles collectively focus on how SMEs can strategically overcome the aforementioned challenges through various innovative approaches.

The articles selected from both sets of search results offer a broad yet detailed examination of the challenges and strategic approaches that SMEs adopt during their internationalization process. The findings demonstrate that while SMEs face significant hurdles, particularly related to resources, regulation, and market knowledge, there are effective strategies available. These include leveraging digital tools, engaging in gradual international expansion, and forming strategic partnerships, all of which provide SMEs with viable pathways to navigate the complexities of internationalization. The synthesis of this literature highlights the dynamic interplay between challenges and strategies, with the potential for future research to explore additional strategic frameworks tailored to different market conditions and geographical contexts.

4. FINDINGS AND DISCUSSION

Challenges in SME Internationalization

Three essential papers on SME internationalization are examined in relation to significant topics in the literature: resource limitations, regulatory and compliance obstacles, and risk management in the context of internationalization. These themes signify fundamental obstacles encountered by SMEs throughout their worldwide expansion and underscore how particular tactics can mitigate these issues.

a. Resource Constraints

Resource constraints provide a considerable obstacle for SMEs in the internationalization process. Zahoor et al. (2023) highlight that SMEs frequently lack the requisite financial, technological, and human resources for worldwide expansion. In their study, R&D collaborations are crucial in mitigating these constraints by facilitating access to external resources such as expertise, technology, and market entry. The research indicates that SMEs possessing robust alliance management capabilities are more adept at leveraging these alliances to expedite their international expansion. Furthermore, co-innovation ambidexterity, defined as the capacity to balance explorative and exploitative innovation, enables SMEs to innovate while utilizing external resources. This illustrates that resource limitations can be alleviated by

strategic partnerships that augment SMEs' innovative potential and grant access to essential assets without paying substantial expenses.

Reim et al. (2022) contend that digitization provides a viable remedy for resource limitations in the internationalization of SMEs. Through the adoption of digital tools, SMEs can optimize their operations, minimize expenses, and access global markets without requiring substantial physical infrastructure. Digital platforms, including e-commerce and cloud-based technologies, facilitate the efficient scaling of operations for SMEs, so rendering international market participation more attainable despite constrained resources. This underscores the idea that utilizing technology and strategic partnerships might assist SMEs in surmounting the common resource obstacles linked to international expansion.

b. Regulatory and Compliance Barriers

Regulatory and compliance concerns represent a significant obstacle for SMEs pursuing internationalization. Pongelli et al. (2023) examine the influence of board of directors' characteristics in family-owned SMEs on their capacity to overcome these obstacles. The research indicates that SMEs with more varied and experienced boards are more adept at comprehending and adhering to international regulations. Directors possessing international expertise can assist the firm in anticipating regulatory mandates in other markets, facilitating smoother entry and mitigating the risks of non-compliance. This conclusion indicates that establishing a diversified board with proficiency in international markets can furnish SMEs with essential counsel and insight to navigate regulatory challenges. Zahoor et al. (2023) assert that alliance management capabilities can assist SMEs in overcoming regulatory obstacles. By forming alliances with local enterprises in international marketplaces, SMEs can acquire essential knowledge of the regulatory environment, so enhancing compliance efficiency and reducing delays linked to unfamiliar legal systems. These collaborations can function as channels for local knowledge, enabling SMEs to swiftly adapt to changing regulatory frameworks and mitigate the risks of expensive compliance failures.

c. Risk Management in Internationalization

Risk management is a vital consideration for SMEs during internationalization, since they frequently encounter heightened exposure to political, economic, and market risks compared to bigger enterprises. Reim et al. (2022) emphasize that digitization might augment risk management by increasing the agility and reactivity of SMEs. Digital instruments, including data analytics and cloud-based monitoring systems, enable SMEs to monitor market trends and consumer behavior in real-time, equipping them to swiftly modify plans in response

to evolving conditions. This proactive strategy for controlling market risk enables SMEs to avert potential losses and seize emerging possibilities.

Zahoor et al. (2023) examine the function of R&D alliances in mitigating the risks linked to internationalization. Through co-innovation with key partners, SMEs may distribute the financial and technological risks associated with entering new markets. These alliances enable SMEs to consolidate resources and distribute risk across various entities, alleviating the pressure on individual companies. The research highlights that SMEs possessing robust alliance management capabilities are more adept at efficiently overseeing collaborative projects, hence ensuring mutual benefits from shared risks and rewards.

Pongelli et al. (2023) enhance the discourse on risk management by analyzing the impact of board composition on risk-related decision-making in family-owned SMEs. The research indicates that boards with greater diversity, especially those possessing international expertise, are more adept at evaluating and managing risks in foreign markets. This research indicates that SMEs may gain advantages by forming boards that offer a wider array of perspectives and insights, especially while navigating uncertain or unpredictable international contexts. The board's experience and diversity are essential elements of a risk management strategy for internationalization.

Synthesis of Findings

These studies collectively underscore the intricate relationship among resource limitations, regulatory obstacles, and risk management in the internationalization of SMEs. Zahoor et al. (2023), Pongelli et al. (2023), and Reim et al. (2022) illustrate that although SMEs encounter significant obstacles in global expansion, they can surmount these hurdles via strategic alliances, digitization, and the structure of their leadership teams. By utilizing external resources via partnerships, embracing digital tools to improve flexibility, and establishing boards with varied international expertise, SMEs can effectively address the issues of internationalization.

This discourse emphasizes the necessity of embracing a diversified strategy for internationalization. Small and medium-sized enterprises that integrate resource-sharing alliances, regulatory acumen, and proactive risk management methods are more likely to succeed in competitive global marketplaces. The results of these studies indicate that subsequent study should persist in examining how SMEs might enhance these capacities, especially in relation to swiftly advancing digital technologies and increasingly intricate international regulatory frameworks.

