

# INTERNACIONALIZACIJA POSLOVANJA MALIH I SREDNJIH PODUZEĆA

## INTERNATIONALIZATION OF SMALL AND MEDIUM-SIZED ENTERPRISES

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Review

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### Ključne riječi:

*mala i srednja poduzeća, internacionalizacija poslovanja, modeli internacionalizacije poduzeća, čimbenici internacionalizacije, marketinška koncepcija internacionalizacije*

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*small and medium-sized enterprises, business internationalization, internationalization patterns, internationalization factors, marketing concept of internationalization*

### SAŽETAK

Razvijene zemlje, koje su površinom i brojem stanovnika slične Hrvatskoj, upućuju na važnost prepoznavanja sektora malih i srednjih poduzeća kao nositelja izvoznih aktivnosti i ključnog čimbenika podizanja konkurentnosti cjelokupnog gospodarstva. U ovom istraživačkom radu autori razrađuju koncept internacionalizacije poslovanja malih i srednjih poduzeća. Prikazuju se prednosti i nedostaci internacionalizacije poslovanja za poduzeća i državu, analiziraju najčešći modeli na osnovi kojih se proces provodi u praksi te pojašnjava utjecaj donositelja odluka na proces internacionalizacije malih i srednjih poduzeća. Studija slučaja malog izvoznog

### ABSTRACT

Highly developed countries, which are similar to Croatia by size and population, highlight the importance of small and medium-sized enterprises (SMEs) as holders of export activities and key factors in raising the competitiveness of the entire economy. In this paper authors research the concept of internationalization of SMEs. Analyzing the influence of decision makers on the process of internationalization and showing its advantages and disadvantages for the respective company and country, this research introduces the most common models on the basis of which this process is implemented in practice. A case study of a small

poduzeća iz Hrvatske pokazuje kako se odvijao proces internacionalizacije poslovanja na tržištu SAD-a i pruža korisne informacije poduzećima koja razmišljaju o izlasku na nova tržišta.

export company from Croatia illustrates the process of internationalization to the U.S. market and provides useful information to the companies which are planning to enter new markets.

## 1. INTRODUCTION

International economy is exposed to powerful globalization processes and a rapid introduction of IT technologies. It is frequently said that the enterprises reluctant to internationalize their business can have no long-term prospects in any modern economy.<sup>1</sup> The barriers that prevent foreign businesses from entering a domestic market will have to be removed and there will be no second chance for enterprises which are not prepared. Therefore, small and medium-sized enterprises in Croatia are facing increasing business uncertainties in the terms of new market challenges, and they will soon find themselves in a situation that boils down to the following dilemma: either to adjust to new business circumstances or disappear from the market.

Business internationalization is becoming an important precondition for further growth and development. The advantages of internationalization for both the enterprise and the country are multiple and that is why the executive government must not act as a passive bystander but rather become an active participant, especially when it comes to creating favorable business conditions. The internationalization of enterprise is an extremely complex process that can not be accomplished overnight and in order to achieve it, one has to be quite educated on the subject and plan it systematically while also having financial means, audacity and just a bit of luck. When we take into account the lack of high quality human and financial resources, we have to wonder whether small and medium-sized enterprises in Croatia are even capable of operating in international markets.

This paper presents the basic motives that lead to the internationalization of SMEs and shows the advantages and disadvantages of the process of internationalization for the enterprise itself. The influence of decision-makers in the enterprise was analyzed and theoretical models of business internationalization were presented. There is no universal model applicable in each instance and if uncertainty and unpredictability of market conditions are taken into consideration, such a model may not even be expected. Nowadays,

entrepreneurs often encounter myriads of complex decisions that they have to make promptly. This is why past experience in the field of internationalization may be not only helpful but can also aid in making a right decision while substantially minimizing related risks. A business case of a small Croatian enterprise that is analyzed at the end of this paper provides useful information to the enterprises that consider making an entrance in a foreign market.

## 2. INTERNATIONALIZATION OF SMALL AND MEDIUM-SIZED ENTERPRISES

Contemporary globalization processes have a strong influence on the small and medium-sized enterprises' business philosophy.<sup>2</sup> Some enterprises find this to be a new opportunity to expand and grow and since such enterprises do not have a problem adjusting, they become internationally competitive. However, increasing economic co-dependence means more competition for the majority and gives rise to new, very serious challenges and threats. The speed of these changes forces the participants to think globally and act quickly. In such a context, no enterprises should aim toward a business model dependent solely on the domestic market, as that would expose it to a risk of disappearing or being taken over by a more resourceful enterprise. The internationalization of business is a necessary process and the sooner it begins, the sooner it will enable growth and long-term development. Only the enterprises which run their business according to international standards and base it on planned marketing will survive.<sup>3</sup>

The internationalization of business can be defined as a series of business activities outside national borders which are based on applying the notion of international marketing. It has to be emphasized that the internationalization of business is a process that happens both rapidly and in stages, and leads to major changes in the enterprise as well as in the economic activities. Making a decision to internationalize depends on certain preconditions, such as: size of the domestic

market, market position and enterprise flexibility; openness of the domestic market; development of the sector; management capability etc. However, it is very important to highlight that the process of internationalization of enterprises is closely related to the application of a sound marketing strategy. No enterprise can internationalize its business without complete acceptance of the marketing concept.<sup>4</sup> Even though the majority of international enterprises now select the global marketing concept as their primary choice, their global orientation does not necessarily mean that the enterprise will participate in all the world markets. They may channel their efforts toward the most promising markets. An enterprise's global orientation is not necessarily related to its size. The majority of market entities, regardless of their size and location, can become global.<sup>5</sup> The main characteristic of a global enterprise is the allocation of manufacturing factors to a place where growth potential is optimal.

