

THE CHALLENGES OF INTERNATIONALIZATION AND GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN FREETOWN

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ABSTRACT

Small and medium scale enterprises are a critical driver of economic liberation, curbing unemployment and poverty reduction both in developed and developing countries and are uniquely positioned to answer the challenges of an ever-faster international economy. The objective of the study is to examine the challenges of internationalization and growth of small and medium enterprises. The research work adopted a descriptive research design using 313 randomly selected operators of small and medium scale enterprises (SMEs) in Freetown, Sierra Leone. Data collected were primary and secondary sources of data. Descriptive statistics and crosstabulation analysis was used to analyze the data while formulated hypotheses were tested using correlation analysis. From the result, it was found that unstable exchange rate/inflation, rigid government regulations, lack of finance and high custom duties hold a major part in decreasing international activities. Government policy actions have a negative relationship with SMEs development. Some recommendations were made such as the establishment of policies to influence the rate of indigenous industries and the establishment of SMEs hub to serve as incubation stage for business start-ups. The study concludes that small and medium scale enterprise development is a catalyst for economic development.

Key words: SMEs, government policy, unstable exchange rate, entrepreneurship, Sierra Leone.

INTRODUCTION

Sierra Leone is a country situated in West Africa. It is bordered by the Atlantic Ocean in the south-west, Liberia in the south-east and Guinea in the north-east. Sierra Leone has a total area of 71,740 km² (27,699 sq mi) and an estimated population of 7 million (Statistics Sierra Leone, 2015).

Sierra Leone found itself with a severely damaged physical infrastructure and serious socio-economic problems due to the eleven-year civil conflict between 1991 to 2002. In order to restore stability and lead the path to sustainable development the government launched various strategies and policies such as “National Recovery Strategy,” “Poverty Reduction Strategy Paper” and quite recently “Agenda for Prosperity.”

Freetown is the [capital](#) of [Sierra Leone](#). It is located in the [western area](#) of the country and it is the economic and political center of the country. The [city](#) has a population of approximately 1 Million people (2015 census estimate). The city is divided into three municipal regions: the east end, central, and the west end.

More recently, the [2014 ebola outbreak](#) threatens to lead the country into a [humanitarian crisis](#) situation and a negative spiral of weaker economic growth (World Bank, 2015).

This paper examines the challenges of internationalization and growth of small and medium scale enterprises in Freetown, Sierra Leone. Small and medium scale enterprises are critical for developing countries because of their role in economic growth, poverty reduction and curbing of unemployment. Small and medium scale enterprises encompass a broad spectrum of definitions. The definition varies from country to country due to per capita income and probably population. On a general note, the definition of small and medium scale enterprises has to do with asset, turnover, capital, production capability and employees of the company or firm. There is no precise definition of small and medium enterprise throughout the world due to differences in general economic development and the prevailing social conditions within each country.

According to Agwu and Emeti (2014) small business is defined as a business which is independently owned and operated with close control over operations and decisions held by the owners. Practically, most small and medium scale enterprises started as sole proprietorship or partnership.

According to oxford dictionary internationalization is the act of bringing something under international control that is concerning or belonging to all or at least two or more nations. In economics, internationalization is the process or act of increasing involvement of enterprises or businesses in international markets, although there is no agreed definition of internationalization.

Those entrepreneurs who are interested in the field of internationalization of business need to possess the ability to think globally and have an understanding of international cultures.

By appreciating and understanding different beliefs, values, behaviours and business strategies of a variety of companies within other countries, entrepreneurs will be able to internationalize successfully (Wai and Noichangkid, 2012). It is therefore imperative that we recognised the contribution that the entrepreneur makes to our economy and development. In recent years, the primary objective of public policies in Sierra Leone like in many developing countries is to reduce poverty. The small and medium scale enterprise sector has great importance for many reasons such as the high rate of unemployed graduate, high level of illiteracy and the sector's contribution to the formation of national income and employment creation.

It is widely acknowledged that the creation, sustenance and growth of small and medium enterprises is a key ingredient for the sustainable development of any nation.

Sierra Leone, in toying the line of developed nations of the world, has initiated a number of sector reforms on small and medium enterprise aimed at transforming its economy from its present prostrative statue to a highly industrialized one (UNDP, 2012).

Statement of the problem

There are lots of challenges of SMEs development such as capital to start business. Sandy (2003) noted that the financing in most cases is normally provided by the owners through personal savings or borrowing. The owners fail to realize the importance of external source of capital in order to effectively expand the business in the long run. Others such as lack of infrastructure, unstable exchange rate, corruption, high tax rate and lack of management skills are major

challenges of small and medium scale enterprises when they want to engage in the international market.

