Why Do Nigerian SMEs Go Abroad? A Convergent Parallel Study

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Abstract
This paper empirically and holistically investigates the motivations behind the internationalization of Nigerian SMEs. SMEs play an important role in a country’s economy, and their internationalization not only contributes to the country’s growth but also the firm’s competitiveness and profitability. Adopting a mixed methods approach, the study analyzed 181 questionnaires distributed to Nigerian SMEs and conducted semi-structured interviews with 10 SMEs. Findings revealed that SMEs are motivated by a combination of factors to go international. The study reveals that profit and growth, foreign market opportunities, and unsolicited foreign orders are some of the motives for internationalization among Nigerian SMEs. In conclusion, internationalization can help SMEs remain competitive, increase their chances of survival, and achieve growth in the long-term.

Keywords: internationalization motives, SMEs, exporting, competitiveness

1. Introduction
The importance of Small Medium Enterprises (SMEs) and the increasing role they play in an economy have been recognized by many national governments. This is due to the fact that SMEs contribute to job creation and poverty alleviation (Eziashi, 2017). As a result, they are a trending topic, and have become of interest to policy decision makers. Although SMEs are known to mainly operate domestically, the rise of globalization through the liberalization of trade, improved telecommunication and transportation has created more business opportunities. Due to globalization, access to foreign markets have become easier which has increased competition, and one way firms can remain competitive is by undergoing the internationalization process. Internationalization is defined as the process by which a firm enters a foreign market (Rugman et al, 2006).

Multinational companies (MNCs) are considered the main beneficiaries of globalization, or as Hollensen (2010) describes them “the big winners of internationalization”. Now SMEs have the opportunity to access new markets internationally and expand beyond their geographical boundaries, thereby increasing their chances of success. According to Kubičková et al (2014), this process is not only important for large firms, but also for SMEs if they are to survive and achieve longterm profitability and success.

The motivations behind a firm’s internationalization has attracted the interest of scholars ever since the emergence of internationalization research (Kraus et al, 2017). According to Benito (2015), a firm's internationalization and its internationalization motives cannot be separated. There is always a reason why firms will decide internationalize, as internationalization is goal-oriented and purposeful. While “making money” might be a fundamental reason for going international, one reason alone rarely influences the overall decision, as a mixture of motives can be responsible (Yener et al, 2014; Hollensen 2017). Therefore there is a reason to study this phenomenon. The purpose of this study is identify and explore the motivation factors influencing Nigerian SMEs to go international. Based on the purpose of the study, we have formulated the following research question:
RQ: What are the motivations behind the internationalization of Nigerian SMEs?

1.1 The Definition of SMEs
In order to make progress with our study we looked at the definition of SMEs in different context and within Nigeria. The methods and how SMEs are defined has increasly become more complex, as every country and their government has set out measures that define businesses operationally classified and portrayed as SMEs.
The definition of SMEs varies as per asset values and number of employees in different countries and regions of the world (Eziashi, 2017). In the United Kingdom for instance, the department for Business, Enterprise and Regulatory Reform (BERR) defined a micro firm as having less than 10 employees; Small firm as having not more than 50 employees; then Medium firm as having more than 50 employees but less than 250 employees, and large firm as having over 250 employees.

In this paper we will adopt the definition of SMEs within the context of Nigeria. In Nigeria, SMEs are defined in terms of a number of employees and net assets value, excluding the cost of land and building. In the table 1 below the compositions of Nigerian SMEs shows that Small enterprise employs less than 50 people, with an asset value less than 32000 USD. Medium enterprise employs between 50-199 people with an asset value less than 3.2 million USD (SMEDAN, 2014; Apulu et al., 2011) and Eziashi, 2017). In this paper, we adopted the SME definition given by SMEDAN since it is the apex body of registered SMEs in Nigeria as presented in table 1.

Table 1. Definition of SMEs in Nigeria

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Less than 10</td>
<td>Less than 5 million</td>
<td>Less than 32000</td>
</tr>
<tr>
<td>Small</td>
<td>10-49</td>
<td>5 Less than 50 million</td>
<td>32000 less than 320000</td>
</tr>
<tr>
<td>Medium</td>
<td>50-199</td>
<td>50 Less than 500 million</td>
<td>320000 less than 3.2 million</td>
</tr>
</tbody>
</table>


SMEs in Nigeria play a significant role in the economy, especially as a source of employment. However, they have not performed well in comparison to other country SMEs and their contribution to development and growth (Alarape, 2014). Aremu and Adeyemi (2011) states that most SMEs die within their five years of existence, and only between five and ten percent of SMEs survive, thrive, and grow into maturity. Internationalization is seen as a way to improve their competitiveness and chances of survival. Hence, it is important to study their motives for going international and design policies to facilitate their internationalization.