In today's world, small businesses are dominant in terms of business activities (more than 95%<sup>6</sup> of business activities of all countries comes from this sector). Being a small enterprise can often be an advantage, as it means flexibility, openness, dynamism and innovation, but may also present certain barriers, mostly of financial nature (inability to finance business ideas, unfavorable financing terms...). In order to face new challenges and threats successfully, enterprises have to pay special attention to ever growing competitiveness that originates from various internal and external factors. Global differences in manufacturing conditions as well as innovation, acceptance of new technologies, knowledge of the market and access to funding are basic categories that the management of any SME should special look after.

Basic advantages of this sector compared to large enterprises are: lack of barriers in terms of hierarchy; greater flexibility of the decision-making process; shorter period of response to the needs of consumers and market, and easier partnering with the enterprises which are suitable for achieving synergetic business results. Each SME manager is primarily interested in direct advantages that the enterprise will have as a result of the internationalization process. Such direct advantages can be specified by determining motivational factors that influence the

enterprise's decision to act outside national borders. Among the four basic motives that small and medium-sized enterprises state as the reason for internationalization are the following: unique product, technological advantage over competition; achieving economies of scale and a desire not to miss out on potential business opportunities in foreign markets.<sup>7</sup>

Unique product and technological superiority are the basic motives that afford the enterprise a certain amount of safety during the internationalization process while new opportunities on foreign markets and potentially better sales results are some of the basic advantages of internationalization. Three additional motives that the enterprises often state as possible reasons for internationalization should also be mentioned: domestic market is on a decline and the enterprise is afraid of losing its market share; domestic market is saturated; enterprise owner/manager wishes to strengthen the enterprise's sales outside the national borders. Additional revenue from foreign markets undoubtedly enables normal growth and development of the enterprise. By expanding, it gains access to new technologies and experience in international business, and adopts new skills. Furthermore, it establishes collaboration with other enterprises and the access to new sources of funding is facilitated. All these can be characterized as being the advantages for small and medium-sized enterprises in internationalizing their business.

The SME sector is of crucial importance to national economies. The "European Charter for Small and Medium-sized Enterprises", in which this sector is defined as one of the foundations of economic growth, as well as the fact that in the United States, for example, three out of four new jobs are created in small businesses,<sup>8</sup> speak enough of the status that this type of enterprise should have. This is why governments should not be just passive bystanders. The importance of this sector in terms of employing working-age population should be a motive for the executive government to create a favorable environment that may facilitate the internationalization process for enterprises. A study<sup>9</sup> which deals with internationalization of small and medium-sized enterprises in Europe has identified three key elements for the development of comprehensive government measures:

- Small and medium-sized enterprises' managers have limited time and managing skills. Therefore, the creators of incentives should make sure that managers are provided specific skills, especially in the enterprises that lack international experience.
- The sector needs specific and targeted support. (e.g. help in identifying compatible foreign partners for joint investments and/or cooperation etc.)
- The internationalization of business should be perceived as a much more complex process than exporting itself. Incentives should include a wide spectrum of international activities, due precisely to the complex nature of internationalization.

Analyses of institutional infrastructure to support the exports in some European countries point to two significant facts:<sup>10</sup>

- Stimulating exports through strong institutional support exists in both the old (EU) and new (transitional) Europe. In the West, exports are encouraged in order to develop national competition between multinational companies, and in the Eastern parts of the continent to help weak, structurally and sectorally unadjusted large former socialist companies assume the economic function.

- Organized institutional support to exports yields results in both developed and transitional economies.

The support to exports necessarily implies the development of instruments to support the growth of domestic investments abroad. This is why the institutions supporting the SME exports almost always do business with guarantee agencies or foreign investment promotion agencies. On a strategic level, pro-export state interventionism has to pay attention to specific, export-oriented measures, which are supposed to be market neutral, simulative for the enterprises and for the development of broader objectives of society. An active role of the state requires systematic work of experts and long-term partnership between state institutions and the SME sector.

The implementation of the concept of business internationalization almost exclusively gives rise to changes for the better. Enterprises with a higher degree of internationalization achieve better business results.<sup>11</sup> Legal entities that do not wish to internationalize their business excluded, it is reasonable to ask why a majority of small and medium-sized enterprises have not yet internationalized their operations. And what are the obstacles slowing that process down?

**Table 1:** Barriers to internationalization of small and medium-sized enterprises

BARRIERS TO INTERNATIONALIZATION		MOST IMPORTANT
1.	Lack of entrepreneurial, managerial and marketing skills	↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓
2.	Bureaucracy	
3.	Flawed approach to information and knowledge	
4.	Difficulties in obtaining financial resources/ Lack of funds	
5.	Poor accessibility to investment (technology equipment and know-how)	
6.	Standardization discrepancies, lack of awareness of the importance of quality	
7.	Differences in the range of product and service use	
8.	Language barriers and cultural differences	
9.	Risks of selling abroad	
10.	Competition of indigenous companies	
11.	Inappropriate behavior of multinational companies against domestic companies	
12.	Complicated trade documentation, including packaging and labeling	
13.	Lack of government incentives for internationalization	
14.	Inadequate intellectual property protection	

Source: Szabo, A.: **Internationalization of SMEs**, UNECE, 2002, pp. 6.

There are two categories of small and medium-sized enterprises that fit into the non-internationalized group: a) those that find the internal and external barriers to be too high and b) those that do not perceive internationalization as a future development path. The latter mostly believe that demand on the domestic market will last for a long period of time or simply have no ambition to growth. Governments of the majority of European countries have recognized the importance of entrepreneurship and the SME sector; still, numerous problems that the enterprises encounter during the internationalization process have yet not disappeared. Some of the problems are characteristic for all SMEs while others are a product of constant changes in business, politics and economy. This is why the organizations which support SMEs so as to enhance their ability to adjust their services and support programs to constant changes in the global economy play such a major role. Problems and barriers to the internationalization of SMEs are listed in Table 1.

