THE INTERNATIONALISATION OF SMEs IN THE ENVIRONMENT OF GLOBALISATION FROM THE BARRIERS POINT OF VIEW

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Abstract:
A greater part of both international and national literature on internationalization SMEs and final theoretical models are derived from foreign activities of big companies. Scientists’ attention has been drawn to the problematic of integrating SMEs into international transformation especially in the last two decades. If the enterprise is to be successful (i.e. to be competitive, profitable and viable) under the current conditions and mainly under the conditions of the common European market, it is necessary to focus not only on domestic market but expand further beyond the country frontier. This trend is resulting from the instantly growing competitive pressure of globalised market. Internationalization seems to be one of the principal challenges for small and medium-size enterprises. The significant role of internationalizing activities of enterprises is the level of knowledge which the enterprise has available and what is the scope of utilization like. Globalisation is a big challenge for SMEs in transformation economies on the one side and big threat on the other side. Submitted paper deals with the question of identification of barriers of internationalization activities of SMEs. These barriers can come out from general as well as field and internal environment of the company. In the introduction are indicated theoretical starting points of research of this question. From the latest trends result that just scope and use of knowledge is becoming the motive force of successful business. Results were used from performed empiric research within the framework of the solution to the project GA/402/02/0106 "Internationalization of Small and Medium Enterprises in the Czech Republic".

Key words: Internationalisation, SMEs, barriers, Czech Republic, research
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1. INTRODUCTION

A greater part of both international and national literature on internationalization SMEs and final theoretical models are derived from foreign activities of big companies. Scientists’ attention has been drawn to the problematic of integrating SMEs into international transformation especially in the last two decades. If the enterprise is to be successful (i.e. to be competitive, profitable and viable) under the current conditions and mainly under the conditions of the common European market, it is necessary to focus not only on domestic market but expand further beyond the country frontier. This trend is resulting from the instantly growing competitive pressure of globalised market. Internationalization seems to be one of the principal challenges for small and medium-size enterprises. The significant role of internationalizing activities of enterprises is the level of knowledge which the enterprise has available and what is the scope of utilization like.

1.1. Internationalisation process

In the period of the development of internationalization, as a term, it is essential to state that scientists have suggested a spectrum of various approaches, which lead rather to blurring than clearing up the term. Originating methodologies tended to unwind from the situational perspective to the current attitude, classifying internationalization as a dynamic process. The latest finding in this area has emphasized the collaboration between enterprises and other entities together in the process of internationalization.

While determining the term of internationalization, we follow Beamish’ definition (1990) in our research. His view is both holistic in nature and has the advantage for
clearing up various internationalization processes. He suggests that internationalization is a "process by which firms both increase their awareness of the direct and indirect impact of international transaction on their future, and establish and conduct transactions with enterprises of other countries" (Beamish, 1990, p.77). This definition has several advantages, one being the integration of learning with investment, i.e. there are both economic and behavioural components. Secondly, it enables what Korhonen et al (1996) argue that the important but neglected part of the process of internationalization, which is internal internationalization, examples are anti-business and import of goods and services. At third the definition implies rather process than an event.

In research terms the debate on internationalization have concentrated on activities of bigger enterprises for a few past years but in the two past decades a visible attempt concerning smaller enterprises has been noted. Several statements exists that smaller enterprises do not take into account managerial thinking of bigger-size enterprises (e.g. O’Farrel et al, 1988).

Some commentators believe that none of the present "schools" (FDI, Uppsala model and network model) is able to classify internationalization of small and medium-size enterprises as a whole. Coviello and McAuley (1999) claim that all the three "schools" are presented in literature about small and medium-size enterprises. Uppsala model is used most of all, network model and FID follows. Most studies follow a simple theoretic frame that may have a reductive effect on the research. Coviello and McAuley judge elements of each school may effectively explain the process of internationalization in small and medium-size enterprises.

What may seem odd is a relative absence towards FDI. Buckley (1989) studied issues related to direct foreign investments of small and medium-size enterprises, and a developed model that could be used to evaluate management while deciding in the process of internationalization. However, only a few scientists have accepted this model. Network school seems to be efficient to join small and medium-size enterprises and other entities, various organizations and ministries, those that play an important role in their development on outside markets (Bridgwater 1992). The contribution to these organizations, specifically established to support small
enterprises, has been mentioned very often by scientists in the western part of Europe and the USA.