To empirically answer the research question and address the study purpose, we adopted a holistic approach by using a mixed methodology. The quantitative section will involve the distribution of questionnaires to SMEs registered with SMEDAN to identify the motives for their internationalization. The data obtained will be analyzed using descriptive statistics and other multiple response analysis tools such as the Cochran Q test. The qualitative section will involve the conduct of a semi-structured interviews, where participants representing the selected SMES will be given the opportunity to share their experiences on internationalization and their underlying motives. Their responses and answers will be analysed inductively through a thematic coding of the data acquired. Findings from both parts will be integrated to either confirm or expand on the discussion of this topic, and contribute to existing literature.

The structure of the paper is as follows: Theoretical background, literature review on internationalization motives, methodology, results and findings, discussion and conclusion.

2. Theoretical Background and Literature Review

2.1 Uppsala Internationalization Model (U-model)

One model that is recommended for the explanation and understanding of a firm’s internationalization process is the Uppsala model for internationalization. The framework for this model was first developed by Johansson and Wiedersheim-Paul (1975) during their study of four Swedish firms in their internationalization. They observed a series of incremental steps in which the firms moved along and referred to it as an “establishment chain” or “step by step”. Johansson and Vahlne (1977) established the model after the framework was refined.
Figure 1. Uppsala Internationalization model

The U-model describes the gradual process of firms as they intensify their activities in a foreign market. It argues there are four aspects that firms should face as they go abroad. These are: market knowledge and commitment, and commitment decisions and current activities which is shown in the Figure 1.

2.2 Motives for Internationalization

The question of why do firms engage in internationalization or what drives them to internationalization has been raised by many authors. Several factors could be responsible for this decision and as Senik et al. (2010) suggests, such factors behind the firm’s decision to go international and get involved in the internationalization process can be studied through their motives. There is an assumption that the motives behind internationalization of large companies differ from the motives behind internationalization of SMEs (Kubíčková et al, 2014). Hollensen (2008) has discussed internationalization motives specifically towards SMEs and classified them as either proactive or reactive, which is shown in Table 1.

Table 2. SME Internationalization motives

<table>
<thead>
<tr>
<th>Proactive motives</th>
<th>Reactive motives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and growth</td>
<td>Competitive pressures</td>
</tr>
<tr>
<td>Managerial urge</td>
<td>Small and saturated domestic market</td>
</tr>
<tr>
<td>Foreign market opportunities or market information</td>
<td>Unsolicited foreign orders</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>Overproduction or excess capacity</td>
</tr>
<tr>
<td>Technology competence or unique product</td>
<td>Extended sales of seasonal products</td>
</tr>
<tr>
<td>Tax benefits</td>
<td></td>
</tr>
</tbody>
</table>

Proactive motives are those motives that are hinged on the internal decisions taken by the firm (Hollensen, 2008). They represent stimuli to attempt a change in strategy which is based on the interest of the firm in exploiting their unique ideas and competences which they see as strengths and also the opportunities which the foreign market has to offer. Profit and growth objectives is considered the most important motive as that is the ultimate goal if the firm is to survive or continue its activities. The ability to create unique products with technological competence is another motive that can influence a firm to go international. Albaum et al (2005) suggests that this makes it easier for firms to go international as there is little or no competition. Firms can also be motivated by opportunities in the foreign market. Lastly, a firm can be motivated to go international for the purpose of economies of scale. A firm will achieve economies of scale when its production cost reduces due to an increase in production to satisfy market demand.