The greatest limitations to the internationalization of business that SMEs have to face are lack of entrepreneurial, managerial and marketing skills. The majority of owners-managers and novice entrepreneurs are experts in the products and services that their company deals with. The fact that they often lack broader managing skills has a negative impact on their long-term success. Strategic planning, formation of a mid-term vision, marketing, finding buyers, innovation managing, quality dedication, foreign language competence, cash-flow management, information technology and many other elements are necessary to face the challenges of the international market successfully. In a number of economies, transitional ones in particular, small and medium-sized enterprises encounter the problem of slow bureaucracy. Complex and lengthy enterprise establishment procedures, submitting monthly tax reports, central and local governmental control are but a few of the barriers related to bureaucracy and which necessarily imply the necessity of informatization in public administration.

The majority of business information centers that provide counseling services aim at the SMEs with a

well-developed market infrastructure. How to found your enterprise, which laws have to be studied, which taxes, customs regulations, financing sources, local and regional competitions as well as numerous other information is difficult to obtain. In addition, financial middlemen still find small and medium-sized investments to be of high risk. For each loan additional guarantees are required and their value is often much higher than the amount of lending itself. This is particularly so in the first few years of the enterprise's operations. As a rule, SMEs have a hard time obtaining financing and pay a much higher price of money (interest) than major companies. The discrepancies in the standardization and qualification counseling infrastructure, underdeveloped testing plants, poor national certification and qualification counseling infrastructure as well as weak dedication to quality by small enterprises create further barriers to internationalization.

### 3. THEORETICAL MODELS OF INTERNATIONALIZATION OF SMEs

Empirical studies which aim at setting universal internationalization models have mostly been performed on large enterprises as current multinational enterprises were the pioneers and carriers of internationalization processes. On the other hand, more serious studies of internationalization of SMEs have only been conducted in the past 30-40 years. Small and medium-sized enterprises in most cases cannot afford a serious study of foreign markets enabling them to gather the information and experiences necessary to take decisions regarding optimum foreign entry. Most of them also have no or very limited international experience while a global environment in which business is done nowadays is undoubtedly more complex than in the times when major enterprises internationalized their business. For example, the period to react to market circumstances has become shorter, competition is tougher etc.

In the literature that deals with the study of business internationalization we can differentiate several theoretical models of the internationalization of enterprises:

- Experiential learning models
- Systematic planning models
- Accidental perspective models
- Hybrid model
- Born Global model.

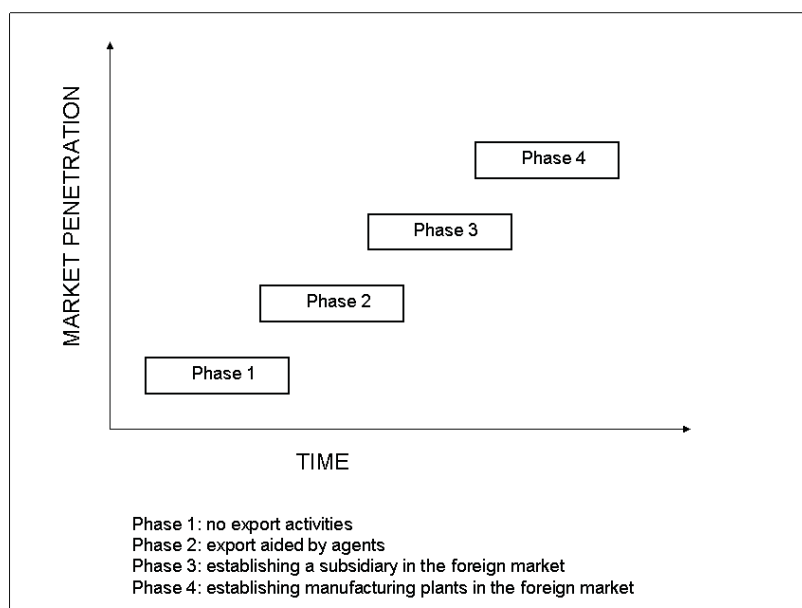
Each of these can be placed in a certain timeframe and related to circumstances in the global market.

### *Experiential (empiric) learning models*

The model based on the empirical behavior and growth of enterprises is called the “incremental internationalization model” or the Uppsala model. It explains the manner in which the existing knowledge regarding foreign markets determines the strategy of

entry and also effects a change of current business activities. An enterprise undergoes internationalization gradually and in stages while acquiring specific knowledge in each stage. The emphasis is placed on specific knowledge about a foreign market<sup>12</sup> that is acquired in the process of doing business in that very market, and that has a direct influence on deciding to move on to the next stage. For example, an enterprise does business in the domestic market and the first foreign contact is initiated by a direct order from a foreign market. A decision to export has still not yet been made or else exports may be irregular and of limited quantity. As the orders increase, the enterprise starts to meet the demand through an international agent, thus controlling the possible escalation of expenses. In case the results in the foreign market prove to be satisfying, the management decides to move on to the next stage. The third stage represents establishing a subsidiary abroad. If the results remain favorable, the enterprise decides to move on to the final stage of internationalization and to open a manufacturing facility in the foreign country.

**Image 1:** Theory of internationalization according to the Uppsala model



As a result of research made by industrial enterprises in Scandinavia, Johanson and Vahlne created this model and published it in 1977 under the title "Internationalization Process of the Firm".<sup>13</sup> The appearance of the Uppsala model is of great significance since it encouraged the publication of a number of other studies and models in this area. The model has also been repeatedly criticized. The reasons are the following:<sup>14</sup>

- The conclusions were based on the study performed in Scandinavian countries and lacked empirical validation in other markets;
- The model does not predict the speed of moving from one stage onto another.
- The model does not offer explanations for the enterprises that skip a particular stage or undergo a simultaneous internationalization in several markets (which has increasingly been the case with small enterprises).

#### *Systematic planning models*

Systematic planning models see internationalization as a systematically precise and planned process that happens gradually ("step by step") and that uses analytically precise market research to increase international performance of enterprises. The very internationalization process occurs in several stages. Miller<sup>15</sup> suggests 10 of them which, among others, include valuing and choosing different operation plans. On the other hand, Root<sup>16</sup> describes his perception of the process including 5 stages: measuring market circumstances, choosing entry strategy, preparation of the marketing plan and execution as the final stage. Yip,<sup>17</sup> however, calls his model "Way Station Model" of internationalization of small and medium-sized enterprises, and it includes 6 steps: motivation and strategic planning, market research, market selection, choice of entry strategy, problem planning and post-entry behavior.