Two spheres of theories specific for internationalization of small and medium-size enterprises have appeared recently. First one is the result of work by Korhonen et al (1999) that looked into internal internationalization of small and medium-size enterprises in Finland. They suggest the process of goods import and services is basic for small and medium-size enterprises in that the knowledge of products, matter of quality and awareness collected during negotiations and foreign relationship, supplier and customer can provide an impulse for outer internationalization. In reality, for most of small and medium-size investigated enterprises internal internationalization preceded outer one. They claim the processes can be mutually bound in some organizations, and suggest that while government naturally protect domestic markets and can find import suspicious, internal internationalization can provide significant long-time contributions to the enterprises concerned.

The second sphere of theory of internationalization of small and medium-size enterprises, being developed at present, is critical for all three chief "schools". Oviatt and McDougall made a research (New International Ventures) of new international ventures (McDougall 1989, Oviatt and McDougall 1994, 1997). The classification a new international venture as a "business organization searching from the beginning a significant competitive advantage from the source utilization and sale of results in many countries" (Oviatt and McDougall 1994, p 46). They think, the phase and model scope of internationalisation are not convenient to be understood any more on how these enterprises are internationalized, because the stated theory assumes such enterprises utilized from the position at domestic market.

Bloodgood et al (1997) claims, that new ventures can aim to international presence from one or two reasons: At first - international presence is required from the point of competition in a stated sector, as an example can be customers’ expectation concerning services in international destinations;
At second - the new enterprise may require an international presence due to the capitalization of a unique collection of managerial sources, global experience, new technologies and innovations, especially as they may be easily usable apart from others. Despite the fact Bloodgood et al admit some useful theoretical elements here that help explain new international ventures as "stage" (phase) theory, but they are not themselves sufficient. They came to the conclusion that a slow, settled approach to internationalization need not be necessarily accompanied with international new ventures; they also admit the role of the government at establishing new enterprises concerning either fiscal policy or national base such as research support.

1.2. Internationalization barriers

Several studies dealing with barrier internationalization of exporting and non-exporting enterprises generally are devoted to this problematic theoretically (Leonidov, 1995; Campbell, 1994; Katskeas and Morgan, 1994; Morgan, 1997). On the basis of these studies we may rang barriers of internationalization into five wide areas: financial, managerial, and market-oriented (including both national and international markets), characteristics of industry and enterprises. Generally is known that barriers of internationalization exist on every level of the internationalization process,(Morgan,1997). To understand barriers may differ from the dependance on the level of internationalization of individual enterprises. (Buton, Schlegelmisch, 1987; Cavugsil, 1984; Kedi, Chokar, 1986, Katsikean, Morgan, 1994). These studies are similar in their conceptual characteristics issuing former studies of understanding export barriers in general. (Katsikean, Morgan, 1994, Morgan, Katsikean 1997, 1998).

1.2.1. Characteristics of Enterprise

Among basic characteristics of an enterprise belongs for example his size. Shaw and Hassan (2002) found in their research of enterprises providing services in New Zealand that small enterprises are more capable to be successful in penetration on foreign markets than big enterprises. Calof (1994) also states, that size is not a barrier for small and medium-size enterprises.
H 1: Size of enterprise measured by the number of employees does not influence his internationalization activities.

1.2.2. Characteristics of industry

Another factor relating to an international development of small and medium-size enterprises is that the process may last relatively long and researchers have suggested the export phase itself could develop relatively long. The process is likely to be influenced by the structure of industry and given business environment (Tyebjee 1994), therefore the export significantly differs in individual branches of industry.

Small and medium-size enterprises in the Czech Republic present about 99, 8% from the total amount of all entrepreneurial subjects according to Ministry of Industry. (Vodáček a Vodáčková, 2004). In the branch of industry there are aprox. 20% of these subjects and employment rate is about 47% in the national economy.

Both Glas and coll. and Smallborne argue that government policy may have a significant impact on the growth and development of small and medium-size enterprises, from which the economy may profit as a whole. They both call for the development and implementation of a convenient fiscal policy to lower tax burden on small and medium-size entities. Barriers are also understood in the sphere of insufficient support of governmental and non-governmental organizations, acting administrative bodies, legislative security, measures regulating export and etc.

H 2: Governmental support of institutions has a significant impact on internationalization activities of small and medium-size enterprises.