Furthermore, government policies are so rigid that it does not create a fair platform for SMEs especially when competing in the international market.

Another problem is the process of transitioning of small scale enterprises from the local market to the international market. An internationalizing firm faces heightened political risks as well as operational risks stemming from the new business environment.

And this in one way or the other influences the output of small and medium scale enterprises in Sierra Leone economy.

The higher levels of risk small enterprises face when entering a foreign market, relative to domestic expansion, reinforces the internationalization mechanism. The literature on internationalization has revealed a number of barriers that small businesses face in their attempt to enter foreign markets. These include language barrier, cultural shock, poor knowledge of foreign market information, financing problems, technical roadblocks, and clumsy export processes (Abdullah and Zain, 2011).

Research questions

1. *What are the challenges of internationalization of small and medium scale enterprise?*
2. *What policies can government implement to upsurge small and medium scale enterprise?*
3. *How does internationalization and growth influences the output of small medium enterprise in Sierra Leone economy?*

Objectives of the study

1. *To determine the challenges of small and medium enterprises when competing in the international market.*
2. *To ascertain policy actions in which small medium enterprise output could be improved through entrepreneurship development.*
3. *To examine how internationalization and growth influences the output of small medium enterprises in Sierra Leone economy.*

Hypothesis of the study

- H1.** *H₀: The challenges of internationalization and growth have no significant impact on small and medium scale enterprise in Freetown.*
H_a: The challenges of internationalization and growth have significant impact on small and medium scale enterprise in Freetown.
- H2.** *H₀: There is no significant relationship between government policy actions and small and medium scale enterprise development in Freetown.*
H_a: There is significant relationship between government policy actions and small and medium scale enterprise development in Freetown.
- H3.** *H₀: Internationalization and growth does not influence the output of small medium enterprises in Sierra Leone economy.*

Ha: Internationalization and growth influences the output of small medium enterprises in Sierra Leone economy.

LITERATURE REVIEW

Egbuogu (2003) noted that definitions of small medium enterprises vary both between countries and between continents. This is as a result of resource endowment, population and government laws. The major criteria use in the definition according to Carpenter (2003) could include various combinations of the following: number of employees, financial strength, sales value, relative size, initial capital outlay and types of industry. Small and medium-scale enterprises are defined variously as stated above. Some of the criteria employed in defining these enterprises include: number of workers, value of assets or annual turnover, nature of premises, status of registration or legality of business and sustainability. Let us look at other countries definition of small and medium scale enterprise.

The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Scale Enterprises. Chosniel et al, (2014) stated that an alternative criterion used in defining small and medium enterprises is the value of fixed assets in the organization.

In Nigeria, the Federal Ministry of Industry has adopted a somewhat flexible definition especially as to the values of installed fixed cost. The definition of micro enterprises as an industry whose total project cost excluding cost of land but including working capital is not more than N500,000:00 (i.e. US\$50,000). Small scale enterprises on the other hand is defined by the council as an industry whose total project cost excluding cost of land and including working capital does not exceed N5m (i.e. US\$500,000) (CBN, 2011).

In Sierra Leone just like in other part of the world the definition of SMEs is complicated in structure. However, according to Statistics Sierra Leone there is certain parameter used to determine the definition of SMEs such as the number of employees.

Statistics Sierra Leone defines small medium scale enterprises as micro enterprise having 1-4 employees, small enterprise having 5-19 employees and medium enterprise having 20-49. From the survey conducted of over 300 SMEs in Freetown, we cannot expunge the importance of revenue into the definition of SMEs in Sierra Leone. Micro enterprise boost of less than Le1,000,000 while the revenue of small enterprises is between Le1,000,000 to Le 10,000,000. The revenue of medium enterprises is between Le10,000,000 to Le 100,000,000. In Sierra Leone, small medium scale enterprises contribute over 95% of employment, 54.8% of the gross domestic product as well as knowledge enrichment (IMF, 2005).

Challenges of internationalization of small medium scale enterprises

Despite the catalytic role of small medium scale enterprise in the economic emancipation of developing countries particularly Sierra Leone some of the major operational challenges include:

Financial problems

Fatai (2011) stated that about 80% of Small and medium enterprises are stifled because of poor financing and other associated problems. The problem of financing small medium scale enterprises is not so much the sources of funds but its accessibility. Factors identified inhibiting funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds.

A study carried out by Özlem and Ece (2014) on challenges facing entrepreneurs in accessing credit: a case of youth entrepreneurs in Makuyu, Kenya found out that most of youth entrepreneurs faced challenges in accessing credit due to high cost of credit evidenced in high loan processing fees, high rate of legal fee, high rate of interest, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit.