The characteristics of all systematic planning models are that they are rational and strictly sequential, and these are the very characteristics that have been subject to most criticism. With the main assumption that a long-term sustainability of precise market studies and analyses is a basis for long-term planning and gradual internationalization, critics wonder how to explain a

more frequent, rapid entry in foreign markets by SMEs in the current turbulent business environment. The model also does not explain the fact that numerous decisions nowadays are made simultaneously rather than sequentially while very important factors, such as motivation and enterprise's initial abilities,<sup>18</sup> are neglected.

#### *Accidental perspective models*

Accidental perspective models suggest that the internationalization process depends on the current situation the enterprise finds itself in. How it will be carried out is largely determined by environment, the industry structure that the enterprise is a part of and its marketing strategy. That is why, for example, the internationalization of small software companies was determined by formal and informal relationships, and it resembled some of the accelerated systematic planning models. Boter and Holmquist<sup>19</sup> conclude that small enterprises, which do business in traditional sectors of economy, internationalize their business in a long-term fashion while those from the high-tech sector aim at adopting an accelerated model of internationalization due to rapid and unpredictable product development and new product functions. This model emphasizes the unpredictable nature of the internationalization process in small and medium-sized enterprises and critics criticize its inability to provide a coherent framework for new studies.

#### *Hybrid model*

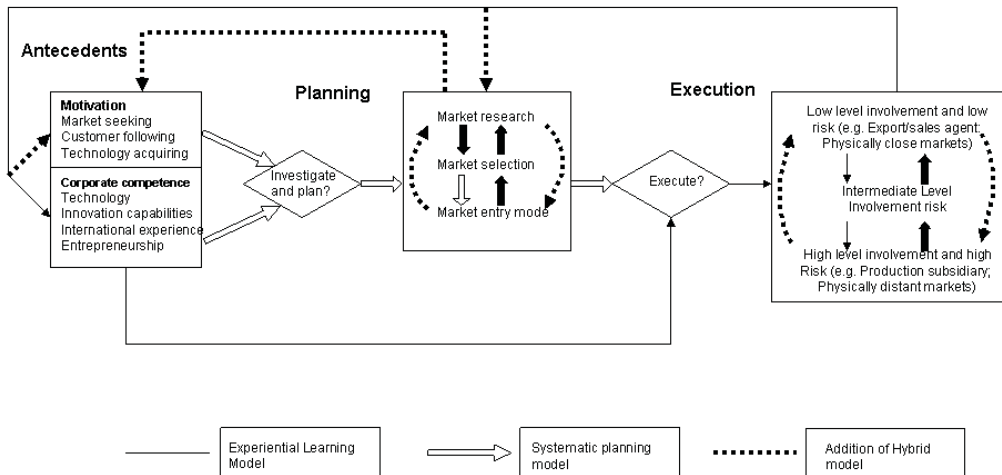
The Hybrid model<sup>20</sup> was created by integrating the experiential learning model and the systematic planning model with certain elements of the contingency model. This model takes the best out of each of the theoretical approaches mentioned above. The model provides practical researchers and experts with a holistic view of the internationalization process but has no pretensions to serve as a replacement for prior models. It serves as an upgrade of the existing theoretical research. There are three most important aspects that differentiate the hybrid model from all other models. By integrating systematic planning model and the experiential learning model, a more balanced outlook of the internationalization process is achieved, and combining them enables stronger



argumentative strength. Internationalization processes of small and medium-sized enterprises are unpredictable nowadays. That is why the intention is to cover all seemingly chaotic examples. The processes of inter-

nationalization of enterprises are presented through three main phases: basic (antecedent) phase, planning phase and execution phase.

**Image 2:** Hybrid model of internationalization of small and medium-sized enterprises



Source: Li, L., Li, D., Dalgic, T.: Internationalization Process of Small and Medium-sized Enterprises: Toward a Hybrid Model of Experiential Learning and Planning, **Management International Review**, Vol. 44, 2004, pp. 107.

Image 2 shows a dynamic loop of the experiential learning model and parts of the systematic learning models by single and double solid lines. Solid black arrows are used to complement several elements and to demonstrate how each model is an integral part of a broader mosaic (e.g. feedback from execution to motivation and planning, then alternative sequences between planning and execution phases). If the specific motivational factors and abilities of the enterprise (in the antecedent phase) are singled out as the basic elements of the internationalization process, then elements of the contingency model are introduced into this story. It is also visible how the experiential learning school of thought skips the planning phase and ignores motivational factors. It places focus on the interaction between the enterprise's abilities (international knowledge and experience) and doing business on the foreign market. The enterprises with limited market knowledge and experience should, in the initial phase of internationalization, begin with a

low degree of market involvement and less risk (export to the neighboring countries). By gradually increasing dedication and involvement on a higher level and accepting activities of higher risk (setting up manufacturing facilities in remote countries), the enterprise accumulates specific knowledge through experience. This is why the hybrid model points to the aspect of enterprise's behavior. It emphasizes uncertainty in the business environment and elements of business rationality that are, in fact, a reflection of the sequences of international business activities that have been defined in advance.

The model also criticizes a deterministic-sequential nature of the Uppsala model that excludes other options of strategic choices, such as initiating production in the foreign country without having gone through a phase of exporting and opening a subsidiary. This is why the hybrid model suggests an alternative sequence in the execution phase, which is marked by a thick, dashed

line that would correct the flaws stated above. For example, an enterprise that is closely connected to the buyer can first start with direct manufacturing in the foreign country or embark on joint ventures and then look for a sales agent to execute further sales transactions. The hybrid model also reflects the basic assumptions of the systematic planning model claiming that enterprises undergo a systematic-sequential process of knowledge gathering and planning based on motivation and their abilities. The authors emphasize that their empirical research leads to different cognitions. They agree that it is necessary to plan and conduct research before entering a foreign market, yet the process itself is often non-systematic, multidirectional and less sequential, especially when it comes to SMEs that do not have the funds for this purpose and are often forced to respond promptly to the imperative of internationalization.

