Internationalization of African SMEs: Context, Trends and Challenges

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ABSTRACT: There has been an important increase in the international and inter-continental operations of African SMEs over the last decade, because of the emergence of regional “champions”, able to compete with foreign multinationals, present in the continent since many decades, but also because of the emergence of innovative and creative SMEs, capable to meet the market needs of various consumers of Africa. Understanding the particular international business landscape in Africa draws attention to several ignored research questions and research aspects, requiring further research and exploration, to contextualize the SMEs’ internationalization of African firms. This paper highlights relevant areas/aspects needed while studying the internationalization of SMEs, by bringing back the historical context of the continent. Next, this paper contributes to the understanding of the internationalization of African SMEs by analyzing the trends and opportunities of the research in this field. Finally, the challenges and the risks of the internationalization of African firms will be analyzed, in order to set the limits of the nature of internationalization of the continent’s SMEs.

KEYWORDS: Africa, SMEs, emerging markets, firms internationalization

Introduction

Many researchers have recognized the importance of small and medium enterprises (SMEs), as being vital for economic growth and employment (Benzing & Chu 2009). In Africa, It has been suggested that SMEs contribute about 50 % of GDP (gross domestic product) and at about 60 % of total employment (DANIDA 2013).

Over the past three decades, most African countries have experienced positive economic growth, which is encouraging. Despite these positive trends, however, the livelihoods and unemployment conditions of most Africans need much to be desired (Nafukho & Muyia 2010).

It is generally known that entrepreneurship in Africa is a way by which the African population can promote country development and reduce poverty (Ortmans 2015). In the same vein, sub-Saharan Africa has the highest number of people engaged in embryonic entrepreneurship (14.1%) or early-stage entrepreneurial activity (26%) in the world (GEM 2015).

In order to develop entrepreneurship in Africa and create a large community of active entrepreneurs, the role of SMEs cannot be neglected. As in many other countries, most African businesses are SMEs or micro business, and these businesses contribute to poverty reduction and job creation (Abor & Quarkey 2010). In this regard, entrepreneurship within Africa cannot be developed without a certain focus on SMEs and micro businesses (Agyapong 2010).

Nevertheless, the SMEs that belong to the African continent are facing several challenges because of the globalization, but also due to the increased need for internationalization, as it has been considered as a driver of competitive advantage and firm international performance (Mutalemwa 2015). In fact, internationalization of SMEs has become crucial for growth strategy of these businesses (Doole & Lowe, 2008). These strategies include exportation, licensing, joint venture, foreign direct investment (FDI). Ocloo et al. (2014) perceive that the SMEs in Africa are experiencing different challenges as they are trying to internationally globalize their operations, so they become more competitive.

It is common knowledge that African SMEs are impeded by the poor quality of governance and institutions, limited or bad government support, trade restrictions, and weak financial, economic, and physical infrastructure (Benzing & Chu 2009).
However, research focusing on the internationalization of African SMEs from remains scarce. SMEs’ internationalization is vital for the growth of many countries (Ruzzier et al. 2006). According to Matanda (2012), there is a need for research to examine the established internationalized SMEs for a better understanding of the patterns of activities linked with successful internationalization.

With the progress made by several African economies, especially in industrial, business and social-economic growth in recent years (Pinkovskiy & Sala-i-Martin 2014), there are several non-business-friendly events- including incidence of civil conflicts- have disrupted efforts by many Sub-Saharan African countries to increase their global market competitiveness (Amankwah-Amoah et al. 2018).

1. Africa: A continent experiencing several mutations

In recent years, some Sub-Saharan African countries such as Rwanda, have been significantly undergoing important and fast economic mutations, despite experiencing civil conflicts (De Vries et al. 2016).

Because of good and reflected governance, political stability, and important reforms - both institutional and economic - many African countries have experienced progress in several fields (Noman & Stiglitz 2014). Moreover, it has been debated that the increased growth experienced by some African nations are experiencing is hypothesized by a growing young population, estimated to be about 1.2 billion and expected to exceed 2 billion by 2050 (UN 2015). Consequently, the fact of economic growth and demographic advantage gives many opportunities for new business creation and growth in Sub-Saharan Africa (Nyuur et al. 2016).