Internationalization may be understood better in the context of an individual sector and enterprise (Boter nad Holmquist 1966, Tyebjee 1994). Bonaccorsi (1994) claim that industrial structure is important because influences the relation between the size of enterprises and the export intensity.
Vodáček and Vodáčková (2004, p.23-24) divide small and medium-size enterprises in the Czech Republic according to their competitive position into four groups:

- Medium-size enterprises having significance for the Czech market and having long-time experience in international cooperation;
- Medium-size enterprises and small export entities working in the areas of growth and having short-time experience in international cooperation;
- Medium-size and small enterprises orienting on domestic market and working in traditional branches of production and consumption;
- Very small enterprises and micro enterprises anchored in the local area of domestic market regardless experience in international environment;

According to Vodáček and Vodáčková (2004) a good competitive position is made especially by small and medium- size enterprises that systematically look after their innovation policy rise in productivity of labour and high quality of production.

\[ H 2a: \text{The reason for increasing internationalization activities of Czech small and medium- size industrial enterprises is their competitive ability in the sphere of technological maturity of products and their quality.} \]

1.2.3. Market Characteristics

To act well on international markets is the necessity for many Czech enterprises when considering the characteristics of domestic economy (small and relatively saturated internal market, insufficient natural resources, and relatively high degree of specialization of industry).

Liesh and Knight (1999) claim that SMEs may utilize advantages of internationalization such as bigger entities so long as they will be able collecting information of external markets. As the small and medium- size enterprises are more flexible and react promptly, they often have the advantage of being ready to act if they have a sufficient amount of information and awareness and are able to gain.

\[ H 3: \text{Enterprises’ application of marketing activities has a positive impact on their internationalization activities.} \]
**H 3a:** The enterprises that engage in international trade more utilize the collection of information.

**H 3b:** The enterprises that engage in international trade follow more the needs of their customers and their demands.

**H 3c:** The enterprises that engage in international trade utilize more technology of optional market objectives and their segmentation.

**H 3d** The enterprises that engage in international trade utilize more tools of marketing mix.

### 1.2.4 Managerial characteristics

The link up between the process of internationalization and strategic thinking in small and medium-size enterprises requires some research. There may be an argument that increasing managerial experience of international trade influences strategic development of small and medium enterprises. Tyebje (1994) indicates the significance of development of managerial knowledge, his attitudes and activities for internationalization of enterprises’ activities. Small enterprises have the advantage in that the same people are likely to deal with either internal or export processes so that the problem with the transformation of knowledge and experience to employees will not exist. Foreign contacts in the sphere of relationships with suppliers may be an important link for the export integration (Martin, 1991).

**H 4:** The more experience the managers of enterprises with international trades have the more international activities are integrated in strategic planning.

**H 4a:** The abilities and experience of management with international operations have an impact on the intensity of internationalization of enterprises activities.

**H 4b:** The enterprises that management utilize marketing factors for decision of the entry to foreign markets are more internationalized.

### 1.2.5 Barriers in the area of financial characteristics

The problem to rise the capital and sources for small and medium-size enterprises is one of problematic being in the attention of researchers. (i.g. Fillis, 2001; Buckley,
The former study investigation was that there are certain differences in identification of barriers between enterprises that have been internationalized and those that have not been internationalized. The missing information about markets is, in accordance with several authors, much bigger barrier than limited financial sources. (i.g. Karagozoglu and Lindell, 19987, Lamb and Liesh, 1998, Rhee, 2002, Manolova and coll., 2002).

\[ H_5: \text{The barrier for small and medium size enterprises for their internationalization activities are insufficient financial sources.} \]

2. **EMPIRIC RESEARCH**

The problematic of barrier classification to integrate Czech SMEs in international undertakings was one of partial research objectives of the project "Internationalization SMEs in the Czech Republic" (GA 402/02/0106).

The part of methodology of the research project was not only to provide secondary research but empiric research as well, that would make a survey of how Czech SMEs are being internationalized and what barriers of the process are alike. In 2003 was made a quantitative research using a questionnaire method that was verified by pre-research in 2002 on the sample of 30 enterprises. The whole process was scheduled according to a programme and methodology of quantitative research. The sample selection was determined in accordance with the specific subjective and objective research. The enterprises were selected from the Albertina database. It deals with SMEs from the processing industry, according to the OKEČ classification it is the area D (see chart No.1). The diagrams No.1 and 2 show the structure of enterprises involved in the investigation from the viewpoint of individual branches of processing industry and company size.