Apart from the theoretical superiority over other models, the hybrid model provides certain advantages to the managers of SMEs:

- The hybrid model suggest a way how to prepare the entry in a foreign market: to carefully investigate motivation and abilities of the enterprise itself; to identify and focus on key steps in the internationalization process and to carefully distribute limited financial and other resources.
- The model is not particularly determined or strictly linearly sequential. It is this flexibility that helps managers make assessments during the internationalization process of their company while also helping them study the strategies employed by their competitors.
- The model presents the internationalization of enterprises as an iterative process. Each phase gets feedback from the next one in line. Managers encounter different options and limitations by going through each phase and the model helps identify delicate parts and avoid serious mistakes.

### ***Born Global Model***

We have lately witnessed how small enterprises can, in a relatively short time spans, become "global players". Such examples are most common in the software industry and the knowledge-based industry (e.g.

Amazon, Google, E-Bay, Skype, YouTube, Facebook...). So-called "born global" enterprises use their marketing activities to aim at global markets, most frequently due to the very nature of the product or because they do business in a particular niche of the domestic market, in which demand is quickly satisfied. Various studies<sup>21</sup> show that a large number of the so-called "born global" enterprises does business in the industries in which knowledge is the key factor (knowledge-intensive industries<sup>22</sup>), and that they launch the internationalization process within the first five years of their foundation.

From the experiences of the internationalization of small and medium-sized enterprises in different countries gathered to date, some universal conclusions may be drawn:

- Small countries with a small domestic market are more internationalized or, in other words, the size of the domestic market is an important factor.
- Finding new business partners in neighboring countries is still the easiest and the most common way to internationalize small and medium-sized enterprises.
- The size of the enterprise matters. Medium-sized enterprises are normally more internationalized than micro or small enterprises.
- Different sectors of the industry find themselves in different stages of internationalization. For example, the retail sector is traditionally locally-oriented and is least oriented towards foreign markets. Transport and communications are the sectors which gravitate towards foreign markets on a much larger scale.
- Already internationalized small and medium-sized enterprises have a tendency to enter different forms of mutual formal or informal cooperation.

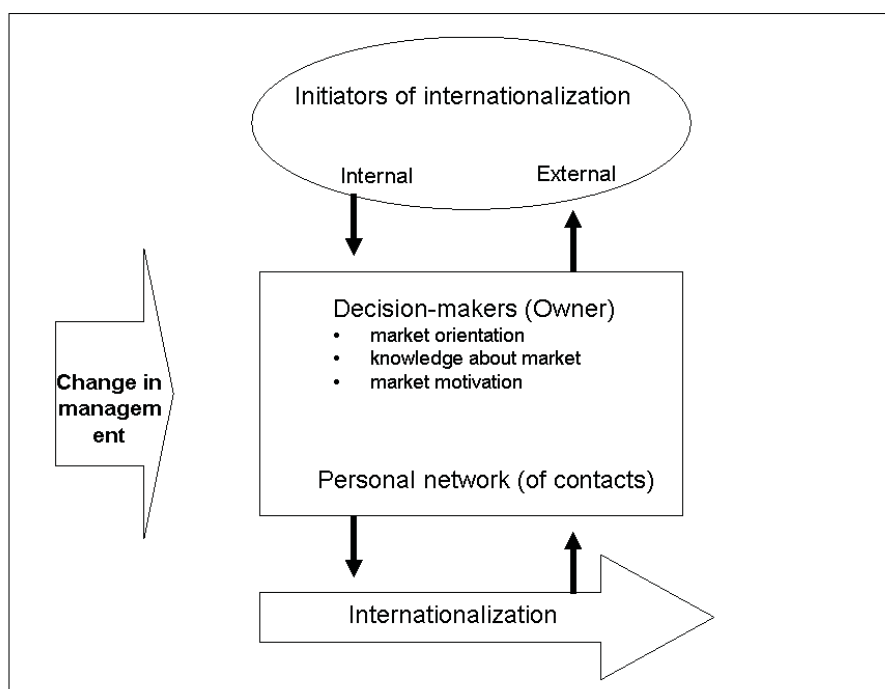
It is hard to predict which of the existing models may reflect the internationalization processes the best in the future. Most probably, the internationalization process will be a combination of several different models or a new process altogether.

## 4. INFLUENCE OF DECISION-MAKERS ON THE INTERNATIONALIZATION PROCESS OF SMEs

Knowledge, attitude and motivation of decision-makers in small and medium-sized enterprises play an exceptionally important role when making a decision regarding the internationalization of business. There are two internal guidelines necessary for the enterprise's progress towards internationalization: expectations of the management regarding the growth

of the company after internationalization and the degree of dedication to internationalization. In their study Calof and Beamish<sup>23</sup> came to a conclusion that decision makers' attitudes in small and medium-sized enterprises have much more influence on the internationalization process than do business environment factors. It is precisely these attitudes (formed by past experiences) that determine the way in which decision-makers perceive the benefits, costs and risks of internationalization. Jaffe and Pasternak<sup>24</sup> claim that the desire to internationalize is influenced by the management's beliefs regarding: comparative advantages of the enterprise; readiness to turn to export; risks connected with internationalization and perceived internal and external barriers to internationalization.

**Image 3:** Factors that influence internationalization of enterprises



Source: Collinson, S., Houlden, J.: Decision-Making and Market Orientation in the Internationalization Process of SME, **Management International Review**, Vol. 45, 2005, pp. 419.