Despite the weak participation of Africa in the international business and trade, that remains discouraging and mostly concentrated in the extractive sector, evidence and facts presume that many parts of Africa are increasingly overcoming the institutional and infrastructural barriers that weaken the ability of African firms, especially SMEs, to contribute deliberately to the global economy (Boso et al. 2016). The quick emergence of African MNEs (multinationals) has been a concrete outcome of these transformations. It is widely acknowledged that evidence implying that the scope, speed and scale at which African SMEs or MNEs have been investing in Africa or the global economy in the last years have been exceptional (Ngwu et al. 2015).

For instance, during the last two decades, many South African firms have shaped and increased the speed of their international growth and international commitment. The examples of Telkom that operates in 38 countries, MTN in 24 countries and Standard Bank in 20 countries, can testify this evolution. Other African actors can affirm this tendency, such as Togo-based Ecobank (40 countries); Nigeria's UBA (20 counties) and Dangote (15 countries); and Mali's Bank of Africa (18 counties) (Boso et al. 2016; Ibeh 2015). Thus, the continuous evolution of socio-economic and demographic landscape in Africa has given opportunities for operating businesses to explore new consumption patterns across several countries present in the continent, for growth drivers (Amankwah-Amoah et al. 2018).

It has been debated that the emerging growth opportunities showing up in many Sub-Saharan African markets have mainly been driven largely by emerging markets, such as the Brazilian, Chinese, Turkish and Indian multinationals moving toward African markets. However, this flow of foreign multinationals is not the only reason explain the emergence of growth opportunities. In fact, the increasing intra-African cross-border activities are due to the growing entrepreneurial spirit extending across many African countries (Adelaye et al. 2015).

While the remarkable performances of many African multinationals in recent times is still undergoing, it has been identified 40 African global challengers: 18 from southern Africa, 17 from northern Africa, 3 from western Africa and 2 from southeastern Africa (BCG 2010), classified into five categories (table 1).
Table 1. The categories of African challengers and current trends (Updated by the author, adapted from BCG (2010) & Boso et al. (2016))

| Category              | Definition                                                                                                                                                                                                 | Examples                                                                                                                                                                                                                   |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| **Big local players**| African multinationals with 90% of assets and sales derived from domestic markets. Nevertheless, the big local players accomplish an important and gradually growing amount of international activity. | Al Mada (formerly known as Société Nationale d’investissement, SNI) is the biggest Moroccan industrial, financial and services conglomerate, which has mainly focused on building its value creation and leadership and within business activities in Morocco, the Maghreb region (Tunisia, Egypt, Algeria) and across the African continent. |
| Exporters            | Firms that have the major part of their sales derived from export operations but whose assets are mostly based at a local level. Export firms are usually operating in the mining and oil sector.                  | Sonangol is a parastatal business that manages petroleum and natural gas production and export in Angola.                                                                                                                   |
| Regional players     | African firms that have at least 10% of their assets established outside of their home country but within the African continent.                                                                           | Maroc Telecom, the main Moroccan telecommunications operator, with operations mainly in West Africa (Mauritania, Burkina Faso, Mali, Gabon, Ivory Coast, Togo, Benin, Central African Republic, Niger) is one of these regional players. Headquartered in Togo, Ecobank, a pan-African banking conglomerate has banking operations in nearly 36 African countries, is the leading independent regional banking group in West Africa and Central Africa. ShopRite Group of Companies, a South African retail regional player, is Africa’s largest food retailer, that operates 2843 outlets in 15 countries across Africa and the Indian Ocean Islands. |
| Multi-continental players | Firms having at least 10% of their assets outside of Africa. They were originally regional players but converted into multi-continental players.                                                        | Based in Egypt, Global Telecom Holding S.A.E. (formerly Orascom Telecom Holding S.A.E.) (GTH) is an international telecommunications company operating mobile networks in three emerging markets serving almost 100 million customers. Aspen Pharma, the largest generic drug maker based in South Africa, is now present in more than 40 countries, including Australia, Hong Kong, Kenya, Nigeria, Philippines, United Arab Emirates, Japan, Ireland, Germany, France, the Netherlands, Brazil, Mexico, Venezuela and the United States. In 2013, the company announced important acquisitions, which have taken its |
Global players

