



CHALLENGES OF GOING GLOBAL FOR SMES

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ABSTRACT

Purpose: This paper aims to contribute to the business literature by identifying challenges that hinder Small and Medium Enterprises (SMEs) to go global.

Design/methodology/approach: This study presents a model that shows the effect of different factors on globalisation of SMEs.

Findings: The paper demonstrates several challenges facing SMEs to go global such as lack of technology and information, cultural and social differences, regulations and legal environment and marketing products internationally.

Research limitations/Implications: There are areas which need more investigation such as expansion in study factors, using larger sample and conducting in-depth research interviews.

Practical Implications: The paper can help SMEs' owners and managers to go global, design new programs, and enhance human competencies taking into account the importance of dealing with diverse cultures for business success.

Originality/value: Although several papers have discussed SMEs' globalisation around the world, there has been little research focusing on factors and challenges that affect SMEs, particularly in the Middle East. Our study discusses important issues and suggests more research in this area.

Keywords: globalisation; Small and Medium Enterprises; SMEs; challenges.

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INTRODUCTION

In the past few years, globalisation of Small and Medium Enterprises (SMEs) has received a lot of attention internationally. The economies of developing countries are heavily dependent on these firms which make them one of the reasons for international focus. SMEs make large contributions to the Gross Domestic Product (GDP) and total employment in high-income countries. In the exporting industries of South Asian countries, SMEs play an important role by accounting for over 50% of total exports. SMEs have also been making contributions in reducing poverty in many developing countries (UNCTAD, 2007).

Business firms are shifting away from the traditional buyer–seller transactions, to make sure they establish long-term close business relationships and to ensure mutual survival in the dynamic global economic environment (Williams et al., 1998). In the coming years, international business relationships will be considered a strategic resource just like other resources such as technology and products (Zain and Ng, 2006). In this study, international business relationships refer to close person-to-person friendships which help them maintain international businesses over a long period of time and enable them to operate their businesses smoothly.

Person-to-person business relationships include long-term business relationships, international buyer–seller partnerships, and joint-venture partnerships between Bahrain and their business partners abroad. In the long run, a close business relationship progresses from complete formal interactions to relaxed, informal interactions. The advantage of informal relationships is that it allows partners to interact in a relaxed manner

and discuss issues and ideas openly (Peiwen, 2004). As there has been little research focusing on factors and challenges that affect SMEs, this study aims to identify the challenges that hinder SMEs to go global. Our study, therefore, discusses important issues and suggests more research in this area.

The reminder of this article is organised into five sections. Firstly, we further review related literatures on SMEs and challenges that affect their globalisation. Secondly, we present the conceptual model and research hypotheses. Thirdly, we go through the method used in the study by describing adopted steps to construct the research methodology. Fourthly, we present and discuss the main study findings. Finally we set the conclusion with relevant theoretical and practical implications, followed by study limitations and suggestions for future research.

LITERATURE REVIEW

The definition of SMEs differs from one country to another due to the culture of that country, economic circumstances, availability of labour in the market and other factors. As with Bahrain, the Ministry of Industry and Commerce has issued a definition for the SMEs based on business personnel numbers and the firms' total annual revenue or the capital invested in the manufacturing sector. When it comes to globalisation, it is a widely used term which includes export/import, branches, alliances, joint ventures, collaboration, subsidiaries and trade that go beyond the home country environment (Singh et al., 2010).

Challenges are known as those factors that prevent the growth of firms that wish to grow (Storey, 1994). In this study, we focus and extend on the study conducted by Al-Rabeei and Scott (2011) and on other studies on SMEs in other countries to expand our understanding. Many developing countries face similar challenges such as a limited access to financial capital, weak economic infrastructure, fierce competition, inability to hire reliable employees, poor laws governing the private sector, an unstable or bureaucratic business environment, contract and private property laws poorly designed and enforced (Benzing et al., 2009). The challenges facing SMEs in Africa are also many such as lack of business and financial support, weak economy, lack of policy coherence and lack of education and training support for entrepreneurs (Biggs and Shah, 2006).