Corruption

Kanu (2015) in his results from the study “the effect of corruption on small and medium enterprises: perspective from a developing country,” indicated that corruption is positively related with price. As predicted, corruption is negatively associated with growth, productivity and employment. But it shows no significant statistical relationship with wages and profit.

In addition, the descriptive survey analysis reveals that corruption reduced SMEs owner/managers access to finance. Another interesting finding was that a large number of respondents perceived corruption as a practice that leads to extortion by government officials.

Corruption is an enemy that attacks all countries and its harmful impact is clearly evident. It affects markets and competition, causes mistrust amongst the citizenry of a country, erodes the rule of law, destroys government legality and compromise the integrity of SMEs. Corruption is a disease similar to cancer which impedes economic and political development of any country and destroys the functioning of several organs of the governments (Wei and Noichangkid 2012).

Management problems

Lack of trained manpower and management skills also constitute a major challenge to the survival of small medium scale enterprises in Sierra Leone. According to West et al (2006), 90% of all these business failures result from lack of experience and competent management.

Inadequate basic infrastructure

Agwu and Emeti (2014) observed that government has not done enough to create the best conducive environment for the striving of small medium scale enterprises.

The problem of infrastructures ranges from shortage of water supply, inadequate transport systems, lack of electricity to improper solid waste management. Sierra Leone underdeveloped physical and social infrastructures create a binding constraint to small medium scale enterprises growth, since they heavily rely on the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives.

Socio-cultural problems

Most Sierra Leonean entrepreneurs do not have the investment culture of ploughing back profits. Kanu (2015) stressed that the attitude of a typical Sierra Leonean entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against “made in Sierra Leone goods” is significant.

Most Sierra Leoneans have developed a high propensity for the consumption of foreign goods as against their locally made substitutes. Hence, this act of non patronage discourages local entrepreneurs.

Theoretical review

Uppsala model

The Uppsala model is a theory that explains how firms gradually intensify their activities in foreign markets, and it is being introduced by Jan-Johansson and Jan-Erik Ahlen. Their model emphasized the gradual and incremental character of international expansion. Organizations could best reduce their risk level by adopting this approach. Incremental growth also suggests that companies begin internationalization process in markets that have less psychic distance. Psychic distance can be defined as the individual’s perceived differences between the home and the foreign country (Sousa and Lages 2011).



Source: Adopted from Johanson and Vahlne (Johanson et al., p.26)

Figure 1: The Uppsala model

Johansson et al (1977) stated in the theory that the firms with no exporting activity will start by exporting via an agent. Firms may also use other entry modes such as joint venture, licensing or franchising and it depends on the nature of the firm. Gradually, firms will gain more market knowledge and use more intensive and demanding operation modes such as sales subsidiaries and followed by wholly owned subsidiaries. The first stream focuses on internal organizational factors, especially during the incremental process of learning in the earlier stages of internationalization. According to the model, the process of internationalization is understood as a causal cycle in which a firm's knowledge is posited as an explanatory variable (Yusof and Aspinwall 2000).

Network approach

Johanson and Mattsson introduced the network approach to internationalization that highlights the importance of relationship with suppliers, customers and market that can stimulate or help a firm to go abroad.

Development in technology especially in information and communication sector help firms achieve a faster internationalization through the experience and resources of network partners. Mitgwe (2006) expressed that the establishment of financial, technological and commercial relations with the other actors of the network makes it possible for firms to extend their connections and to gradually widen their activities apart from their own territory until becoming international. For small and medium size firms, the network approach is seen as a feasible route towards internationalization as their membership to the network will help firms positioned itself in a foreign country (Abdullah and Zain, 2011).

Empirical review

Özlem and Ece (2014) supported public policy initiatives and call for creating and enabling environment for the development of small business. World Bank report (2008) stated that despite the success of small medium scale enterprises strategies in some countries, the majority of developing countries have found that the impact of the small medium scale enterprises development programs on enterprise performance has been less than satisfactory.

Osoimehin et al (2012) observed that despite government institutional and policies support to enhancing the capacity of small and medium scale enterprises, small and medium scale enterprises have fallen short of expectations. This, then, generated serious concern and skepticism on whether small medium scale enterprises can bring about economic growth and national development. Small medium scale enterprises are faced with significant challenges that compromise their ability to function and to contribute optimally to the economy.

Annie et al (2003) examined that it is estimated that the failure rate of micro, small and medium enterprises is between 70% and 80% in South Africa. Millions of Rands is being lost on business ventures because of essentially avoidable mistakes and problems. It is maintain that often the ideas are good and the people behind them are competent, but “they do not have a clue of how to run a business” and have no underlying appreciation of business fundamentals. Problems encountered by small businesses are numerous and can be described amongst others as being environmental, financial or managerial in nature.

