

## **THE INTERNATIONALIZATION OF SMES. A SYNTHETIC ANALYSIS OF THE DECISIONAL FACTORS AND PROCESS**

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### **Abstract**

*Having an increased complexity, the internationalization process of small and medium- sized enterprises (SMEs) becomes, in the context of globalization and of the freedom of circulation of goods, services, and capital, a decisive factor of both the evolution of the company and the economic force distribution report on the market. The evolution of the world economic system opened a wide action field for small and medium sized companies, who had to adapt to new rules. The internationalization of SMEs is no longer an option, but it becomes a condition of their existence. A high importance in this process belongs to the way decisions are made, both regarding the target market and the entry option, the way entry barriers are overcome and the promotional techniques in this extended business environment.*

*A synthetic analysis of the decisional factors and process is needed in order to fully and correctly understand the internationalization strategies adopted by SMEs. This paper is built around three major objectives, with the scope of determining the SMEs' internationalization decisions, as well as the impediments met in the process. The paper contributes to the literature in the field of the internationalization of SMEs through the analysis and interpretation of the results acquired during the study regarding their behavior towards the activity expansion on international markets.*

**Key words:** internationalization, SME, foreign markets, decision, economic activities, questionnaire.

### **1. Introduction**

Considered up to the end of the 20<sup>th</sup> century as being specific to large companies, the internationalization becomes increasingly a desiderate of small and medium sized companies, the rapid evolutions of the world economic and politic systems opened a free action field for these companies, who have to obey new rules of the game<sup>1</sup>. The expansion of SMEs on foreign markets is not only a simple wish, with subjective reasons, but it is their way to adapt to the new economic, politic and social conditions they have to cross. This is the reason why the internationalization process of the SMEs is the object of many international marketing studies, developed mostly in the last 40 years [Fletcher, 2001]. Small and medium-sized companies are “pushed” towards internationalization by the development of communication systems, the decrease of transport costs and the decrease of the barriers existent in the international trade [Nummela, Loane & Bell, 2006]. From another point of view, they are “attracted” towards foreign markets by their bigger partners in the network, who already develop international activities [Wright, Westhead, 2010].

Even though in Romania SMEs don't have yet the business maturity levels of other European countries, we can notice in the last years an increasing trend of their development- resulted from the converging efforts of entrepreneurs and public organisms. The asymmetric development of the Romanian economic regions led to a concentration of the industry and services to in the urban areas and their surroundings. Therefore, large cities became the nuclei of economic activities of their region.

Such an area of economic concentration is the region of Sibiu, which polarizes a big part of the activities, politic, administrative and cultural as well as economic.

Having an old commercial tradition, Sibiu can be considered a historical bridge between the East and the West. The peaceful cohabitation between the Romanians and the Saxons led to tight economic relations with Germany and

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<sup>1</sup> Imane Khayat - L'internationalisation des PME : vers une approche integrative, 7ème Congrès International Francophone en Entrepreneuriat et PME 27, 28 et 29 Octobre 2004, Montpellier

Austria, which, even though they were damped during communism, flourished and developed rapidly in the last 20 years.

Having the advantage of the strategic positioning in the center of Romania, Sibiu offered favorable development conditions for both industrial and connected activities (services, transportation, etc). The infusion of German capital led to the creation of a regional and national competitive advantage regarding research and development, know-how, operational and management techniques, etc.

## 2. The decision regarding the approach of international markets

The economic decision has a great influence over the results of the company, no matter its size or the activity field, as it is the instrument through which the management brings and combines the available material, financial and human resources, with purpose of obtaining maximum economic results for the lowest costs, the decision is one of the main components of the management system of the company; some authors even consider it the essence of the leadership process<sup>2</sup>. The whole management of the company is “a chain of decisions”<sup>3</sup>, therefore “through the decisional process the management of the company fulfills its scope”<sup>4</sup>

Nowadays the concept of *international trade* is no longer associated to big companies, in this process of globalization are also engaged small and medium firms, which are forced to decide their entry on foreign markets this decisions must be funded on the comparative analysis of the advantages and costs of the internationalization [Popa, 2006]. In the specialty literature there are many pro and counter arguments:

PRO arguments	COUNTER arguments
<ul style="list-style-type: none"><li>• increasing the turnover by increasing the area where product are sold</li><li>• reducing the [roduction and transaction costs (scale economies)</li><li>• prolonging the life cycle of the products</li><li>• stimulationg innovation by capitalizing R&amp;d activities and the contact with advanced experiences (new ideas, techniques)</li><li>• possibilities to sell auxiliary services, consultancy, licences, etc</li><li>• reducing risks by diversifying the markets</li></ul>	<ul style="list-style-type: none"><li>• creating specific organizational structures, with specialised personnel</li><li>• supplementary investments (eg. : new production facilities)</li><li>• supplementary costs (adapting the proct, promoting, etc)</li><li>• new financing requirements</li><li>• specific risks (price, exchange rates)</li><li>• the impact of the cultural, legislative and economic differences between partners.</li></ul>

Source: Ioan Popa - Negocierea comercială internațională, Editura Economică, București, 2006, pag. 14

The most important decision regarding the business internationalization involves choosing the markets [Root 1998; Papadopoulos; Chen & Thomas, 2002; Francioni, 2012].

Researchers have identified two approaches of this problem: systematic and non-systematic [Andersen & Buvik, 2002]. The systematic approach assumes a decisional process during which firms make various analysis before choosing their foreign markets [ Musso, 2012]. The importance of this process id highlighted by a number of

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<sup>2</sup> <http://www.biblioteca-digitala.ase.ro/biblioteca/pagina2.asp?id=cap7>

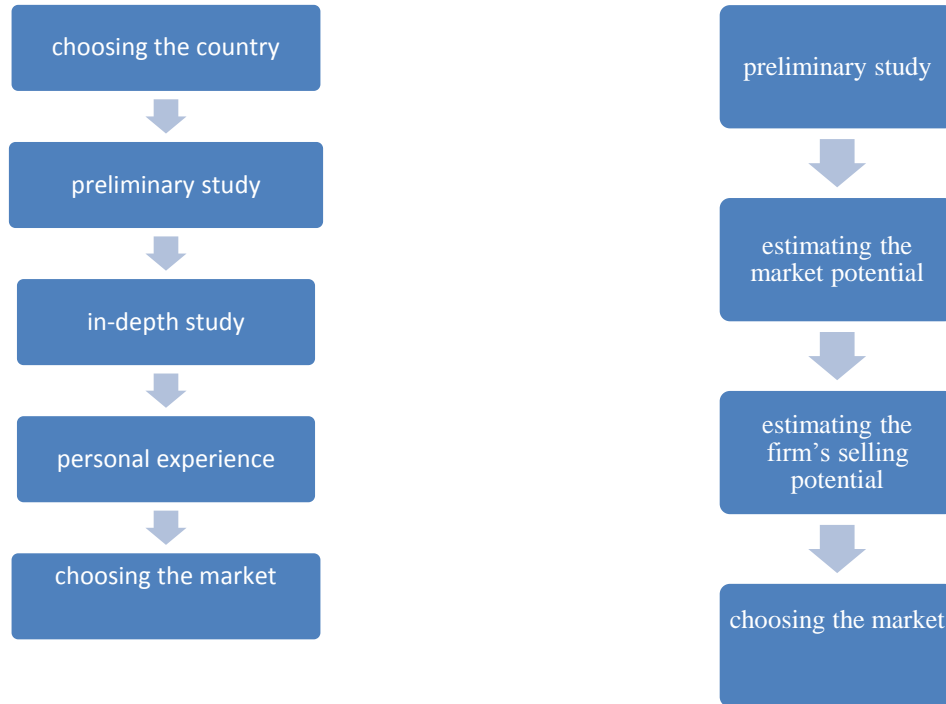
<sup>3</sup> Viorel Cornescu, Elena Druică – Puncte de vedere privind decizia și procesul decizional în întreprinderile mici și mijlocii, Revista „Manager”, nr. 4/2006, pag. 122-130

<sup>4</sup> idem

researchers [Johansson, 1997; Root, 1998; Mühlbacher, Leihns & Dahringer, 1999; Rahman, 2003] who created a few patterns, the best-known being the ones belonging to Johansson (1997) and Root (1998).

Johansson proposes choosing the international market by going through 4 steps: choosing the country, preliminary study, in-depth study and the final selection; to these adds the personal experience gained by managers “on the spot”.

La Root (1998) quoted by Musso (2012) says that choosing the market is made through 3 stages: initial research, estimating the market potential and estimating the firm’s selling potential.



Root’s model compared to the Johansson model

Source: Root (1987); Johansson (1997)

Fabio Musso (2012) compares the two models highlighting the common and particular characteristics of each. This enhances the fact that Johansson’s four stages offer a more detailed view than Root’s, shaping the premises of a better funded decision. It is also brought in discussion the problem of the psychological distance as “sum of factors blocking or disturbing the information flow between the firm and the markets” (Johanson & Wiedersheim-Paul, 1975).