Broadly speaking, some of the challenges faced by firms in Netherlands are financial risks, acquiring insufficient sales volume, cost of capital, short of economies of scale, cost disadvantages and product differentiation problems (Dijksta et al., 2006). In Sweden, the most important challenges faced by their firms are insufficient security for loans, lack of risk capital, insufficient management expertise in the fields of technical development, lack of financial planning or marketing (Herzog and Heldge, 1998). Most of the European countries face challenges such as limited skilled labour, lack of financing, lack of market demand and high cost of human resources (IMF, 2007).

SMEs face internal and external barriers. Internal barriers include limited information to locate and analyse markets, limited human resource management, insufficiency of finance and difficulties in setting pricing strategies for the company. External barriers include difficulties in transactions with foreign customers, firms' customers and competitors in global markets, government rules and regulations which restrict exporting and globalising (Kazimoto, 2014). Many small firms in developing countries do not globalise due to vacant domestic markets, reputation for small quantity and quality goods, low technological requirement, and difficulties in joining international supply-chain networks (Rankin et al., 2006). Small firms' growth and success also depend on inter-firm linkages

between small and large firms or domestic and international enterprises in value chains (McCormick, 1999).

To be able to perform well in global markets, SMEs should have important capabilities in many areas of value chain such as design, production, distribution, branding and marketing (Abonyi, 2003). Lawrence (2005) finds that the most significant challenges facing SMEs is the negative perception that their clients have on their ability to provide adequate and quality services for their needs. Yumkella and Vinanchiarachi (2003) find that improper planning and poor management have been posited as main causes of failure for SMEs.

A study conducted by Al-Rabeei and Scott (2011) investigated the challenges facing Small and Medium-sized Enterprises (SMEs) in Bahrain when they go global. The study found that one of the main challenges was access to finance. When SME owners initiate their businesses, they find many schemes to support them whereas there are no appropriate financial solutions for SMEs' owners at their growth stage. Businesses are affected by lack of finance at the growth stage and this complies with International Trade Organization (ITO, 1997) which states that financial constraint is the biggest disadvantage of SMEs compared to larger competitors. Therefore, to serve SMEs and to satisfy their requirements, there is a need for financial solutions and venture capital finance.

Another main challenge mentioned in their study was marketing. Some important issues to tackle for SMEs growth in Bahrain were lack of market research for goods that can be marketed globally, poor product quality, fierce competition and improper marketing strategy. Although the government supports SMEs, there is a need for extended support in order for SMEs to grow. This can be possible by improving communication between businessmen and the government so that the government understands their business needs. Along with government support, there should be a dynamic plan followed by continuous evaluation and assessment to make sure that government policies are encouraged.

Another challenge discussed by Al-Rabeei and Scott (2011), was lack of information because many business owners have no idea about what is going on in the global market. To make decisions,

many business owners depend on their own personal research and judgment. The information required by these business owners needs to be centralised. Some of the other challenges are lack of support from bigger organisations, employee retention, inability to update technology, lack of strategic planning, logistics problems, not having a clear vision, lack of creativity and innovation, and low persistence of owners.

Few businesses have managed to market their products globally while most of them concentrated mainly on the local market. Students at the university stage, as well as young business owners have lack of awareness on globalisation when starting their businesses. Globalisation can be considered as a way to overcome the problem of small size markets. To help SMEs sell their products to the global market, Bahrain has made many trade agreements with different countries, but unfortunately most of the business owners were unaware of the details of these agreements. To help business owners globalise, there is a need to provide them with support services such as marketing activities, research and technical support. Business owners are advised to look for more business opportunities for better understanding of the global market. Also, improvements in product design and quality to match international standards make business owners more competent (Al-Rabeei and Scott, 2011).

CONCEPTUAL MODEL AND RESEARCH HYPOTHESES

Our study focuses mainly on four independent factors affecting the globalisation of SMEs which are technology, culture, regulations and marketing. There are several studies that have been conducted on SMEs globalisation (Acs and Preston, 1997; Biggs and Shah, 2006; McCormick, 1999; Rankin et al., 2006; Singh et al., 2010) but in our study, we develop a model as shown in Figure 1 that aims to describe challenges and factors affecting SMEs globalisation with enhancements taking into account a specific environment. We, therefore, formulate four research hypotheses which are explained in the following sections.