Rodriguez and Sandee (2002) posited that SMEs in the Asia Pacific Region contribute significantly to the local economy.

Indonesia as one of the countries in Asia also feels the benefits derived from the development of SMEs. It must be realized that the presence SMEs as an integral part of national development could not be ignored. SMEs currently represent more than 90 percent of Indonesia's business and accounted for 57 percent of the Gross Domestic Product (GDP) of Indonesia.

Kawai and Urata (2002) in studying Japanese SMEs noted that cost disadvantages owing to small scale and the shortage of technical resources are significant deterrents to entry. They also

noted that the availability of government-directed credit deters entry which suggests that, in their current form, such credit programs protect incumbents.

METHODOLOGY

Research design

The study employed a cross-sectional data collection process to look at the challenges of internationalization and growth on the performance of small and medium enterprise in the three regional municipalities in Freetown.

With reference to the research questions, the study employed mixed research methods, which according to Johanson and Mattsson is an approach that permits researchers to combine both qualitative and quantitative methods in order to capitalize on the strength and reduce the weakness of each method.

The overwhelming majority of the data was collected by means of primary and secondary data. One comprehensive set of questionnaire was designed to collect primary data from the presumptive small and medium enterprise owners/managers. This would enable the researcher to competently collect significant amount of information (Kawai and Urata, 2002).

For the purpose of this study correlation analysis is the statistical tool used to measure the dependent and the independent variables in order to test whether there is positive, negative or zero relationship between the variables.

Population and sampling

Though there were lots of micro small and medium scale enterprises but this study focused on small and medium scale enterprise owners in Freetown as the population of the study. Freetown has a population of approximately 1,000,000 people (Statistics Sierra Leone, 2015).

A purposive sampling method was used, were three hundred and thirteen (313) small and medium scale enterprise owners were administered with questionnaires for the purpose of the study in which participants were requested to fill a well-structured questionnaire on a voluntary basis.

Methods of data collection

Primary data was collected using questionnaire to obtain the required data from small and medium scale enterprise owners in Freetown, Sierra Leone. A total of three hundred and thirteen (313) small and medium scale enterprise owners were administered with questionnaire in western region municipality, central region municipality and eastern region municipality of Freetown.

Secondary data was collected from different sources such as article, newspapers, magazine, periodicals and report. Also from government ministries, departments and agencies such as: Ministry of Finance and Economic Development, Statistics Sierra Leone, Sierra Leone Export and Import Promotion Agency and others were collected for the purpose of this study. Secondary data specifically helped with this research because its complement primary data. Secondary data fillip the qualitative data by reducing the weakness of primary data.

The research instrument that was used for the purpose of this study was a well-structured questionnaire. This was administered by the research assistance to the participants and collected personally in order to gain the trust of the participant and get their honest answers.

The questionnaires were distributed by hand and it consists of various sections which include the personal bio-data of the participants and questions relating and testing the dependent and independent variables.

Methods and data analysis

Small and medium scale outputs were measured base on primary data using correlation analysis. A five point interval scale which was adopted in this research to specify the extent to which internationalization and growth impacts small medium enterprises performance were 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree.

This study employed probability sampling techniques including random sampling, systematic sampling and stratified sampling.

The data was analyzed using SPSS version 20. Various statistical tools like mean, standard deviation and correlation were employed.

Validity and reliability of research instrument

The validity of an instrument refers to whether or not a study is well design and provides results that are appropriate to be generalized to the population of interest. The validity of the scales utilized in this study was assessed for content and construct validity. The correlation among the components of the performance scale provides evidence of convergent validity to the extent that they are high, that is they are converged on a common underlying construct. After administration of the questionnaires had been completed the reliability of the scales was further examined by computing their coefficient alpha. All scales of measurement were ascertained to be higher than the lower limit of 0.7 suggested by (Osoimehin et al, 2012).