| Operations to emerging markets in the Commonwealth of Independent States. |
|--------------------|----------------------------------------------------------|
| **Global players** | Comprise three African multinationals with more than half of their assets outside of the African continent. |
| **Anglo American plc** | is a multinational mining company based in Johannesburg, South Africa and London, United Kingdom. It is the world's largest producer of platinum, with around 40% of world output, as well as being a major producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal. The company has operations in Africa, Asia, Australia, Europe, North America and South America. |
| **SABMiller** | is the world’s second-largest brewer measured by revenues (after Anheuser-Busch InBev), develops its operations in 80 countries spread across the world. Its brands included Fosters, Miller, and Pilsner Urquell. It has operated in 80 countries worldwide and in 2009 sold around 21 billion litres of beverages. Since October 2016, SABMiller has been a business division of Anheuser-Busch InBev SA/NV, a Brazilian-Belgian corporation with headquarters in Leuven. |

### 2. Internationalization of African SMEs

The increased level of internationalization of firms in Africa can be explained by the progress in the private sector, its development and regional integration, but also the capacity of pan-African companies to reduce institutional voids in the challenging scene that defines many countries on the continent. With these factors supposed to stay unaffected within the next years, it is more likely to assist to the emergence of opportunities offering internationalization activities (Boso et al. 2018).

Despite the improvement of the infrastructure, it has been that firm’s productivity is usually slowed by an estimated 40% because of weak infrastructure (World Bank 2013). Thus, inadequate transportation infrastructure is known to be a considerable driver of Africa’s incapacity to attract foreign investments (Aker & Mbiti 2010). Regarding the lack of infrastructure in the continent, SMEs internationalization is substantial for increasing the pace of industrialization in Africa. However, significant progress has been made in the last decade, especially in the air transport sector, but also concerning the future of railway sector seems to be promising. For instance, African markets are beginning to be linked by high-speed electric railway lines supported by the Chinese Government and some private investment funds (Morlin-Yron 2017), such as the 466 miles line from Djibouti to Ethiopia with an estimated cost of 4 billion USD (Jacobs 2017). Consequently, the decrease of travel costs is more likely to increase the connectivity of African markets that will become easy for businesses to be connected, both with distributors and consumers in a large number of African markets (Amankwah-Amoah et al. 2018).

Research admits that it may be in the best interests of many SMEs to go international (Devine & Kiggundu, 2016). Omer et al. (2015) show that internationalization helps SMEs permit to avoid government barriers to accelerate growth. In fact, internationalization allows SMEs to engage in foreign markets and also to create an important information network to make export activities easier (Gimede 2004). Nevertheless, while African firms can overcome some difficulties in their home countries through internationalization, lack of government support is more likely to hurt their export efficiency (Omer et al. 2015).
Existing research in the African context proposes that SMEs engage at an international level in order to escape saturated domestic markets, maximize profit, look for foreign market opportunities, enable firm growth, enhance sales of products (e.g. seasonal) and stabilize their business reputation by delivering customers in foreign markets instead of using mediators (Matanda 2012).

The author proposes that the major factors that drive African SMEs’ internationalization are including: experience in international trade, managers’ education, access to technology, ability to adapt to environmental changes, competitive existing in the domestic market, but also in the foreign markets (e.g. culture and language). Other key factors can include survival of SMEs (e.g. political instability existing in domestic market) and include support of formal institutions, business networks and development partners, that provide capacity building and financial support.

There are typical factors that slow down African SMEs’ internationalization (Misati et al. 2017). They include the lack of capital and international marketing skills. Thus, they include poor technology; imperfect and imprecise foreign market information; inefficient legal and regulatory frameworks; wasteful government policies for the SMEs; cultural differences; barriers to export such as high tariffs and permanent volatile input and output markets (Matanda 2012; Omer et al. 2015).

Legitimately, African SMEs operate at simple levels; these businesses have a high-cost base, limited range of products and do not usually benefit from the economies of scale (Okubadejo 2014). Despite being less clear, some of the advantages and benefits of African SMEs’ internationalization, we can note the increase of sales volumes, productivity improvement, foreign exchange generation, local industry developments, and employment creation for the local citizens (Matanda 2012).