Reactive motives on the other hand are motives based on the firm’s reaction to threats and pressures emerging from both the domestic and foreign markets and in the process responds by changing its activities overtime through passive adjustments. According to Hollensen (2008), and Stewart and McAuley (1999) reactive motives reflects a passive behaviour of the firm, and that pressure from the firm’s internal environment can also trigger internationalization. Pressure from competition can cause firms to react out of fear of losing their share of the domestic market and make them internationalize. They can also internationalize when the domestic market is small and saturated as they may not achieve economies of scale (Lesáková, 2005; Hollensen, 2008). A firm can also be motivated to internationalize due to excess capacity or overproduction especially with a domestic small
Another important motive is the unsolicited foreign orders that has made firms aware of the opportunities abroad. These pressures are described by Pett et al (2004) as disadvantageous conditions in the domestic market.

3. Research Methodology

This study adopts a convergent parallel mixed methods design that incorporates both quantitative and qualitative approaches as illustrated in Figure 2. Understanding the motives behind the internationalization of SMEs will require a pragmatic approach that will assist us in achieving our research objectives with the most appropriate tools without limitations from philosophical constraints. While the quantitative analysis might provide data from SMEs that is observable and measurable, it does not capture the subjective opinions, experiences, or perceptions of the SMEs in relation to their internationalization activities. Thus, the justification for a convergent parallel mixed method design.

![Figure 2. Convergent parallel design](image)

The quantitative part of the study will identify the main motivations behind the internationalization of Nigerian SMEs, while the qualitative part of the study provides a contextual understanding of their motivations. Data were collected and analysed independently, and then integrated during the interpretation of the findings. The quantitative and qualitative strands within the design are both important to the study, and are apportioned equal priority status (QUAN + QUAL).

3.1 Quantitative Section

3.1.1 Population Sample

A purposive sample of 200 firms with an experience in international business activity were selected. The sample we selected met the criteria that reflects the purpose of the study (Merriam, 1998). The sample was composed of firms listed in a directory from the Manufacturers Association of Nigeria (MAN), Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) and the export promotion group.

3.1.2 Data Collection and Analysis

A survey questionnaire was distributed to participants to find out their motivations. The survey includes multiple-selection questions that will provide respondents the opportunity to select more than one answer. This gives respondents more flexibility and freedom. It is also in line with the complex nature behind internationalization as it has been argued that SMEs might have more than one motive to go international (Hollensen, 2017). With the aid of statistical software package SPSS, data will be analysed using descriptive statistics and Cochran Q test which are appropriate multiple response analysis tools for this survey.

3.2 Qualitative Section

3.2.1 Population Sample

A purposive sample of 10 SMEs with experience in export activities were selected to participate in the study. Based on our judgement, we believe the selected sample are a representative of the population (Williams et al, 2006) and appropriate for a case study analysis (Stake, 2005).

3.2.2 Data Collection and Analysis

Data were collected through the conduct of semi-structured interviews with selected participants. This will be analysed inductively using thematic coding.
4. Results and Findings

4.1 Quantitative Results

4.1.1 Frequency Distribution

Out of 200 questionnaires distributed to potential respondents, 181 respondents returned the questionnaire and will be used for the analysis.

N: Represents the number of cases (respondents) who selected a specific motive as a response option. Based on the total number of cases in this survey, the result of a response option cannot exceed 181.

Percent: Represents the proportion of selected responses to overall selections and will always sum to 100%.

Percent of Cases: Represents the proportion of the cases (respondents) that selected a specific motive and can be greater than 100%.

Table 3. Frequency

<table>
<thead>
<tr>
<th>Motives for SME Internationalization*</th>
<th>Responses</th>
<th>Percent</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Growth</td>
<td>167</td>
<td>29.3%</td>
<td>92.3%</td>
</tr>
<tr>
<td>Managerial Urge</td>
<td>53</td>
<td>9.3%</td>
<td>29.3%</td>
</tr>
<tr>
<td>Technological Competence</td>
<td>8</td>
<td>1.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Foreign Market Opportunities</td>
<td>132</td>
<td>23.2%</td>
<td>72.9%</td>
</tr>
<tr>
<td>Economies of Scale</td>
<td>28</td>
<td>4.9%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Competitive Pressures</td>
<td>11</td>
<td>1.9%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Unsolicited Foreign Orders</td>
<td>159</td>
<td>27.9%</td>
<td>87.8%</td>
</tr>
<tr>
<td>Unique Product</td>
<td>12</td>
<td>2.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Total</td>
<td>570</td>
<td>100.0%</td>
<td>314.9%</td>
</tr>
</tbody>
</table>

a. Dichotomy group tabulated at value 1.