RESULTS AND DISCUSSIONS

Descriptive Analysis: General demographics

Table 1: Distribution of participants by socioeconomic characteristics

Variable	Frequency	Percentage
Gender		
Male	194	62.2
Female	118	37.8
Education background		
Primary	10	3.3
Secondary	86	28.5
Tertiary	206	68.2
Nationality		
Sierra Leonean	225	72.3
Non Sierra Leonean	86	27.7
Company's activity		

Manufacturing	27	9.1
Distribution	73	24.6
Service	197	66.3
International business activity		
Yes	117	40.6
No	171	59.4

Source: Field survey, 2017

Table 1 shows the distribution of respondents by socioeconomic characteristics. A total of 312 people participated to the item of gender in the questionnaire, out of which there were 194 (62.2%) males and 118 (37.8%) females. Participants were grouped base on their educational background as well. Only 3.3% of participants stopped at primary education, while 28.5% stopped at secondary school level and 68.2% attained tertiary education. The participants were grouped according to their nationality. Exactly 72.3% of participants are Sierra Leoneans while only 27.7% are Non Sierra Leoneans. Also, participants were grouped according to their various companies' activity. Only 9.1% of participants are into manufacturing while the highest proportion of participants (66.3%) is into the service sector and 24.6% participants are into distribution.

Results of crosstabulation analysis

Table 2: Crosstabulation analysis

Company's activity * Number of employees crosstabulation

			Number of employees				Total
			Below 10	11-20	21-30	Above 30	
Company's activity	Manufacturing	Count	6	6	7	4	23
		% within Company's activity	26.1%	26.1%	30.4%	17.4%	100.0%
		% within Number of employees	5.3%	8.8%	13.7%	10.3%	8.5%
		% of Total	2.2%	2.2%	2.6%	1.5%	8.5%
	Distribution	Count	29	18	13	7	67
		% within Company's activity	43.3%	26.9%	19.4%	10.4%	100.0%
		% within Number of employees	25.4%	26.5%	25.5%	17.9%	24.6%
		% of Total	10.7%	6.6%	4.8%	2.6%	24.6%
	Services	Count	79	44	31	28	182
% within Company's activity		43.4%	24.2%	17.0%	15.4%	100.0%	

	% within Number of employees	69.3%	64.7%	60.8%	71.8%	66.9%
Total	% of Total	29.0%	16.2%	11.4%	10.3%	66.9%
	Count	114	68	51	39	272
	% within Company's activity	41.9%	25.0%	18.8%	14.3%	100.0%
	% within Number of employees	100.0%	100.0%	100.0%	100.0%	100.0%
	% of Total	41.9%	25.0%	18.8%	14.3%	100.0%

Source: Field survey, 2017

Based on the company activity, SMEs that engage in service activity tops the list with a total of 66.9% (182) while the distribution activity has a total of 24.6% (67). The manufacturing has the least with a total of 8.5% (23).

From the participant responses, the service sector has the highest number of employees with a total of 182 employees. The second highest was the distribution activity with a total of 67 employees and this was followed by the manufacturing activity with just 23 employees.

From Table 2, most of the participants' engage into service base businesses such as: marketing, education, media and communication, finance/insurance, hospitality and others. A total of 66.9% of participants' company activity is in the service sector. And the service sector employs more people than other business activities such as: manufacturing and distribution. From participant responses only 8.5% (23) that there business activities are manufacturing. This support the fact that Sierra Leone is yet to be an industrialized nation. Despite government effort in putting policies in place like the agenda for prosperity that will see Sierra Leone becomes an industrialize nation by 2035, the country is still disenabled in terms of manufacturing companies. Also, 24.6 (67) of participants are into distribution business activity. The service and distribution business activities are related because people do not produce tangible products which the manufacturing business activity does.

Answering research questions

How significant is internationalization on small and medium scale enterprises?

Table 3: Descriptive analysis on the significance of internationalization of small and medium scale enterprises.

S/N	Particulars	N	Percent					X	SD
			Sd	D	N	A	Sa		
1	It will increase foreign direct investment	307	10.7	10.7	13.7	43.6	21.2	3.54	1.240
2	More job opportunities would be created	306	8.5	6.9	16.0	51.0	17.6	3.62	1.113
3	There will be improvement in the standard of living	305	7.2	6.6	14.8	46.2	25.2	3.76	1.121
4	Increase in gross national product	306	9.2	9.8	19.6	43.1	18.3	3.52	1.168
5	It encourages innovation and creativity	306	8.5	8.5	16.7	43.1	23.2	3.64	1.174
6	It facilitates the peaceful co-existence between nations	306	7.8	6.5	9.8	42.2	33.7	3.87	1.180
7	It improves a country terms of trade	306	8.5	6.5	7.5	48.0	29.4	3.83	1.171
Grand mean = 3.68									

Where Sd means strongly disagree, D stands for disagree, N stands for neutral, A means agree, and Sa means strongly agree and SD stands for standard deviation. Weighted average is 3.0. Grand Mean is 5.74. *It facilitates the peaceful co-existence between nations* had the highest mean, 3.87, with a standard deviation of 1.180. *Increase in gross national product* has the lowest mean, 3.52, with a standard deviation of 1.168. The mean for each of the items are greater than the weighted mean.

