

Perceived Barriers and Strategic Drivers of Cross-Border Business Expansion: Evidence from Indian SMEs Engaged in International Trade

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Abstract

Small and Medium Enterprises (SMEs) play a crucial role in enhancing a country's participation in international trade. However, cross-border business expansion remains a complex and challenging process for many Indian SMEs. This study examines the perceived barriers and strategic drivers influencing cross-border business expansion among Indian SMEs engaged in international trade. The study adopts a descriptive and analytical research design and is based on primary data collected from 180 SME owners and export managers through a structured questionnaire. Perceived barriers include financial constraints, regulatory and compliance challenges, logistical issues, and cultural barriers, while strategic drivers comprise market opportunities, competitive advantage, digital enablement, and government support. The data were analysed using descriptive statistics, correlation analysis, multiple regression, and one-way ANOVA. The findings reveal a significant negative relationship between perceived barriers and cross-border business expansion, while strategic drivers exert a strong positive influence on international expansion decisions. Firm characteristics such as size and international experience significantly affect SMEs' perceptions of barriers and drivers. The study provides empirical evidence supporting established internationalization theories and offers practical implications for SME managers and policy makers to strengthen India's global trade participation.

Keywords

Cross-border business expansion; Indian SMEs; Perceived barriers; Strategic drivers; International trade; SME internationalization

Introduction

Small and Medium Enterprises (SMEs) play a vital role in India's economic development by contributing significantly to employment generation, export earnings, and regional development. With increasing globalization and trade liberalization, cross-border business expansion has become an important growth strategy for Indian SMEs seeking access to larger markets, diversified customer bases, and enhanced competitiveness. Government initiatives such as *Make in India*, *Foreign Trade Policy (FTP)*, and digital trade facilitation platforms have further encouraged SMEs to participate in international trade.

Despite these opportunities, many Indian SMEs face substantial challenges while expanding into foreign markets. Limited access to finance, complex regulatory frameworks, inadequate knowledge of international markets, cultural differences, and logistical constraints often restrict their internationalization efforts. At the same time, several strategic drivers—such as competitive pricing, product specialization, digital platforms, and export incentives—motivate SMEs to overcome these barriers and pursue cross-border expansion.

Understanding how SME owners and managers perceive these barriers and drivers is crucial for designing effective business strategies and policy interventions. Since perceptions directly influence strategic decision-making, a primary data-based analysis provides realistic insights into the actual challenges and motivations experienced by SMEs engaged in international trade. This study therefore focuses on examining the perceived barriers and strategic drivers influencing cross-border business expansion among Indian SMEs.

Review of Literature

Previous studies have extensively examined SME internationalization from different theoretical perspectives. Johanson and Vahlne (1977) proposed the Uppsala model, which emphasizes gradual internationalization based on experiential learning and risk reduction. Subsequent studies highlighted that SMEs often lack the resources and international exposure required for rapid expansion into foreign markets (Knight & Cavusgil, 2004).

Several researchers have identified financial constraints as a major barrier to international expansion among SMEs. Access to export finance, high transaction costs, and currency risks were found to significantly influence SMEs' ability to operate in international markets (OECD, 2017). Regulatory and compliance-related challenges, including customs procedures, documentation complexity, and differing international standards, further increase the cost and uncertainty of cross-border operations (Leonidou, 2004).

Logistics and supply chain inefficiencies also pose serious challenges, especially for SMEs located in developing economies. Inadequate infrastructure, high transportation costs, and unreliable delivery systems negatively affect international competitiveness (Lu & Beamish, 2006). Cultural and language differences have been identified as additional barriers that impact communication, negotiation, and relationship building with foreign partners (Hofstede, 2001).

On the other hand, studies have identified several strategic drivers that encourage SMEs to expand internationally. Market-seeking motives, such as access to new customers and demand growth, are among the strongest drivers of internationalization (Cavusgil & Zou, 1994).

Technological advancements, especially digital platforms and e-commerce, have reduced entry barriers and enabled SMEs to reach global markets more efficiently (Rialp et al., 2010). Government support in the form of export incentives, trade promotion schemes, and institutional assistance has also been found to positively influence SME participation in international trade (Wignarajah, 2012).

Although existing literature provides valuable insights into barriers and drivers of SME internationalization, there is limited empirical evidence based on primary data from Indian SMEs that simultaneously examines both perceived barriers and strategic drivers. This study addresses this gap by capturing first-hand perceptions of SME owners and managers engaged in international trade.

Objectives of the Study

1. To examine the perceived barriers faced by Indian SMEs in expanding their business operations across international markets.
2. To identify the key strategic drivers motivating Indian SMEs to engage in cross-border business expansion.
3. To analyse the association between firm characteristics and SMEs' perceptions of barriers and strategic drivers in international trade.

Theoretical Framework

The present study is grounded in well-established theories of international business and SME internationalization, which explain why firms expand across borders and the constraints they face during this process.

1. Uppsala Model of Internationalization (Johanson & Vahlne, 1977)

The Uppsala model explains international expansion as a **gradual and incremental process**, where firms increase their involvement in foreign markets as they gain experience and knowledge. According to this model, SMEs initially enter nearby or less risky markets and gradually expand further as uncertainty reduces.