Table 2 shows the results of the motives influencing Nigerian SMEs to internationalize. With respondents allowed to select as many motives influencing their internationalization, findings show 92.3% of the respondents surveyed identified Profit and Growth as important for their decision. 87.8% of the respondents also selected Unsolicited Foreign Orders as a motive for internationalization. The next most important motive among SMEs to internationalize are the Foreign Market Opportunities which 72.9% of the respondents surveyed agreed was an influential factor.

Based on the above findings revealing what proportions that a motive influences SMEs to internationalize, results show Profit and Growth as the main motive behind the internationalization of SMEs accounting for 29.3%. Unsolicited Foreign Orders and Foreign Market Opportunities are the next most important motives for the internationalization of SMEs with a share of 27% and 23.2%. Other motives indicated by SMEs for their internationalization include managerial urge, technological competence, economies of scale, competitive pressures and unique products, accounting for 9.3%, 1.4%, 4.9%, 1.9% and 2.1% respectively.

Based on the results, it clearly shows that Profit and Growth, Unsolicited Foreign Orders, and Foreign Market Opportunities are the highest number of selected motives. Therefore, these 3 motives are extracted and analyzed using Cochran’s Q test.

4.1.2 Cochran’s Q Test

H₀: The distribution of responses on the motivations are equal.

Hₐ: The distribution of responses on the motivations are not equal.

\[ T = \sum i=1 bX_i (k-X_i) k(k-1) \sum j = 1 k (X_j-kN) 2 \] (1)

Table 4. Descriptive statistics

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Growth</td>
<td>181</td>
<td>.92</td>
<td>.268</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Foreign Market Opportun</td>
<td>181</td>
<td>.73</td>
<td>.446</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Unsolicited Foreign Ora</td>
<td>181</td>
<td>.88</td>
<td>.328</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 5. Cochran’s Q test

<table>
<thead>
<tr>
<th>Test Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>181</td>
</tr>
<tr>
<td>Cochran’s Q</td>
<td>26.208*</td>
</tr>
<tr>
<td>df</td>
<td>2</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

*1 is treated as a success.

Table 3 shows that the three characteristics range from 0.73 to 0.92. Cochran’s Q test results in Table 4 show that there is significant difference between the responses on the three motives: Profit and Growth, Foreign Market Opportunities and Unsolicited Foreign Orders. With the Cochran’s Q statistically significant ($\chi^2(2) = 26.208, p value = .000$), we reject the null hypothesis that the responses on the motivations are equal. This implies a post-hoc test needs to be conducted and the pairwise McNemar’s test with Bonferroni Correction is implemented. The Bonferroni correction is applied to help control for type 1 error. The Bonferroni correction is computed to be 0.05/3 = 0.0167

4.1.3 McNemar Test

The Pairwise McNemar test is performed to examine the proportion on the combination of three different pairs: Foreign Market Opportunities and Unsolicited Foreign Orders, Foreign Market Opportunities and Profit and Growth, Unsolicited Foreign Orders and Profit and Growth.

Table 6. McNemar test results

<table>
<thead>
<tr>
<th>Test Statistics*</th>
<th>Profit and Growth &amp; Foreign Market Opportunities</th>
<th>Foreign Market Opportunities &amp; Unsolicited Foreign Orders</th>
<th>&amp; Unsolicited Foreign Orders &amp; Profit and Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>181</td>
<td>181</td>
<td>181</td>
</tr>
<tr>
<td>Chi-Square</td>
<td>20.281</td>
<td>11.082</td>
<td>1.361</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>.000</td>
<td>.001</td>
<td>.243</td>
</tr>
</tbody>
</table>

*McNemar Test

b. Continuity Corrected

Results from the test shown in Table 5 reveals that the p value for the pairwise comparison of Foreign Market Opportunities and Unsolicited Foreign Orders (.001), and Foreign Market Opportunities and Profit and Growth (.000), are below the significant level of 0.05. As a result, we reject the null hypothesis. The p value for Unsolicited Foreign Orders and Profit and Growth pairwise comparison is 0.243, and so we fail to reject the null hypothesis.

4.2 Qualitative Findings

Findings reveal several motives responsible among SMEs for their internationalization. Based on observation, the main motives are profit and growth, foreign orders, the attractive market opportunities and the international business ambition of the SME management. Other motives found include the possession of unique products.