Data were acquired from questionnaires mailed to companies. This form was supported by phone to about 10% of the selected companies before the
questionnaires were mailed. A total of 1500 questionnaires were mailed. Respondents were some owners or directors of enterprises that are responsible for the strategic development. The return rate was about 10%.

On the return about 43% of questionnaires were discarded due to data incompleteness. In the further processing only 86 questionnaires were classified.

<table>
<thead>
<tr>
<th>Table 1: Sample structure</th>
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<tbody>
<tr>
<td>Processing industry under OKEČ</td>
</tr>
<tr>
<td>Source: ČSU</td>
</tr>
<tr>
<td>DA Food and tabacco industry</td>
</tr>
<tr>
<td>DB Textile and clothing industry</td>
</tr>
<tr>
<td>DC Tanning industry</td>
</tr>
<tr>
<td>DD Timber processing industry</td>
</tr>
<tr>
<td>DE Paper and polygraphic industry</td>
</tr>
<tr>
<td>DF Coking and refinery industry</td>
</tr>
<tr>
<td>DG Chemical and farmaceutical industry</td>
</tr>
<tr>
<td>DH Rubber industry</td>
</tr>
<tr>
<td>DI Glass, ceramic and pocelain industry</td>
</tr>
<tr>
<td>DJ Metal and metal products manufacturing</td>
</tr>
<tr>
<td>DK Machines and equipment for manufacturing</td>
</tr>
<tr>
<td>DL Electrical and optical instruments</td>
</tr>
<tr>
<td>DM Transport means manufacture</td>
</tr>
<tr>
<td>DN Other types of processing industry</td>
</tr>
</tbody>
</table>
Diagram 1: Industries in which Enterprises Surveyed were Active

Diagram 2: Enterprises by the Number of Employees
2.1. Results

When analyzing data from the division of collection upon the set of the enterprises that have been internationalized and upon the set of those ones that have not been internationalized. Further according to the size of small and medium companies. (See diagram No.2). The collection of questionnaires hereinabove after the check of completeness and sense the data dropped only to 86 questionnaires, which unable sorting and analyzing the collection according to further characteristics. The size of samples made impossible to analyze enterprises for example according to individual areas of undertaking. While analyzing we used basic statistic methods describing the colection and correlation analyses.

2.1.1. Characteristics of Enterprises

Table 2: Division of Enterprises by the Size and Engagement in International Undertaking

<table>
<thead>
<tr>
<th></th>
<th>Internationalized enterprises</th>
<th>Non-internationalized enterprises</th>
<th>Total</th>
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<tbody>
<tr>
<td>Small companies up to 49 employees</td>
<td>42</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Medium-size companies 50-250 employees</td>
<td>22</td>
<td>4</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>22</td>
<td>86</td>
</tr>
</tbody>
</table>

The connection indicated in hypo these 1, which the size of the company measured by a number of employees does not influence its internationalization activities, has been confirmed. The relation between rows and columns of diagram 1 is not statistically significant. It means that internationalized and non-internationalized companies do not differ according to their size.
2.1.2. Characteristics of Industry

One of the most important factors having an impact on the development of internationalization activities of small and medium-size companies is the support of government. Acting governmental and non-governmental institutions, operating administrative bodies, legal measure and measures regulating export that had been investigated in connection with hypothesis 2a were changeable. All of investigated relations were statistically unimportant. Average figures showed at INT and NEINT enterprises rather neutral relation. We may suppose that enterprises do not understand the governmental support as an expressive barrier but nor do they see their great contribution to the support of own internationalization activities.

The emphasis on the quality of products and their technological maturity seem to be a specific feature of enterprises undertaking in the area of industry. Within the framework of investigation besides goods transformation, the attention was drawn to the transformation of knowledge, production and people.

Results implied some statistically interesting and significant connection right in the area of goods and advanced technology and were motivation for enterprises internationalization. Unique products convenient for export are a motivation especially at export through independent agents and higher forms of internationalization (Joint Venture with a foreign partner or establishing own business abroad). On the other hand utilization of technological advantages is a motivation for increasing export especially finished products. The enterprises that are linked up to the international enterprise network, import considerably more (average -5 versus average -0, 89) or those that have own businesses abroad (average -3 versus average -0, 82). Most relations, however, were statistically unimportant, as a reason hypothesis No.2 cannot be confirmed. On the other hand it may be deducted that the unique of products, their quality and technological maturity may imply a barrier of distinguished links up of small and medium-size enterprises to international trade. It is possible to support it with a statistically proven distinguished difference (on level of importance 5 %) in internationalized enterprises (further INT) and non-internationalized (further NEINT) (under diagram No.2) in their understanding of competitive advantages. The average value of enterprises INT is higher than NEINT
just concerning the quality and specific features of products. (Average 4.36 to average 3.84 at quality of products and 3.58 to average 2.89 at specific features of products).