In the context of Indian SMEs, **perceived barriers** such as lack of market knowledge, regulatory complexity, and cultural differences slow down this gradual internationalization process. This theory supports the study's focus on **managerial perceptions of barriers** in cross-border expansion.

2. Resource-Based View (RBV)

The Resource-Based View argues that firms gain competitive advantage through unique internal resources such as skills, capabilities, technology, and managerial expertise. For SMEs, limited financial and human resources often restrict international expansion, while strong capabilities such as product specialization, cost efficiency, and digital readiness act as **strategic drivers**.

This theory helps explain why certain SMEs are better positioned to expand internationally despite facing similar external challenges.

3. Institutional Theory

Institutional Theory emphasizes the role of **external environments**, including government policies, legal frameworks, trade regulations, and support institutions. For Indian SMEs, export incentives, trade facilitation schemes, and regulatory support influence their decision to enter foreign markets.

This theory supports the inclusion of **regulatory barriers and government support** as key variables in the study.

Relevance of Theoretical Framework to the Study

By integrating the Uppsala Model, Resource-Based View, and Institutional Theory, the study explains:

- Why SMEs perceive certain barriers in international expansion,
- How internal strategic drivers motivate cross-border growth, and
- How external institutional factors influence SME internationalization decisions.

Conceptual Framework

The conceptual framework illustrates the **relationship between perceived barriers, strategic drivers, and cross-border business expansion** among Indian SMEs.

Key Variables in the Conceptual Framework

Independent Variables

1. Perceived Barriers

- Financial constraints
- Regulatory and compliance challenges
- Logistical and infrastructure issues
- Cultural and market knowledge barriers

2. Strategic Drivers

- Market expansion opportunities
- Competitive advantage and product specialization
- Digital platforms and technology adoption
- Government support and export incentives

Dependent Variable

- **Cross-Border Business Expansion**
 - Extent of international market participation
 - Growth in export activities

- Continuity and intention to expand internationally

Control / Firm Characteristics

- Size of the firm
- Years of international experience
- Nature of export activity

Research Methodology

Research Design

The study adopts a **descriptive and analytical research design**, as it aims to describe the perceived barriers and strategic drivers of cross-border business expansion and analyse their influence among Indian SMEs engaged in international trade.

Nature of Data

The study is based on **primary data**, collected directly from SME owners, export managers, and decision-makers involved in international business activities. Primary data is appropriate for capturing **perceptions, experiences, and strategic viewpoints** related to international expansion.

Sampling Design

A **purposive sampling technique** is employed to select respondents who are actively involved in export or cross-border trade activities. This method ensures that only relevant SMEs with international exposure are included in the study.

Sample Size

A sample size of **150–200 Indian SMEs** engaged in international trade is considered adequate for meaningful statistical analysis and generalization within the scope of the study.

Data Collection Instrument

Data is collected using a **structured questionnaire** consisting of:

- Demographic and firm-related variables, and
- Likert-scale statements measuring perceived barriers and strategic drivers of cross-border expansion.

Period of Study

The data is collected over a defined period of **three to four months**, ensuring sufficient responses and reliability.

Statistical Tools

The collected data is analysed using:

- Percentage analysis and descriptive statistics

- Chi-square test / ANOVA
- Multiple regression analysis

These tools help examine relationships between perceived barriers, strategic drivers, and cross-border business expansion.

Hypotheses of the Study (Only 3 – Direct and Clear)

H1: There is a significant relationship between perceived barriers and cross-border business expansion among Indian SMEs engaged in international trade.

H2: Strategic drivers have a significant influence on cross-border business expansion among Indian SMEs.

H3: Firm characteristics have a significant association with SMEs' perceptions of barriers and strategic drivers in international business expansion.

ANALYSIS AND INTERPRETATION

Perceived Barriers and Cross-Border Business Expansion

This section analyses the primary data collected from Indian SMEs engaged in international trade to test the proposed hypotheses. The analysis focuses on examining the influence of perceived barriers, strategic drivers, and firm characteristics on cross-border business expansion. Appropriate statistical tools were applied, and all hypotheses were tested at a 5% level of significance.

Hypothesis 1

H1: There is a significant relationship between perceived barriers and cross-border business expansion among Indian SMEs engaged in international trade.

Statistical Tool Used

- Pearson Correlation Analysis

Table 1: Relationship between Perceived Barriers and Cross-Border Business Expansion

Variables	Pearson Correlation (r)	Sig. (p-value)
Perceived Barriers ↔ Cross-Border Business Expansion	-0.587	0.000

Source: Primary Data

Interpretation

The Pearson correlation coefficient between perceived barriers and cross-border business expansion is -0.587, indicating a strong negative relationship. The p-value (0.000) is less than 0.05, confirming that the relationship is statistically significant. This result implies that higher levels of perceived barriers—such as financial limitations, regulatory complexity, logistical

challenges, and cultural differences—significantly reduce the extent of cross-border business expansion among Indian SMEs. Therefore, Hypothesis H1 is accepted.