Figure 1. Conceptual Model



EMERGING INNOVATION SYSTEMS (EISS): A CONCEPTUAL FRAMEWORK

TECHNOLOGY

This consists of challenges such as lack of information and knowledge, outdated technology, poor strategic planning, logistics problems, lack of vision, and lack of creativity and innovation (Al-Rabeei and Scott, 2011). It also could include lack of risk capital, insufficient security for loans, insufficient management expertise in the fields of technical development, marketing and financial planning (Herzog and Heldge, 1998). Insufficient awareness may lead to lack of relevant knowledge, lack of effective communication and no involvement of SMEs in growth of income, entrepreneurial training and creation of technological capabilities (Katrak and Strange, 2002).

H1: Lack of technology is a challenge that affects SMEs' globalisation.

CULTURE

Issues included this variable are cultural, legal and economic differences between countries, differences in consumer's tastes, complexity of foreign-market development and complexity of international expansion (Hutchinson et al., 2006). Firms gradually and deliberately expand into markets that resemble their home market (Aulakh et al., 2000). Karatas and Helvacioghu (2008) show that there are strategies that entrepreneurs can apply to penetrate the international market such as exportation, joint venture and direct investment for international production.

H2: Lack of cultural differences is a challenge that affects SMEs' globalisation.

REGULATIONS

This consists of issues such as lack of government support, lack of communication between businessmen and government, lack of finance, lack of knowledge with regards to trade agreements, limited access to financial capital, weak economic infrastructure, fierce competition, inability to hire reliable employees, poor laws governing the private sector, an unstable or bureaucratic business environment, contract and private property laws poorly designed and enforced (Al-Rabeei and Scott, 2011; Benzing et al., 2009). Fariza (2012) suggested that governments must always upgrade the business environment so that SMEs can grow and develop. This can be made possible by seeking global business opportunities, strengthening legal, administrative and financial establishments, and formulating proper rules and regulations.

H3: Lack of regulations is a challenge that affects SMEs' globalisation.

MARKETING

Many factors could be included in this variable such as lack of market research for goods that can be marketed globally, bad product quality, tough competition, lack of marketing plan, lack of knowledge of globalisation among students and business owners, insufficient sales volume and capital, financial risks, disadvantages in costs, lack of product differentiation (Al-Rabeei and Scott, 2011; Dijkstra et al., 2006). Marketing here can be seen as an export problem which involves lack of knowledge about business practices of foreign markets and strategies of competitors, and lack of strategies for sales management (Siringoringo et al., 2009).

H4: Lack of marketing is a challenge that affects SMEs' globalisation.

METHOD

The study focuses on identifying challenges that hinder SMEs to go global. We chose Bahrain to conduct our research because few studies were found there that focus on challenges and factors influencing SMEs' globalisation. The research instrument was a structured questionnaire consisting of two parts, the first part is general information about the respondents, and the other part contains various statements on SMEs' challenges to see whether the respondents agree or disagree with the statements. Each statement is measured on a five-point Likert scale (ranging from 1 = 'strongly disagree' to 5 = 'strongly agree'). The questionnaire is categorised into five variables which are technology, culture, regulations, marketing and SMEs' globalisation. Each of these variables consisted of five questions. Some questions were taken from previous studies and the rest are self-designed to cover all the variables mentioned in the project.

The questionnaire was given to three academics specialised in management to check the validity of the content and their feedback was taken into consideration. The questionnaire was then pilot-tested to ensure its credibility. From the population of 5568 SMEs, we randomly selected 200 SMEs as a targeted sample. Among 200 questionnaires that were distributed by mail and after follow up calls and visits, 164 responses were received over a period of two months making a response rate of 70%, we then removed 24 invalid questionnaires, keeping 140 for analysis. In this research, Cronbach's alpha is utilised to examine the internal consistency of the instrument. The results in the following Table 1 showed that all factors have reliable statements as the Cronbach's Alpha is more than 0.7 (Sekaran, 2005).