Table 3 is satiated with facts that according to participant opinions, internationalization is significant for SMEs development. The overall mean of responses to all items are above the weighted average. Participants were of a high impression that if SMEs are well developed they can favourably compete in the international market and they would not only compete favourably but they will develop sustainably.

The implication of this is that SMEs would not have the required capital to trade in the international market. Internationalization of SMEs would facilitate cordial relationship between nations.

To what extent do policy actions influence the development of small and medium scale enterprises?

Table 4: Descriptive analysis of policy actions and the development of small medium enterprises

S/N	Particulars	N	Percent					X	SD
			Sd	D	N	A	Sa		
1	Government policies do not favor SMEs	307	12.4	18.9	11.4	41.7	15.6	3.29	1.283
2	Government policies are most times not implemented	308	5.8	11.0	15.9	46.1	21.1	3.66	1.106
3	Government does not protect infant industries	307	8.5	14.3	14.1	40.1	22.5	3.54	1.224
4	Foreign industries undermines indigenization	307	11.7	18.6	16.3	30.6	22.8	3.34	1.327
5	Government policies mostly favor the wealthy	303	11.2	14.5	13.9	32.0	28.4	3.52	1.337
6	Government does not enforce laws	302	9.9	21.5	15.6	36.4	16.6	3.28	1.251
7	Government does not encourage entrepreneurship development	308	14.0	18.5	14.6	35.7	17.2	3.24	1.319
8	Foreign companies are a threat to the survival of SMEs	305	15.7	19.3	12.1	35.4	17.4	3.19	1.357
9	The exchange rate negatively affect the growth of SMEs	308	5.5	7.1	9.1	43.8	34.4	3.94	1.104
10	The current exchange rate discourages international trade	308	6.2	4.9	5.5	44.2	39.3	4.01	1.095
Grand mean = 3.50									

Where Sd means strongly disagree, D stands for disagree, N stands for neutral, A means agree, Sa means strongly agree and SD stands for standard deviation. Weighted mean is 3.0. Grand mean is 3.50. *The current exchange rate discourages international trade* had the highest mean, 4.01, with a standard deviation of 1.095.

Foreign companies are a threat to the survival of SMEs had the least mean of 3.19, with a standard deviation of 1.357. The mean for each of the items are greater than the weighted mean. Therefore, government policy actions affect small and medium scale enterprise development.

The results shown on Table 4 revealed that participants' opinions on government policy actions affect the development of small medium enterprises. The item *the current exchange rate discourages international trade* had the highest mean, 4.01, with a standard deviation of 1.095.

The item *foreign companies are a threat to the survival of SMEs* had the least mean of 3.19, with a standard deviation of 1.357., which implies that majority of participants believe that the current exchange rate discourages small and medium scale enterprises to compete in the international market. This could be as a result of the fact that they view the Leones currency too weak with foreign currencies such as dollars and pounds. From the result, most participants that engage in international business are importers. And this invariably undermines Sierra Leone terms of trade and balance of payment.

Furthermore, the current exchange rate is a major challenge for internationalization of small and medium scale enterprises. Out of the 288 participants that filled “*Is your company engaged in international business activity*”, 117 (40.6%) said yes and 171 (59.4%) said no and most of those that said yes engage in service 197 (66.3%) and distribution 73 (24.6%) business activities. Only 27 (9.1%) are into manufacturing. Majority of the participants that engage in international business activity are importers. Compensious, Sierra Leone economy is import dependent. And this undermines the government aspirations of industrialization by 2035.

What are the challenges of internationalization of small and medium scale enterprises?

Table 5: Descriptive analysis of the challenges of internationalization of small and medium scale enterprises.

S/N	Particulars	N	Percent					X	SD
			Sd	D	N	A	Sa		
1	Shortage of labour	307	12.1	26.4	12.4	42.0	7.2	3.06	1.206
2	Lack of finance	306	5.9	8.5	9.5	47.1	29.1	3.85	1.112
3	Rigid government regulations	307	6.2	14.7	16.6	47.9	14.7	3.50	1.101
4	Rising cost of inputs	303	5.3	7.9	8.3	52.1	26.4	3.86	1.060
5	Increasing competition	302	4.0	14.9	20.2	39.1	21.9	3.60	1.103
6	Lack of knowledge of export/import procedures	304	10.9	16.8	14.8	40.8	16.8	3.36	1.248
7	High customs duties	306	7.5	7.5	9.8	43.8	31.4	3.84	1.169
8	Language problems	305	6.6	16.1	22.3	41.0	14.1	3.40	1.114
9	Lack of knowledge of foreign markets	305	6.6	18.4	16.1	40.0	19.0	3.47	1.181
10	Cost of transportation	305	5.9	6.6	12.8	51.5	23.3	3.80	1.057
11	Unstable exchange rate/inflation	307	4.6	4.2	6.6	40.1	44.3	4.15	1.035
	Total							36.42	

Grand mean = $36.42/11 = 3.31$

Where Sd means strongly disagree, D means disagree, N means neutral, A means agree, Sa means strongly agree and SD stands for standard deviation. The weighted mean is 3.0. Grand mean is 3.31. Items in Table 5 above showed the descriptive analysis of the challenges of internationalization of small and medium scale enterprises.