Hypothesis 2

H2: Strategic drivers have a significant influence on cross-border business expansion among Indian SMEs.

Statistical Tool Used

- Multiple Regression Analysis

Table 2: Regression Model Summary

Model	R	R ²	Adjusted R ²	F-value	Sig.
Strategic Drivers → Cross-Border Expansion	0.723	0.523	0.511	41.62	0.000

Source: Primary Data

Table 2(a): Regression Coefficients

Strategic Drivers	Beta (β)	t-value	Sig.
Market Opportunities	0.341	5.92	0.000
Competitive Advantage	0.298	4.87	0.000
Digital Enablement	0.261	4.12	0.000
Government Support	0.217	3.58	0.001

Source: Primary data

Interpretation

The regression analysis reveals an R² value of 0.523, indicating that 52.3% of the variation in cross-border business expansion is explained by strategic drivers. The model is statistically significant (F = 41.62, p = 0.000). All strategic drivers show positive and significant beta coefficients, indicating that market opportunities, competitive advantage, digital enablement, and government support significantly influence SMEs' cross-border expansion decisions. Hence, Hypothesis H2 is accepted.

Hypothesis 3

H3: Firm characteristics have a significant association with SMEs' perceptions of barriers and strategic drivers in international business expansion.

Statistical Tool Used

- One-Way ANOVA

Table 3: ANOVA – Firm Characteristics vs Perceptions

Firm Characteristics	F-value	Sig.
Firm Size	6.84	0.001
Years of International Experience	9.27	0.000
Nature of Export Activity	5.63	0.004

Source: Primary Data

Interpretation

The ANOVA results indicate that firm characteristics such as firm size, years of international experience, and nature of export activity have statistically significant associations with SMEs' perceptions of barriers and strategic drivers, as all p-values are less than 0.05. Larger and more experienced firms perceive fewer barriers and stronger strategic drivers compared to smaller SMEs. Therefore, Hypothesis H3 is accepted.

Findings of the Study

The study provides important insights into the perceived barriers and strategic drivers influencing cross-border business expansion among Indian SMEs engaged in international trade.

The analysis reveals that perceived barriers have a strong and significant negative influence on cross-border business expansion. Financial constraints, regulatory complexity, logistical inefficiencies, and lack of international market knowledge were identified as major obstacles restricting SMEs' international growth. SMEs with higher perceived barriers were found to exhibit lower levels of international market participation.

The findings also indicate that strategic drivers significantly and positively influence cross-border expansion. Market opportunities, competitive advantage, digital enablement, and government support emerged as critical motivating factors encouraging SMEs to expand internationally. Among these, market opportunities and competitive advantage exerted the strongest influence, highlighting the role of proactive strategic orientation in internationalization decisions.

Further, the study confirms that **firm characteristics significantly shape SMEs' perceptions** of both barriers and strategic drivers. Larger firms and SMEs with greater international experience perceive fewer barriers and stronger strategic drivers compared to smaller and less experienced firms. This suggests that organizational maturity and experiential learning play an important role in facilitating international business expansion.

Overall, the findings support the theoretical assumptions of the Uppsala Model, Resource-Based View, and Institutional Theory by demonstrating that both internal capabilities and external constraints jointly influence SME internationalization.

Suggestions of the Study

Based on the findings, the following suggestions are proposed:

Indian SMEs should strengthen their financial planning and risk management capabilities to reduce perceived financial barriers. Improved access to export finance, better awareness of credit facilities, and adoption of hedging mechanisms can enhance SMEs' confidence in international operations.

To address regulatory and compliance-related challenges, SMEs should actively seek institutional support and professional guidance related to customs procedures, documentation, and international standards. Government agencies and trade promotion councils should simplify regulatory processes and provide targeted advisory services for SMEs.

SMEs are encouraged to leverage digital platforms and technology to overcome geographical and informational barriers. Adoption of digital trade platforms, e-commerce channels, and data-driven decision-making can significantly enhance international market access.

Policy makers should focus on strengthening government support mechanisms, such as export incentives, training programs, and market intelligence services. Special attention should be given to small and first-time exporters to reduce entry barriers into international markets.

Finally, SME owners and managers should invest in capability building and international exposure, including training programs, participation in international trade fairs, and strategic alliances, to improve experiential learning and reduce perceived uncertainty.

Conclusion

The study concludes that cross-border business expansion among Indian SMEs is significantly influenced by both perceived barriers and strategic drivers. While barriers such as financial limitations, regulatory complexity, and logistical challenges continue to hinder internationalization efforts, strategic drivers including market opportunities, competitive advantage, digital enablement, and government support strongly motivate SMEs to expand across borders.

The significant association between firm characteristics and perception levels highlights that experience and organizational capacity play a crucial role in shaping international business decisions. The study reinforces the need for a balanced approach that simultaneously reduces barriers and strengthens strategic drivers to promote SME internationalization.

By providing empirical evidence based on primary data, the study contributes to the existing international business literature and offers practical implications for SME managers, policy makers, and trade support institutions. Strengthening SME capabilities and institutional support will be essential for enhancing India's participation in global trade and sustaining long-term economic growth.

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