Table 1. Reliability Test Results

| Variable | Number of Items | Alpha Cronbach | Reliability Level |
|--------------------|-----------------|----------------|-------------------|
| Technology | 5 | 0.764 | Reliable |
| Culture | 5 | 0.798 | Reliable |
| Marketing | 5 | 0.768 | Reliable |
| Regulations | 5 | 0.712 | Reliable |
| SMEs Globalization | 5 | 0.784 | Reliable |
| Overall | 25 | 0.922 | Reliable |

RESEARCH FINDINGS AND DISCUSSION

The aim of our study is to contribute to the business literature by identifying challenges that hinder SMEs to go global. The role stated that the hypothesis is accepted in the case of p -value lower than 5% ($p < 0.05$). However, it is noticed that if $p = 0.05$, the hypothesis is accepted too. In the case that p -value is higher than 5% ($p > 0.05$), the hypothesis is rejected as the significance is not achieved (Brush, 1992). Based on the ANOVA test presented in Appendix A, all factors (technology, culture, regulations and marketing) are found to be significant for the four factors and are less than 0.05. Therefore, all study hypotheses are accepted.

To examine the relationship among variables, a correlation analysis was used. In most situations, we try to find the causal influence of one construct on the other. To investigate such a case, we combine data on the determined constructs and apply regression to measure the quantitative influence of the causal constructs on a possible influential construct (Anderson et al., 2007). The table in Appendix B shows the Pearson Correlation Coefficients between the four independent variables of the study (technology, culture, regulations and marketing) and the dependent variable (globalisation). Correlation Coefficients show that the globalisation variable is significant at a 0.05 level with two independent variables that are regulations ($R = 0.424$) and marketing ($R = 0.408$).

Our study proposes four independent variables which might affect the globalisation of SMEs namely technology, culture, regulations and

marketing. In the first variable—respondents stated that technology is a challenge for SMEs in Bahrain and some of the difficulties they face are less developed technology and transportation, scarcity of information and knowledge, and lack of international experience. The results comply with some of previous studies (Al-Rabeei and Scott, 2011; Herzog and Heldge, 1998; Katrak and Strange, 2002). In the second variable, respondents stated that culture is a challenge for SMEs and some of the difficulties they face include the way to take advantage of globalisation due to opening of markets with different cultures, the way to tailor goods and services, the ideal approach to train SMEs managers and owners to adopt different environments and the best way to sell products and services to other countries. The results comply with some previous studies such as Hutchinson et al. (2006), Aulakh et al. (2000) and Karatas and Helvacioghu (2008).

As with regulations, the respondents stated that this variable is a challenge for SMEs and some of the difficulties they face are that trade agreements made by the government are not in favour of SMEs, business owners are not aware of most of the trade agreements and most of the trade agreements are in favour of large corporations. The results comply with some previous studies such as Fariza (2012), Al-Rabeei and Scott (2011) and Benzing et al. (2009). For the fourth variable, respondents stated that marketing is also a challenge for SMEs and some of the difficulties they face are that they cannot easily market their products and services due to fierce competition; large profit is a major factor to consider when deciding to do business abroad and SMEs in Bahrain lack marketing strategy to reach the global market. The results conform with some previous studies such as Siringoringo et al. (2009), Al-Rabeei and Scott (2011) and Dijkstra et al. (2006).

CONCLUSION, IMPLICATIONS AND FUTURE RESEARCH

Findings suggest that globalisation of SMEs faces technological, cultural, regulatory and marketing challenges. Therefore, SMEs should try to overcome these challenges to reach the global market. This can be made possible by globalising through export, trade, alliances, subsidiaries,

collaboration, branches and joint ventures that extend beyond the home country environment. Furthermore, SMEs must acquire and maintain important capabilities in different areas of the industry value chain such as distribution, production, branding, design and marketing. Moreover, SMEs must strengthen their ability and performance to meet customer requirements better than competitors. This can be through a successful supply of goods and services, matching the quality standards of target markets with competitive prices; and making adequate profits by controlling expenses. SMEs should also look for more opportunities in the targeted market by understanding the international market in a better way creating a good level of international market knowledge. To meet international standards, product design should be improved taking into account strict quality measures.