The belief system which the founders of the company form often remains in place even after they leave the company. That can sometimes serve as a comparative advantage to the enterprise but may also be a great barrier, especially when the necessity for new routines occurs in business operations. One of the greatest barriers in the initial stage of internationalization is the lack of knowledge of foreign markets. The knowledge that decision-makers possess is determined by their education level, experiences<sup>25</sup> with foreign markets, knowledge of foreign languages, even by whether they were born abroad or not. Managers in the already internationalized small enterprises have access to new knowledge. In this way they get to learn by doing and then to integrate the newfound knowledge and turn it into the advantages for the enterprise.<sup>26</sup> In the internationalization process it is necessary for enterprises to develop the structures and routines complementary to their internal potential and abilities which will help them learn more about foreign markets.<sup>27</sup> And that is where the key role of the management lies. It is its duty to identify and specify which knowledge is important for the company, and to set up the mode of transfer of that knowledge onto the rest of the organization. It is the accumulation of knowledge and learning that plays an integral role in the international growth of the enterprise.<sup>28</sup> A study published in "Management International Review" studies the decision-making process concerning the internationalization of small and medium-sized enterprises in Great Britain and the influence of the perception of the owner (or the General Manager) on the modes of internationalization. Image 3 shows a framework of different factors that affect the internationalization process.<sup>29</sup>

This model assumes that the role of a decision-maker is essential for the internationalization process. In the focus of the research are his/her knowledge of the market, market orientation and motivation. The researchers used perceptual maps, interviews and questionnaires to measure decision-makers' perception and came to the following conclusions:

- Opportunistic nature of the individual and the enterprise in the initial stage of internationalization has the most influence on the perception of the decision-maker.

- International experiences and acquaintances of a decision-maker influence the internationalization process the most.
- Physical distance is a barrier to internationalization on some markets and may be overcome by a combination of the factors that are specific to the enterprise or the industry, by knowledge, experience and contacts of the decision-maker.
- Experiential knowledge is a key element in the internationalization process and it has a more dominant role than the objective knowledge.
- Accumulation of knowledge of the foreign markets is a complex and long-lasting process, which can be shortened in many different ways, mostly by joining unions that will substitute internal knowledge and experiences.
- Internationalization process and market decision-making are implemented by assessing risks and costs. Such estimates are of informal character at first while more formal calculations appear when the enterprise enters further stages of internationalization or while investigating reasons for failure, which in part supports the theory that the expansion process is often unstructured and includes elements of chance.

It is possible to conclude that the main motivation of the enterprise on where, how and why to expand its business in foreign markets lies in the choice and identification of opportunities by the decision-maker and in his/her inclination towards risk. During this process, the key role in the development of relevant knowledge of the foreign market lies in his/her experience and network of contacts.

## 5. ANALYSIS OF THE BUSINESS CASE OF JC

This business case is used to explain the analysis, planning and implementation of a marketing strategy regarding the entry in the US market. Through an example of a small export enterprise from Croatia that has found an attractive market niche one can see which

key strengths, weaknesses, opportunities and threats characterize the enterprise and its entire ambitious business endeavor. The influence of contemporary information technologies (especially the Internet) on particular phases of the internationalization process is shown. The spread of JC's business is an example of internationalization that is similar to those of the enterprises in other countries. After the domestic market was saturated relatively quickly, the enterprise turned to foreign markets in search of additional demand. A decision to internationalize was made by the owner. Marketing activities were first directed to the geographically close countries, and the experiences and knowledge gathered were applied while spreading to other, more distant markets. A unique product, technological superiority and the owner's attitudes are the main motives that influenced JC's internationalization. Even though the process itself can not strictly be assigned to any of the aforementioned models, we can nevertheless say that there are elements of the hybrid and the so-called Born Global Model. The most common way of distribution is to look for a partner in the foreign country (a distributor for that country). Information technologies are gaining increasing influence on the enterprises' marketing mix during internationalization of business, especially on the choice of distribution and promotion. Their positive influence is also visible in the information-gathering process in the initial phase of entry in a new foreign market. A significant contribution is obvious in the reduction of communication costs, regardless of whether we are talking about information gathering for the purpose of market analysis or post-sale customer service.

## 5.1. Overview of the enterprise's business philosophy

To ride a personal watercraft (popularly known as Jet Ski) can be practical and exhilarating but it can also be very dangerous. The majority of water accidents are caused by Jet Ski drivers and they often result in severe accidents and even death. A device that could prevent such accidents from happening seems

like an ideal solution. This is exactly the device that JC manufactured. The market reacted favorably to it and only a year later, domestic demand was satisfied and foreign began to come in. Main distributors for each country were picked out. The company currently exports more than 90% of its output and is present in more than 15 different countries. Its leading product is still a Jet Ski remote control (a combination of electronic and telecommunication device) that enables remote switching off and warns the rider in case of a dangerous situation. The consumer market segment that the enterprise aims at is Jet Ski renters. There is no significant competition in the global market. In Croatia and some European countries, this device is now required by law.

## 5.2. U.S. market

The enterprise's management decided to enter the U.S. market, which is the largest and among the most demanding markets and does not leave much room for mistakes. There had been no similar product. Preparations for taking key decisions had to be made in three months. Market research is a process that may, to a large extent, reduce the risk of making wrong decisions but it is also expensive and time-consuming. JC is a small company which, much like the majority of small and medium-sized enterprises, does not have large financial resources and therefore could not hire a professional agency to do market research. This is why they tried to use the advantages of IT technology and the Internet to the maximum in order to gather relevant information.

Secondary information available through various web sites (coast guard, local communities, safety institutes, Jet Ski associations etc.) provided basic quantitative data and pointed to the main problems that Jet Ski users encounter in the U.S. Keywords were defined with the help of "Google Alerts"<sup>30</sup> and, based on these, the researchers were notified about new Internet articles on a daily basis. Potential buyers and distributors were located by using "Google Earth",<sup>31</sup> a database was created and so were the prerequisites for conducting a qualitative research.