3. Challenges of African SMEs

Sub-Saharan Africa generally represents complex linguistic issues by virtue of its Diaspora of mixed cultural groups and values. The need for the continent’s people to embrace their own models of resolving regional problems because of their diversity has been recognized (Mutula 2005).

Due to the heterogeneity of the continent, we limit our challenges to the following elements: Globalization challenge, technology challenge, non-price competition and export opportunities.

The global economy is marked by rapid growth of the economies in developing nations, to the range where the conventional wisdom majoring international business activities are initiated by multinational enterprises coming from developed economies has come under analysis (Sun & Lee 2013). While the recent success stories continue to be reported about the big emerging markets of Asia (India and China for example), of Latin America, and the transition economies of the former Soviet Union, success stories reporting the emerging markets in Africa (e.g. Nigeria, Kenya and South Africa) are seldom regarding the discussion in international business research and policy debates (Boso et al. 2016).

Indeed, Africa is usually perceived negatively in the news for many reasons: a past that compromises extreme conditions such as civil wars, famines, several coup d’etat, diseases and stories of corruption. Nevertheless, this reality is changing, especially when it does concern business and SMEs activities.

Although that the “Proudly Made in Africa” campaign has become significantly popular across many parts of the continent, internationalizing African firms are facing several challenges in winning the hearts and minds of African consumers (Boso et al. 2018). With expanding globalization and the emergence of a strong middle class in Africa, there is a strong interest for global brands and foreign goods (Ojaide 2018).

Because of the globalization, that has many features shaping and facilitating the spread of SMEs activities and operations in Africa and elsewhere, it has given new competitive pressures on SMEs, whether from within and beyond their national borders (Mutalemwa 2015). According to the author, it is common knowledge that the integration of economic activities resulting from advances in technology, competition and policy changes towards economic liberalization diffuses positive signals to the industry sector by increasing the export orientation of the industry, through encouraging firms to arrive to challenging markets. Thus, it enables imports to be more available.
within domestic markets and finally, it encourages the creation of new competitors via foreign direct investment (FDI) or non-price competition. As a consequence, these advances encourage firms to handle technologies and cope with technical change.

It is generally known that the issue of global competitiveness and globalization remain challenging for African firms, whether at national and corporate levels (Adeleye & Esposito 2018). If we consider the firm lever, there are some basic obstacles to African competitiveness such as infrastructure, regulations and regulations (Newman et al. 2016). Moreover, in the case of limited or non presence of economies of scale, plus the poor quality of service, it can contribute to the lack of competitiveness of African firms (Amankwah-Amoah 2018). Regarding the internationalization of SMEs, they are generally confronting the responsibilities of smallness and newness, as they may have problems while competing against stronger and more established firms (Ogbechie et al. 2014).

In the last century, the arrival of the internet has become central and essential for firms worldwide. Because of that, a wide range of opportunities to undertake business have emerged. Thus, exchanging information with customers, suppliers and partners has started to enhance their efficiency and to develop new alternatives to conduct cross-border business operations and transactions. As digital platforms increased and evolved, they have given remarkable benefits to SMEs in terms of cost savings, and also in terms of information sharing among various supply chain members. SMEs have developed tools to more rapidly and effectively internationalize their operations and realize their expansion in global market bases.

In the developing world, the escalation of use of ICTs (information and communication technologies) brings more opportunities to reduce the gap by diminishing economic distance and supporting instant and economical access to information (Mutalemwa 2015). Moreover, ICTs permit SMEs to reach markets in new ways that were inconceivable in earlier times. Due to the underlying economic reality and mutations experienced worldwide, many African local governments are developing national ICT strategies in order to build “knowledge societies” (UNCTAD 2011). The impact of ICTs on African SME development has not been neglected by the literature (Ismail et al. 2011).

According to Mutalemwa (2015), SMEs can gain from ICT development in Africa. The reason behind this development is that producers and users of ICT will have access to infrastructure that will help them to reduce communication and transaction costs, improve the availability of information, broaden the access to global markets, reduce barriers for SME entry and give new sources of revenue. Thus, technological institutions are also important for SME development and have a key role in the liberal market environment (Mutalemwa 2015). Over the past decades, African governments have created several technology-related institutions, attached to ministries or state/public companies most of the times. These institutions arrange supply support services, in many areas as technology selection and adaptation, innovation and assimilation.