### 3. Methodology

In the vast problematic of studying the market, a very important role belongs to studying through direct methods, their applicability being highly related to using a questionnaire as a unique instrument for gathering information. One of the most common marketing research is the descriptive research through questionnaire, which gathers the information from a representative sample.

Testing the hypothesis took shape by applying a structured questionnaire, who takes into account the stages presented by the two models noted earlier. The questionnaire was made out of 32 questions grouped in 5 objectives:

1. Collaboration with the macro-environment
2. The impact of the internationalization on the firm’s competitiveness
3. The expectations of the SME from public or private organisms
4. The problematic of the SME internationalization
5. Problems related to the lack of collaboration with external firms

We preferred gathering the data by the self-administration of the questionnaire, therefore eliminating one of the factors influencing the answers- the personality of the one applying the questionnaire.

We asked for answers from SMEs who develop their activities in Sibiu and its surroundings.

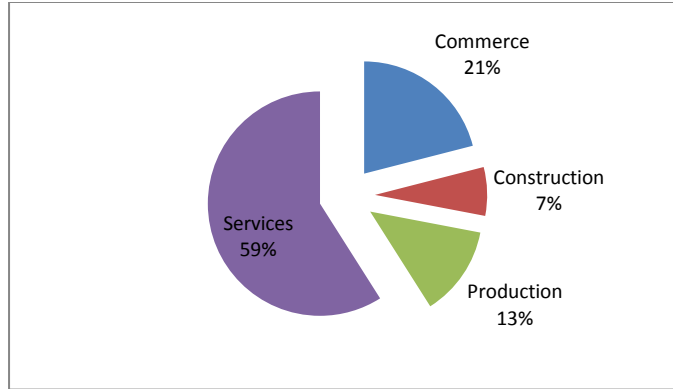
We distributed 170 questionnaires, out of which 90 in physical format and 60 through e-mail. We received 129 answers, out of which 107 were validated. We didn't exclude small firms (with low turnovers or few employees), taking into account the fact that in this difficult economic period the internationalization decision is no longer conditioned by their size. Furthermore, there are activity field where even with fewer employees, firms can approach systematically the choice of foreign markets.

In order to process the received answers the SPSS program was used (Statistical Package for the Social Sciences), considered one of the most intensely used programs in the statistic analysis due to its rigorous structuring, high coverage degree of the functions and the ease of usage.

For defining the demographic characteristics of the sample we kept the criteria used by specialists and centralized them in the following table:

		Frequency	Percent
Size of the firm	0-9 employees	77	72%
	10-49 employees	23	22%
	50-250 employees	5	6%
% of exports in the turnover	under 5%	17	16%
	5-30%	58	54%
	31-60%	26	24%
	61-90%	4	4%
	Above 90 %	2	2%
International experience (years)	Under 2	19	18%
	2--10	48	45%
	11--15	29	27%
	16--22	11	10%
Number of international markets	1	39	36%
	2--5	52	49%
	6--10	12	11%
	above	4	4%
turnover	under 100.000 €	57	53%
	100.000-500.000 €	37	35%
	Above 500.000 €	13	12%

The inquiry included firms with activities in all economic sectors, but the best represented was the services sector, as resulted from the graphic below:



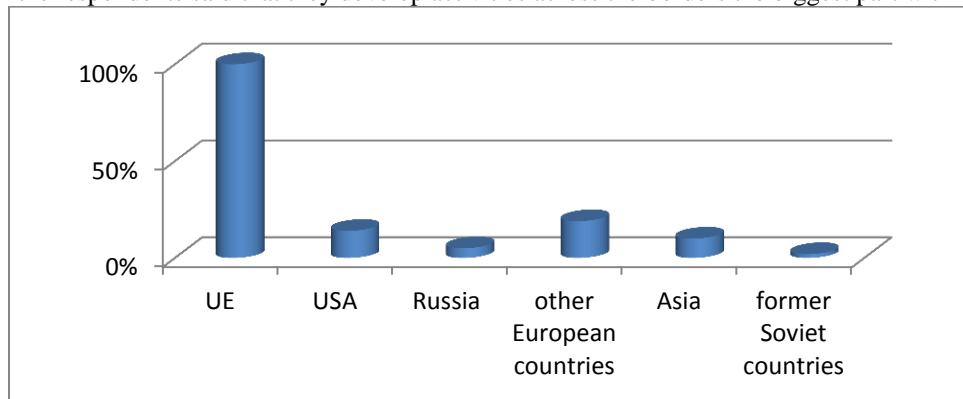
#### 4. Results

Processing the questionnaires divided the respondents in two categories::