The U.S. is the largest market with 80% of manufactured Jet Skis. In Florida alone, 200 potential renters were identified and were planned to be contacted. Researchers talked to each potential client in the created database by phone. By using VOIP<sup>32</sup> technology and free Internet programs, the enterprise spent minimum amounts on what would have been substantial expenses for any small and medium-sized enterprise not long ago.

So, by using Internet technologies at almost negligible costs, the following activities were performed:

- A database of buyers and distributors was created.
- Statistical publications of various organizations were monitored.
- High-quality information was obtained through communication with distributors.
- Buyers were contacted by phone and interviews were done.
- Communication with associations, magazines and other relevant institutions was established.

Internet technologies proved to be very helpful in the market research process, which is exceptionally important for the small and medium-sized enterprises that lack substantial financial resources.

### 5.3. Situation analysis

#### SWOT analysis

The main purpose of the SWOT analysis was to gather information regarding the inner strengths and weaknesses in order to compare them to the opportunities and threats that JC was to face in an environment it was operating in or was trying to operate in. The strengths and weaknesses of JC and its Jet Ski remote control as well as the opportunities and threats are shown in Image 4.

Image 4: SWOT analysis of JC's remote switch-off device

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• A quality product without direct competition</li> <li>• Young, educated, creative human resources</li> <li>• Available technology</li> <li>• Customer-oriented enterprise</li> <li>• Experience in brand-development and in building of a distributors' network</li> </ul>	<ul style="list-style-type: none"> <li>• The product is seen as expensive</li> <li>• Dependence on a single supplier of chips</li> <li>• Inadequate financial structure of the enterprise</li> <li>• Lack of human resources</li> <li>• Uncertainty in R&amp;D</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Export enterprise – government incentives</li> <li>• Elimination of restrictive measures</li> <li>• Growth of number of rides on rented personal watercrafts</li> <li>• Severe pressure by the public to enforce stronger security measures</li> <li>• EU integration</li> </ul>	<ul style="list-style-type: none"> <li>• Unfavorable dollar exchange rate</li> <li>• Rise in oil prices</li> <li>• Possible copies of the product</li> <li>• Decision of one of the "large ones" to enter this market</li> <li>• Problems with import (certificates, overpaid VAT...)</li> </ul>

Source: JC's internal material

### **Competition**

The second step in the external factors analysis was competition analysis. Competition analysis is not an assignment that has a clear beginning and the end but is rather a process that needs to be continuously carried out as long as the enterprise exists in the market. JC may be said to be an enterprise that has a monopoly on the market. Its product is unique in the market and it has no direct competition. There are local competitors in individual European markets that have inferior products, yet none of them has reached a degree in which it may pose a significant threat. There is no similar product in the U.S. market. This is why it is necessary to invest additional marketing efforts into creating the awareness of the necessity and usefulness of the product.

### **Key success factors**

The key factor of success in the case of JC is a reliable and long-lasting product. Another important factor is the distributor network. Each distributor is carefully chosen and significant efforts are put into their training. In the beginning, this was done at an obligatory yearly meeting of all distributors, where they were introduced to new technologies, trained in operating the product and where future trends and development plans were predicted. Nowadays, the Internet technology enables conference calls, meetings and communication via video links at affordable prices. Still, the key factor of any enterprise's success is customer satisfaction. JC tries to view things from the consumer's perspective in each segment of the marketing concept applied because a satisfied customer is a guarantee of the enterprise's success and growth.

### **Key problems**

One of the key problems with electronic telecommunication devices are technical specifications. Numerous attestations, certificates and approvals are a nightmare for any manufacturer of such devices. Long-term and expensive procedures required for getting licenses to export to other countries pose a huge problem. These costs account for a significant part of the overall expenses of an enterprise with a small manufacturing output.

An additional problem for JC is characteristic for all companies that have a research and development department. Substantial financial resources are to be allocated while and the final outcome and return on investment cannot be accurately predicted.

### **Marketing mix for the U.S. market**

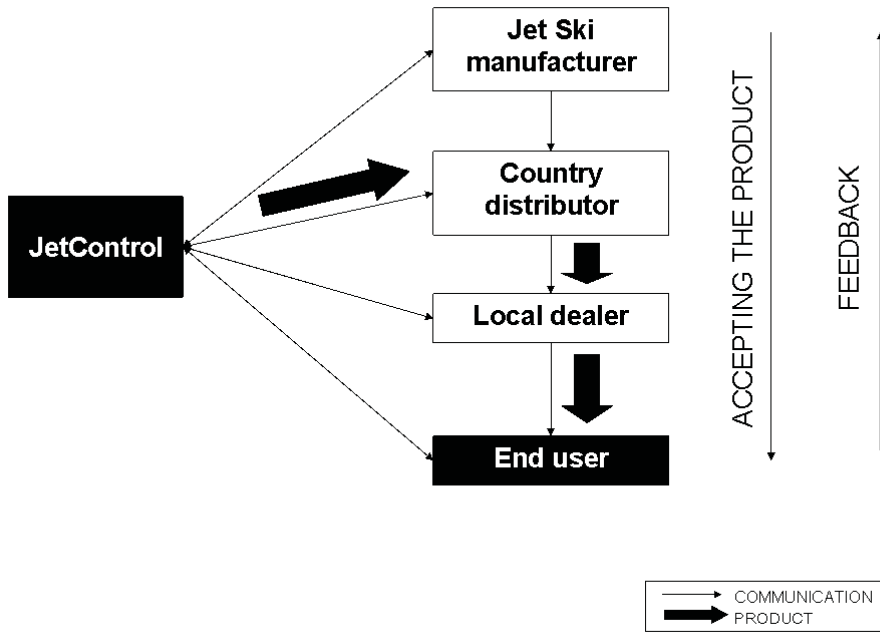
JC wanted to apply leader strategy in order to create barriers to the entry of potential competitors through product quality, satisfied customers and distributors. Remote switch-off device for Jet Skis is a unique product in the U.S. market. That is why the European research and development department has a permanent role in improving and adapting the product so that it can meet the needs of U.S. clients. A marketing mix was created accordingly.