The globalization process has enabled non-price competition to become extremely important. SMEs are more likely to respond rapidly to non-price competition in order to be successful. Furthermore, literature on SMEs has mentioned that local and national firms are progressively pushed to perform by global standards, especially in terms of quality, speed of response and flexibility (Mutalemwa 2015).

In this regard, collaborative partnerships (i.e. clustering) and other forms of inter-firm industrial networking provide the flexibility that allows SMEs to meet such requirements (Knorringa 1999). In Africa, it is known that there has been restricted sharing of knowledge, information, resources, and expertise that enable to contribute to SME cluster integration into global value chains (Yoshino 2011).

Although the importance of quality, African SMEs have traditionally tended to focus attention on production rather than quality (Hussain 2000). SMEs need to develop awareness structures toward non-price elements (i.e. packaging, international standardization, quality, just-in-time delivery).

In the regional markets, exporters are more likely to find similar demand patterns to those of their own domestic consumers (Thoburn 2000).
The participation of SMEs in export markets could also take advantage from existing networks that reduce the transactions costs of networking into export markets disregarding of the firm size (Mutalemwa 2015). Network can take various forms. For instance, although important infrastructural constraints, SMEs in the automobile cluster in the Nnewi region (East Nigeria), have achieved export activities to bordering countries because of existing links that had been developed over considerable years with producers and wholesalers in Asia. Therefore, the existing links took the form of technical assistance, advices on technologies and skills needed to operate adroitly (Brautigam 1997).

Export-oriented of SMEs has been a concern of various governments in Africa, who have taken conscious to promote export through the creation of EPZ (Export Processing Zones). These EPZ aim to raise employment creation, to attract FDI, and to generate foreign exchange using exports. These EPZ also support legislative, administrative, infrastructural and regulatory assistance for the formation and operation of flourishing SMEs (Mutalemwa 2015). However, most zones in the African continent have remained small, according to the author, with few networking with the local economy and small foreign-exchange earnings.

In this regard, policy interventions in Africa should aim to encourage entrepreneurial thinking and international orientation among business owners of African SMEs, and to assist these firms to acquire better competencies (i.e. relationship, marketing, management, product/process technologies, etc.), which might improve their capacity to challenge in international markets (Ibeh et al. 2012). Also, African existing exporters need to be challenged to make their level of international involvement more intense.

Conclusion
In the last decade, African economies have experienced significant growth. This growth was estimated at 11.8% in 2004, and drifted around 5% for many years until the dive in products’ prices that lowered Africa's growth rate to 3% during the recent years, and down to 1.3% in 2016 (World Bank 2017a).

Growth is expected to rise to 3.2% in 2018 and to 3.5% in 2019 as commodity and products markets stabilize, and the two regional economic champions exit recession (World Bank 2017b). In sum, the African continent has accomplished more than a decade of important economic expansion.

Yet, given the fast-moving and dynamic environment in which internationalizing African SMEs are operating, there stays a need for further strong empirical studies into these emerging phenomena. Policymakers, researchers and practitioners with specific interest in Africa’s firms’ internationalization asked to stabilize their focus on the important task of investigating and illuminating the outcomes of Africa-to-Africa internationalization strategy, and to what extent can managerial networks help or slow down the internationalization of African SMEs (Boso et al. 2018).

While going to the international, Amankwah-Amoah et al. (2018) propose that African SMEs have to be aware of five key drivers to succeed. According to the authors, African SMEs need to develop the ability to understand diversities within the value chain system in different Sub-Saharan African markets.

Thus, they need to have the propensity to fix marketing strategy models constantly to respond to unanticipated market changes. The third driver is having an enthusiasm to innovate with the targeted African consumers. Moreover, African firms must develop the ability to devise innovative ways to access consumers.

Finally, African SMEs need to work on cultivating the capacity to associate with local governmental and non-governmental agencies, in order to influence the brand and to communicate high-impact marketing messages.

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