2.1.3. Characteristics of Market

Utilization of marketing activities by an enterprise seems to be an important factor for internationalization activities of MSP. Enterprises that have knowledge of markets, customers needs and marketing tools are more ready for penetrating on foreign markets.

From the point of view of average figures is possible to state that marketing and its activities are not a strong point for small and medium-size companies. The most used activity is following customers’ needs and finding about their satisfaction. Statistically significant difference (level of significance 1%) has been proved between INT and NEINT enterprises just in the two areas. (Following needs of aimed customers -average 3.934 against average 2.857; finding about customers´ satisfaction average 3.983 against 2.786). Also while selecting aimed countries (3.103 against average 1.933), market selection and its segmentation (3.035 against 2.071) and determining cost strategies on foreign markets (average 3.397 against 2.357). On level of significance 5% has been proved a difference between INT and NEINT enterprises in their approach to using market investigation and gathering information (average 3.069 against average 2.429. At adjusting products (average 3 against 2.143), measures for the selection of distributive ways (average 2.727 against 2.071) and price adjustment (average 3.068 against average 2.357).

Relations implied in hypotheses 3a, 3b, 3c and 3d have been confirmed. On the basis of this we may say that hypothesis 3 Application of marketing activities by an enterprise has a positive impact on their internationalization activity.

2.1.4. Managerial Characteristics

Managerial knowledge, abilities and experience of small and medium-sized companies are other important factors of internationalization, which may create a big
barrier. From the point of view of average data we may say that stronger points of enterprises is chief knowledge of foreign market, collected information about the business practice of foreign competitors, ability to collect information about markets, rate of undertaking product distribution on foreign markets, ability to adjust production with foreign standards, ability to select and realize convenient strategies to penetrate into the foreign market, experience of international operations, accepting new knowledge, ability to use up an opportunity and language knowledge as well.

All these factors seemed to be statistically important from the point of view of differences between INT and NEINT enterprises. In some cases were confirmed relations between abilities and experience of management with international operations and the difference between INT and NEINT enterprises, the relation between utilization of marketing factors and their internationalization as well. We may think that in our case pay hypotheses 4a and 4b and by that we may confirm the validity of hypothesis 4. The more experience with international markets managers of enterprises have the more international activities have been included in strategic planning.

2.1.5 Barriers in the Area of Financial Characteristics

In the area of financial characteristics we have concentrated above all to a connection between financial sources, their utilization and internationalization activities MSP. From our environment it is known that one of the important barriers of internationalization may be a problem with utilization of external financial sources. Insufficient financial sources may be a big barrier while extending activities on foreign markets. Results have not confirmed hypothesis 5: For small and medium-size enterprises the insufficient financial sources are a barrier of internationalization activities.

Within the frame of results has not been confirmed any statistically important relation between INT and NEINT enterprises from the viewpoint of their utilization of financial sources. Average figures show inexpressive differences in the characteristics of institutions used up while financing enterprises’ financial operations. An interesting
finding is a relative wide use of financial sources from Funds for financing international activities, funds EU etc.

2.2 Conclusion

The problematic of barriers of internationalization is the complicated problematic and even in foreign literature not always clearly described. Our experience, possibilities and access to information sources have influenced the character of the primary research. Literature and published results of investigation dealing with this topic confirm that our barrier determination and understanding of internationalization have been relatively correct. However, it is necessary to point out to other possibilities and directions of research in this area. Certainly it would be interesting to compare the results with other related countries (countries of former eastern and middle Europe). In addition the attention could be drawn more even to a characteristic of barrier in the area of macro economy.

Our standpoint for barrier research was rather a point of macro economy, understanding barriers from the viewpoint of MSP.

The certain limited result of the presented results is increasing unwillingness of companies to collaborate in research. The evidence of that is a relatively small sample of returned questionnaires of this investigation.

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