Product – Product was modified due to technical documentation and certificates but its outside appearance has not changed much. It is still a high quality, reliable and long-lasting product. Due to cost savings, the old packaging design has been kept. Buyers are entitled to a one-year warranty and a quick replacement in case of malfunction.

Price – Since U.S. customers are very price-sensitive, special attention was paid to determining the optimum price. After the product was presented, a sample of potential users was interviewed and one of the questions was how much they were willing to pay for the remote switch-off device. In order to facilitate payment, JC made a deal with a U.S. financial institution which, at a commission, conducts credit card transactions or approves payments for the product in installments. Price ranges are also determined so that the customers who buy large quantities of the product get higher discounts.

Distribution – In Image 5, it is possible to see JC's usual distribution channel. Products are supplied at a discount to the distributor for the country who then forwards the product to local distributors. The route of the product is marked by a thick solid arrow. Thin arrows are used to mark communication channels, and from this it is visible that JC communicates with all parties involved – from the manufacturer to the end-user.

Image 5: JC's product distribution



Source: JC's internal material

In addition to this traditional model, the enterprise's marketing department is considering two other distribution channels. The first one is direct delivery to customers, based on the advantages offered by information technology. The majority of potential consumers in the U.S. use the Internet and e-mail and communication is facilitated due to the fact that English is the official language. Customers can be contacted directly and by visiting the enterprise's web site, they can find out all the information about the product, installation and maintenance and can also place their order. After the customers make the payment, the product is delivered directly to their home address in a few days. The advantage of such delivery is that the enterprise keeps the overall margin that would otherwise have to be paid to middlemen and this opens a larger maneuvering space in price policies. Its disadvantage lies in the problems and the paperwork that arise when importing the product into the country. There is also an additional threat in case a product part breaks down and the company, due to physical distance, is not able to repair it; the product

must then be shipped back, significantly raising the cost of transport. The alternative would be to open a subsidiary and hire the sales staff to take care of all customs procedures, perform simple servicing, sales and other marketing activities. But this is several times more expensive and risky than the other two distribution methods.

Promotion – at the onset, the basic objective of promotion was to create demand for the product. The website was redesigned first by taking into account the needs of U.S. consumers. Everyone was sent information/promotional flyers via e-mail. The product was then presented at the largest trade fair – in Lake Havasu City, Arizona. After that, Personal Watercraft Illustrated, a leading magazine about Jet Skis, published an affirmative article about the device. In the course of the first few months, ads were placed in all leading specialized magazines.

A coordinated marketing entry of the enterprise in the U.S. market, besides capturing great attention of



potential buyers, was also noticed by the largest Jet Ski distributor in the country – Riva Motorsports. The owner of JC was invited to make a presentation of the product and negotiate future cooperation. Bearing in mind that Riva Motorsport is a company that due to size, distributor network and market strength often dictates conditions even to the manufacturers such as Yamaha, SeaDoo and Kawasaki, this was clearly a chance for a more efficient and faster entry in the market. JC was also aware that it would have to give up a portion of its profit and offer substantial quantity discounts on their products. Taking all the parameters into account, JC's owner decided on a strategy where an old model of distribution (finding a chief distributor for the country) would continue to be used. Samples of the product were sent to Riva Motorsport to be tested and people were appointed at both enterprises to enable continued partnership communication.

## 6. CONCLUSION

The enterprises that do business exclusively in domestic markets do not have a long-term future in the global market so internationalization is not only the need but also the necessity for most companies. Companies as well as countries can reap numerous benefits from this process but there are also barriers that slow down the process and make it harder.

Internationalization can be an expensive, time-consuming and exhausting process for small and medium-sized enterprises, especially if we bear in mind that such enterprises have very limited funds. Therefore, it is very important that the managers take right

decisions about the timing and the manner in which to enter a foreign market. Some of the internalization models listed and analyzed in this study can help the managers of SMEs to take appropriate decisions. There is no universal model that might be applied to each case, and if we bear in mind the degree of uncertainty and unpredictability of the current and future market developments, such a model is not to be expected either. Future business internationalization processes will require a combination of the existing models and some new processes. A great responsibility, regarding a successful process of internationalization of SMEs, lies in the hands of educational institutions, governments and NGOs, which all need to create the conditions to facilitate the course of the entire process.

The enterprise's key motivation as to where, how and why to expand its business to a foreign market lies in the choice and identification of the opportunities by the decision maker and in his/her inclination towards risk. His/her experience and network of contacts plays a crucial role in the development of relevant knowledge. Managers must simply understand motives, importance and necessity of being involved in this challenging process. To be successful in a global environment means to be able to deal with the burden of constant change and to identify key business factors, to take risky decisions with unpredictable outcomes, to have a vision and to pass it onto other employees, to choose an optimal strategy and to motivate employees to implement the set objectives. A case study of a small export company from Croatia which found an attractive market niche shows the process of internationalization in the U.S. market and provides useful information about planning and executing a marketing strategy of foreign market entry to the companies which might be planning to enter new markets.

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- <sup>22</sup> Knowledge-based industries include: Electrical and Optical Products, Office Equipment, Other Electrical Tools, Radio and TV and Telecommunication Equipment.
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- <sup>29</sup> Original diagram was published by Reid S.D. under the title "The Decision-maker and Export-entry and Expansion" in the Journal of international business studies in 1981. It was accepted and adapted by McGaughey, S., Welch, D. and Welch, L., and published in the study "Managerial Influences and SME Internationalization" 1997.
- <sup>30</sup> Google alert is a service that e-mails its users the notifications with links that contain predefined keywords published on the Internet.
- <sup>31</sup> Google Earth is a service that provides its users with satellite images of the cities, streets, beaches... with an included list of businesses in the observed area and information about them (address, phone number, e-mail etc.). At the time this research was made, the most detailed display was visible in the area of the United States.
- <sup>32</sup> VOIP is an abbreviation for Voice Over the Internet Protocol, the protocol that enables establishing phone calls over the Internet.