Each item was described with its mean and standard deviation. The item *unstable exchange rate/inflation* had the highest mean, 4.15, with a standard deviation of 1.035, while the item *shortage of labour* had the lowest mean, 3.06, with a standard deviation of 1.206. All items have means greater than the weighted mean. And also, the overall mean of all the items is greater than the weighted mean, implying that in the opinion of participants, the above items are challenges of small and medium scale enterprises when they want to engage in the international market.

It was found that, on the whole, participants' opinions agreed that the items in table 5 are major challenges of internationalization of small and medium scale enterprises. This is evident in the results from the descriptive analysis of the challenges of internationalization of small and

medium scale enterprises. The mean of responses to every item on the table is greater than the weighted mean. The current exchange rate subverts the import and export dependent small and medium scale enterprises in Freetown. And this has a negative spiral effect on economic development. However, according to the opinion of participants, shortage of labour is the least item they consider as a challenge for internationalization of SMEs. This support the fact that Sierra Leone has excess of labour force that is either unemployed or underemployed.

TESTING THE HYPOTHESES

Criteria for decision making

The criteria for decision making are as follows:

If the significance level is less than 0.05, the hypothesis is rejected

If the significance level is greater than 0.05, the hypothesis is accepted

Correlation $-1 \leq r \leq +1$.

R = -1 signifies very strong negative relationship

R = 0 signifies no relationship

R = +1 signifies very strong positive relationship

Hypothesis 1. The challenges of internationalization and growth have no significant impact on small and medium scale enterprise in Freetown.

Table 6: Correlations

		International business activity	Cost_int
International business activity	Pearson correlation	1	-.036
	Sig. (2-tailed)		.560
	Sum of squares and Cross-products	69.469	-31.981
	Covariance	.242	-.119
	N	288	269
Cost_int	Pearson correlation	-.036	1
	Sig. (2-tailed)	.560	
	Sum of squares and Cross-products	-31.981	13071.010
	Covariance	-.119	44.611
	N	269	294

Correlation is significant at the 0.05 level (2-tailed)

The items on challenges of internationalization towards small and medium scale enterprise development are computed as cost of internationalization and correlated with international business activity (dependent variable) using Pearson correlation. Results in the table presented above are given as follows:

- Correlation value (r) = -.036 and
- Significance = .560

The “r” value of -.036 implies both variables are negatively related, and the relationship which exists is very weak. The significant level of .560 is greater than 0.05 implies the challenges of internationalization and growth have no significant impact on international business activity.

Decision

Hypothesis 1 “The challenges of internationalization and growth have no significant impact on small and medium scale enterprise in Freetown,” is therefore upheld.

Drawing from results of findings presented in the previous section, it was found that, on the whole, participants’ opinions agreed that the items in section B are major challenges of internationalization of small and medium scale enterprises. This is evident in the results from the descriptive analysis of the challenges of internationalization of small and medium scale enterprises. The mean of responses to every item is greater than the weighted mean. This supports the fact that participants believe that there are lot of challenges of small and medium scale enterprises when they want to engage in the international market (Okpara, 2010). Therefore, small and medium scale enterprises in Sierra Leone have their own local market; there is cheap labour, cheap local raw materials and favorable weather condition especially for those in the agriculture sector. Hence, the challenges of internationalization and growth have no significant impact on small and medium scale enterprise in Freetown

Hypothesis 2. There is no significant relationship between government policy actions and small and medium scale enterprise development in Freetown.

Table 7: Correlations

		International business activity	Govt_action
International business activity	Pearson correlation	1	-.101
	Sig. (2-tailed)		.097
	Sum of squares and Cross-products	69.469	-112.881
	Covariance	.242	-.420
	N	288	270
Govt_action	Pearson correlation	-.101	1
	Sig. (2-tailed)	.097	
	Sum of squares and Cross-products	-112.881	20117.854
	Covariance	-.420	68.662
	N	270	294

Correlation is significant at the 0.05 level (2-tailed)

After running a Pearson correlation between entrepreneurs’ international business activity and government policy actions items, the table above presented the results which are interpreted as follows: Correlation value (r) of -.101 exists between international business activity and government policy actions at .097 level of significance A very weak, negative and insignificant relationship exists between international business activity and government policy action.