Profit and Growth

On the expectations of higher profits, internationalization became an attractive prospect. For instance, one SME in their response on why they chose to go abroad says that “We also discovered we could sell at a higher price which will increase our profit margin”. Another respondent says “Our reason for exporting is mainly for financial reasons. We receive at least twice the price for our products which has doubled our sales revenue or maybe more. We now produce for exports”.

Unsolicited foreign order

SMEs also received unsolicited foreign orders which triggered their export activities. A respondent says that “We initially did not think about until we were contacted by an agent here in Nigeria who told us he has buyers abroad who were interested in our products”. Another respondent who received an unsolicited order says “I was contacted by a buyer from Europe who wanted to know if we can supply our products to him. At first, I did not know how to begin as it was my first time and I did not have the amount of quantity he wanted. Once I realized he was serious I had to find money to produce more of my products and tried to find out how export”.

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Foreign market opportunities

Opportunities in the foreign market play an important role in motivating Nigerian SMEs to internationalize. SMEs claim that the demand abroad for their products as well as the price they can sell is a motivating factor. A respondent simply said that “We decided to go abroad after we discovered the huge market opportunities for our products”. Another respondent in their explanation for entering new markets says “When I started producing and selling my products, I did not think of selling abroad, it was just for the local market. But after I saw the opportunities abroad where I can sell at 3 times what I sell in Nigeria, I gave it a go. The demand in the market was also attractive”.

Managerial urge

The SMEs vision to become an international business is also a motivation for some SMEs (SME3, SME4, SME10). A respondent in their answer to why they internationalized explains that going abroad has always been a goal for their SME. The respondent says in their own words that “It has always been my desire to do international business and export goods. I have an MSc in International business, and the knowledge I acquired motivated me to start”. In another response, an SME which also mentioned managerial urge explained the reason for their international orientation by saying “It was always our intention to export once we started our business. I lived abroad and found there was a huge market opportunity for my products. Since I knew the market, as well as the buyers, I decided to start”.

Unique products

It was disclosed by SME 7 that after they became aware of the demand for their product, the decided to internationalize. In their words they said “We decided to go abroad after we discovered the huge market opportunities for our products. We have a unique product that was not available and after we found out through a contact in the country, we made the decision to start”.

5. Discussion

SME motives for internationalization

Both the quantitative and qualitative studies agree on several central points. Profit and growth are important to SMEs and therefore represents a strong motive for Nigerian SMEs to go abroad which other studies confirms (Kubičková et al, 2014; Pett et al, 2004). There are also multiple reasons for Nigerian SMEs that decide to go abroad. Their decision to internationalize is influenced by multiple motives which was evident in the selection of more than one motive in the survey, and also from the narratives shared by the SMEs interviewed. This agrees with the literature that there is rarely one motive that influences internationalization, but a combination of motives (Yener et al, 2014; Hollensen, 2017). Motives influencing SMEs are also not limited to a single category (proactive or reactive). The findings from both studies reveal that a combination of both proactive and reactive motives is important to the internationalization of SMEs which has been confirmed by other studies (Hollensen, 2017). In addition, some motives cannot be separated from each other as they influence the SMEs internationalization decision. For instance, an SME can decide to go international due to the foreign market opportunities for their unique products. Another SMEs can believe that the foreign market demand for their product will lead to higher profit and growth.

The analysis also shows that intermediaries play an important role in facilitating the internationalization activities of Nigerian SMEs. Spulber (1996) describes these intermediaries as economic agents that either buy from suppliers for the purpose of reselling to buyers or help in linking buyers and suppliers. Many Nigerian SMEs involve the use exports agents or middlemen in their exporting activities.

6. Conclusion

This study represents one of the few studies if any, that analyzes the internationalization motivations of Nigerian SMEs through a mixed methodology approach. Therefore, it makes contribution to both academic knowledge and professional practice. The study shows that Nigerian SMEs are motivated to internationalize despite their domestic outlook. With the appropriate policies, SMEs can contribute to the economic diversification of Nigeria from an export perspective. Nigeria heavily relies on oil exports for its foreign exchange revenues with oil accounting for more than 76% of total exports. This poses serious challenges as the country’s economy is exposed to oil price volatility and other external shocks. However, increased internationalization activities can contribute to diversifying the country’s source of foreign exchange, as well as expanding its export base. The study recommends that the Nigerian government supports SMEs in the area of market information and market access.
References