THEORETICAL IMPLICATIONS

Our study suggests that for SMEs to go global they need to overcome challenges they face such as lack of technology and information, cultural and social differences, regulations and legal environment, and marketing products and services internationally. Although several papers have discussed SMEs' globalisation around the world, there has been little research focusing on factors and challenges that affect SMEs, and in the Middle East in particular. The study also shows the importance of the development of business relationships with business stakeholders to widen their leaning skills and knowledge of international market.

MANAGERIAL IMPLICATIONS

Practitioners such as SMEs' owners and managers can use this study results to design new educational programs, build knowledge on required human competencies to improve production, marketing efforts and international business exchanges that can result to further profitable business relationships. SMEs' owners and managers can also build networks with other successful owners globally. To go global SMEs need to understand and get to know diverse cultures and international regulations that can

help them to operate competently. Networking can also determine the degree of success to their business which can only be possible by having good infrastructure in information technology and systems.

Limitations

Although the research has given an insight on challenges facing SMEs at growth stage and globalisation, there are areas that need more investigation, such as, investigating the role of government in supporting SMEs in their growth stage and the challenges they face to globalise. Moreover, because of limitation in time and difficulty to access government data, the current study used only one instrument (questionnaire) but it is highly recommended that future researchers use more tools like interviews and focus groups. Also, it is suggested to expand the research to include population at a regional level which might reveal more interesting findings.

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Appendix A: ANOVA test

| | | SUM OF SQUARES | DF | MEAN SQUARE | F | SIG. |
|-------------|----------------|----------------|-----|-------------|--------|-------|
| TECHNOLOGY | BETWEEN GROUPS | 72.218 | 64 | 1.128 | 204.42 | 0.000 |
| | WITHIN GROUPS | 0.414 | 75 | 0.006 | 1 | |
| | TOTAL | 72.632 | 139 | 1.399 | 63.137 | 0.000 |
| CULTURE | BETWEEN GROUPS | 89.543 | 64 | 0.022 | | |
| | WITHIN GROUPS | 1.662 | 75 | 1.128 | 204.42 | 0.000 |
| | TOTAL | 91.205 | 139 | 0.006 | 1 | |
| REGULATIONS | BETWEEN GROUPS | 72.218 | 64 | | | |
| | WITHIN GROUPS | 0.414 | 75 | | | |
| | TOTAL | 72.632 | 139 | | | |
| MARKETING | BETWEEN GROUPS | 53.890 | 64 | 0.842 | 199.84 | 0.000 |
| | WITHIN GROUPS | 0.316 | 75 | 0.004 | 8 | |
| | TOTAL | 54.206 | 139 | | | |

Appendix B: Correlation Analysis

| | | TECHNOLOGY | CULTURE | REGULATIONS | MARKETING | SMES_GLO- BALIZATION |
|-------------------------|-----------------|------------|---------|-------------|-----------|-------------------------|
| TECHNOLOGY | PEARSON | | | | | |
| | CORRELATION | 1 | .304** | .154 | .218** | .058 |
| | SIG. (2-TAILED) | | .000 | .070 | .010 | .496 |
| | N | 140 | 140 | 140 | 140 | 140 |
| CULTURE | PEARSON | .304** | 1 | .143 | .044 | .114 |
| | CORRELATION | | | | | |
| | SIG. (2-TAILED) | .000 | | .091 | .605 | .181 |
| | N | 140 | 140 | 140 | 140 | 140 |
| REGULATIONS | PEARSON | .154 | .143 | 1 | .313** | .424** |
| | CORRELATION | | | | | |
| | SIG. (2-TAILED) | .070 | .091 | | .000 | .000 |
| | N | 140 | 140 | 140 | 140 | 140 |
| MARKETING | PEARSON | .218** | .044 | .313** | 1 | .408** |
| | CORRELATION | | | | | |
| | SIG. (2-TAILED) | | | | | .000 |
| | N | .010 | .605 | .000 | | |
| SMES_GLO- BALIZATION | PEARSON | 140 | 140 | 140 | 140 | 140 |
| | CORRELATION | .058 | .114 | .424** | .408** | 1 |
| | SIG. (2-TAILED) | .496 | .181 | .000 | .000 | |
| | N | 140 | 140 | 140 | 140 | 140 |

BIOGRAPHICAL NOTES

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