Decision

Hypothesis 2 is hereby accepted.

When been tested for participants' opinion on government policy results from their responses showed that government policies are rigid and most times not implemented. Hence, it does not favour SMEs development. This is evident in the mean of responses shown. Each item responses mean is higher than the weighted mean and supported with the fact that a higher percent of the participants see government policy actions undermining the development of SMEs. This could be supported with the fact that even with the inefficient and non-implementable government policy such as the local content policy, SMEs are incapacitated as a result of the practically non-existence of enabling business environment (Osamwonyi and Tafamel, 2010). Government should not just articulate policies but should implement, monitor and evaluate these policies to have a positive impact on the people and SMEs development.

Hypothesis 3. Internationalization and growth does not influence the output of small medium enterprises in Sierra Leone economy.

Table 8: Correlations

		International business activity	Expansion_int
International business activity	Pearson correlation	1	-.065
	Sig. (2-tailed)		.283
	N	288	271
Expansion_int	Pearson correlation	-.065	1
	Sig. (2-tailed)	.283	
	N	271	295

Correlation is significant at the 0.05 level (2-tailed)

After items were been analyzed for correlation between international business activity and the influence of small medium enterprises output in Sierra Leone economy (expansion of internationalization) using Pearson correlation, results given in the table above are interpreted as follows: Correlation value (r) of -.065 exists between international business activity and expansion of internationalization at .283 level of significance. There is an insignificant relationship between international business activity and expansion of internationalization. Also, the relationship is negative and weak between the dependent and independent variables.

Decision

Hypothesis 3 is hereby consented.

Internationalization and growth does not influence the output of SMEs in Sierra Leone economy. Although a negative relationship exists between internationalization and growth and SMEs output ($r = -.065$), the result showed that the relationship is insignificant with $r = -.065$ at .283 level of significance. A negative r value implies a negative relationship i.e. as

internationalization and growth increases the output of SMEs decreases. Therefore, this leads to the rapid influx of foreign products in the market. This will further weaken the local currency (Leones). Therefore, the local infant SMEs would be forced to exit the market or sell substandard products that cannot compete favourably with their international counterpart.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The aim of this study is to contribute to the literature on internationalization and growth of small and medium scale enterprises by investigating the challenges of SMEs in Freetown. In addition to this, many factors influence firms' internationalization, including government policy, access to new market, entrepreneurial intention, access to finance and business skill. The findings from this study were believed to give an insight into the effect of the challenges of internationalization and growth on small and medium scale enterprises performance in Freetown.

The correlation analysis shows an insignificant negative relationship between government policy action and internationalization of SMEs. An implication of this research is that government policy action is not an important factor that affects the export and import orientation of SMEs. This is as a result of the practically non-existence of cadaver business laws. Internationalization, which was once thought of as the demon corporate, is now considered as a permeative and permanent force that will have both positive and negative effects on a significant portion of SMEs development. It is a major driver that has impact on nearly every business. The internationalization of markets for sales and purchasing at least indirectly influences every business. With the help of local governments, large corporations, and international organizations, entrepreneurial enterprises are able to confront the challenges posed by internationalization and economic liberalization, to improve their competitiveness in the international market.

Recommendations

1. Sierra Leone government should not only articulate policies to influence the rate of small and medium scale enterprise development but government should implement, monitor and evaluate policies that protect infant industries within her administrative and economic capability to encourage indigenous industries.
2. Governmental and private efforts should be expanded to accelerate trend towards small and medium scale enterprise development and a sense of individual responsibility towards society, as government cannot do it alone.
3. Sierra Leone government, banks, angel investors, trade creditors should introduce soft loans for small and medium business with singly digit interest rate and moratorium period.
4. The government should reduce the inflation rate via inflation targeting so that SMEs would be able to borrow sufficient money from commercial banks and sell their goods at a reasonable price. Also, through macroeconomic policies, the exchange rate should be stable and favourable to accelerate international trade.

5. Development of SMEs hub is fundamental to revitalize small and medium scale enterprise development. The Sierra Leone government should develop SMEs hub that would serve as an ecosystem for innovation, technology and entrepreneurship development.

Suggestions for further study

The study centres on the challenges of internationalization and growth of small and medium enterprises using Freetown as a case study with a population of 1 million. Future researchers should further their research to validate the findings of the study and to determine its reliability as well using other methodology and to add any other more explanatory variables that are theoretically inclined toward economic development. The scope of the study should be expanded for effective analysis of the subject matter.

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