Strategic Approaches in SME Internationalization

a. Market Knowledge and Local Networks

The importance of market knowledge and local networks in the internationalization process is a recurring theme in both Calheiros-Lobo et al. (2024) and Civelek et al. (2024). Calheiros-Lobo et al. argue that for small and medium-sized enterprises (SMEs) seeking to expand internationally, a deep understanding of the target market is crucial. This includes knowledge of consumer preferences, local business culture, and competitive dynamics, all of which help SMEs better adapt their strategies to the local context. Their empirical investigation highlights that SMEs that invest in acquiring market knowledge tend to perform better in foreign markets because they are able to reduce uncertainties and better align their offerings with local demands.

Civelek et al. (2024) similarly underscore the role of market knowledge but emphasize the significance of leveraging local networks. Local partnerships with suppliers, distributors, or even government bodies enable SMEs to navigate unfamiliar environments more effectively. These networks provide not only market insights but also crucial operational support, including navigating local regulations and accessing new customer segments. As SMEs often lack the resources to compete with larger firms, local networks act as a key enabler, helping them to integrate more rapidly into new markets. The emerging concept of the Foreign Champion explored by Calheiros-Lobo et al. (2024) aligns closely with the notion of leveraging local networks. A Foreign Champion refers to an SME that has managed to establish a strong foothold in a foreign market by effectively utilizing market knowledge and local networks. These firms not only survive but thrive in international markets by adapting their business models to local conditions while maintaining their competitive edge. In line with these studies, it can be concluded that SMEs must prioritize the acquisition of localized knowledge and the establishment of robust networks to reduce entry barriers in international markets. Failure to do so may result in increased risk of failure due to a lack of understanding of the nuances that govern consumer behavior and business practices in foreign environments.

b. Use of Technology in Internationalization

Another prominent theme across both papers is the role of technology in enabling SMEs to internationalize successfully. Calheiros-Lobo et al. (2024) discuss how the strategic adoption of technology facilitates international expansion by improving communication, enhancing operational efficiency, and allowing for better coordination of activities across borders. For instance, digital tools and platforms enable SMEs to manage supply chains more effectively, ensuring that their products reach international markets on time and in accordance with local

standards. Additionally, technology is highlighted as a means of gaining access to new distribution channels, helping SMEs overcome geographical limitations.

Civelek et al. (2024) go a step further by investigating the specific marketing tools that leverage technology for enhancing international competitiveness. They argue that digital marketing strategies, such as search engine optimization (SEO) and social media marketing, are pivotal in helping SMEs increase their visibility in global markets. By using these tools, SMEs can reach broader audiences at a fraction of the cost associated with traditional marketing methods. This democratization of marketing through technology levels the playing field, allowing SMEs to compete with larger, more resourceful firms on a global scale. The data-driven nature of technology allows SMEs to continuously refine their strategies based on real-time feedback, further enhancing their ability to succeed in foreign markets. This is particularly important in highly competitive industries where consumer preferences and market conditions can shift rapidly. Both papers converge on the idea that the use of technology not only improves operational efficiency but also amplifies SMEs' ability to remain agile and responsive in dynamic international environments.

Synthesis of Findings

Both papers underscore the pivotal role of market knowledge in facilitating SME internationalization. Calheiros-Lobo et al. (2024) focus on the strategic importance of deep market understanding, highlighting how SMEs that actively gather information on foreign consumer preferences, competitive environments, and regulatory frameworks are better positioned to reduce risks and align their offerings with local market demands. Similarly, Civelek et al. (2024) demonstrate that this knowledge must be supplemented by strong local networks to succeed. These networks not only provide market insights but also offer operational and logistical support, helping SMEs navigate challenges such as regulatory hurdles and distribution complexities.

A key insight from synthesizing these findings is that market knowledge, local networks, and technology are not isolated factors but rather interdependent elements of a successful internationalization strategy. SMEs that invest in understanding foreign markets and building strong local networks can leverage technology to enhance both operational efficiency and market penetration. For example, technology allows SMEs to gather and analyze real-time market data, enabling them to make informed decisions and tailor their products or services to local preferences. Furthermore, local networks can help SMEs implement technology-driven solutions more effectively by providing access to local expertise and resources.

5. CONCLUSION AND RECOMMENDATION

The internationalization of small and medium-sized enterprises (SMEs) remains a complex yet crucial growth strategy for firms looking to expand beyond their domestic markets. This literature review has identified three major challenges faced by SMEs during internationalization: resource constraints, regulatory and compliance barriers, and risk management. These challenges, while significant, can be mitigated through strategic approaches such as forming alliances, embracing digitization, and building diverse leadership teams with international expertise. Resource constraints hinder many SMEs from accessing the capital, technology, and human resources required for global expansion. However, leveraging R&D collaborations and engaging in digital transformation enables SMEs to innovate, reduce operational costs, and access new markets with minimal infrastructure investments. Similarly, regulatory and compliance barriers are a major obstacle for SMEs that lack the experience or resources to navigate complex international legal frameworks. The findings suggest that building strong local networks and diverse board compositions can enhance SMEs' ability to manage compliance efficiently.

Furthermore, risk management in international markets is critical for SMEs due to heightened exposure to political, economic, and market volatility. Strategic alliances, the use of digital tools, and leadership teams with international experience can significantly improve risk management capabilities, allowing SMEs to act proactively in adapting to evolving market conditions. SMEs must adopt a diversified, multi-dimensional approach to internationalization that includes forming strategic partnerships, embracing digital tools, and leveraging local market knowledge to navigate the challenges of expanding into foreign markets.

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