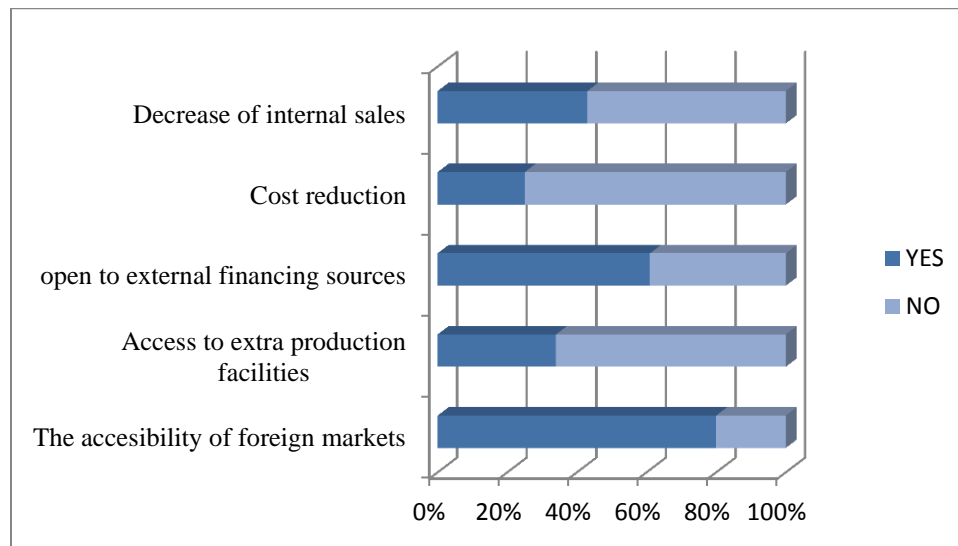
1. Firms developing activities across the borders ( 43%)
  2. Firms who, at the moment of the inquiry, did not develop activities across the borders (57%)
- Therefore, we will analyze each category separately.

1. *Firms developing activities across the borders*

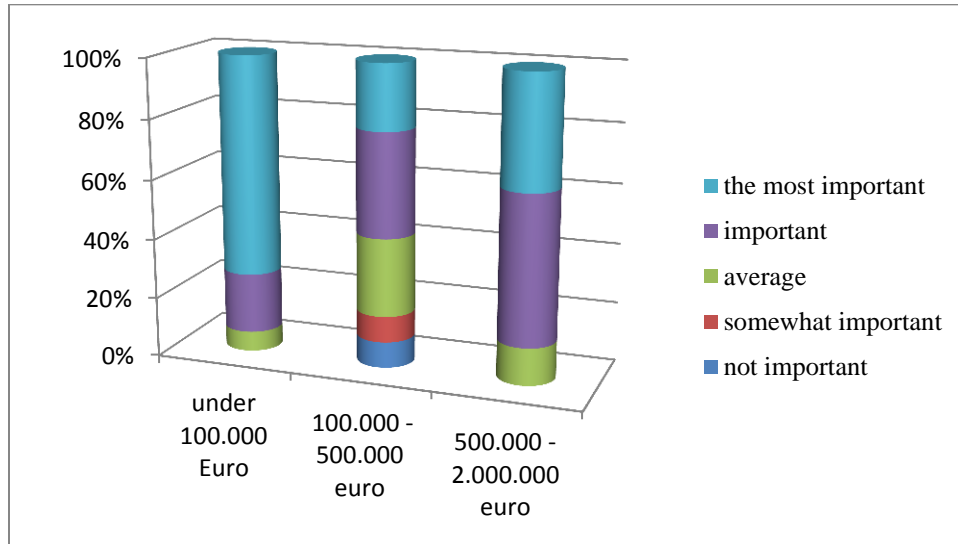
Only 43% of the respondents said that they develop activities across the borders the biggest part with EU firms:



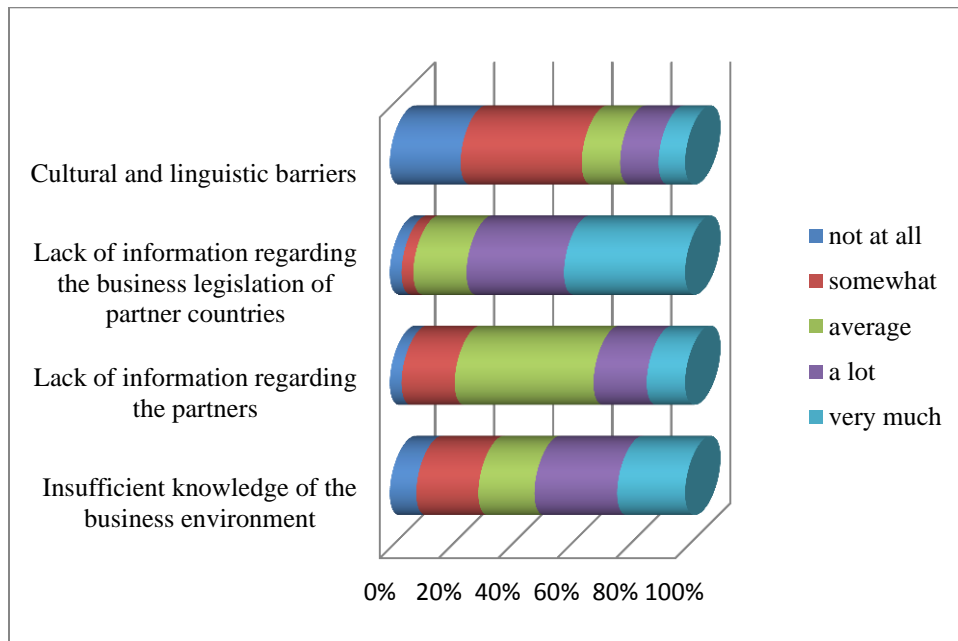
The reasons why they decided to internationalize their businesses are various, most of them considered that foreign markets are accessible.



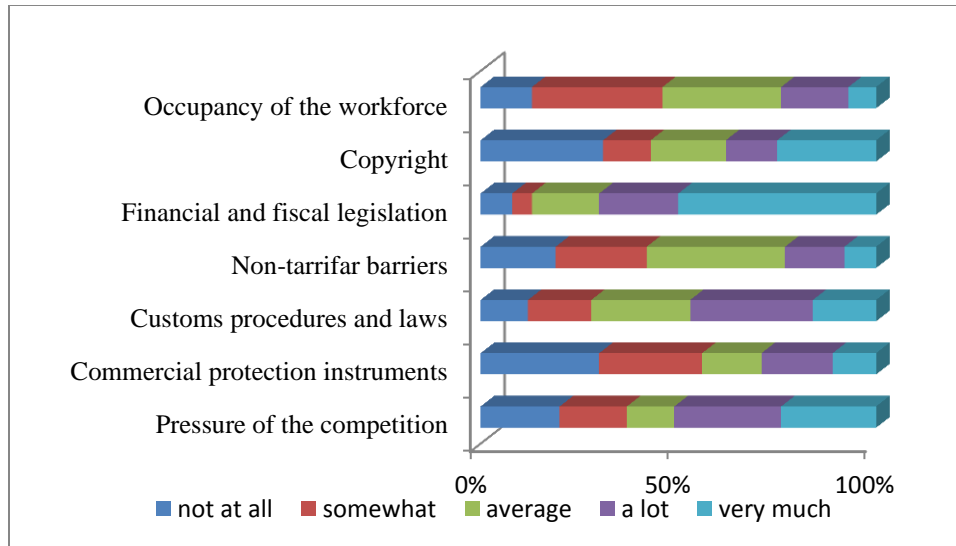
When they decide to cooperate with foreign firms, the biggest difficulties the inquired firms encountered were connected to the insufficient knowledge of the business environment, but the strongest barriers were regarding the business laws of the partner countries. The analysis of the correlation between this and the turnover highlights the fact that for small firms, with the turnover under 100.000€ this is the most important barrier.



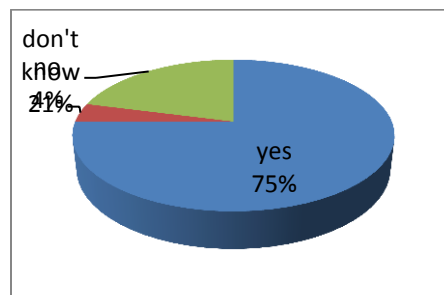
The cultural and linguistic barriers had a small influence on the internationalization decisions.



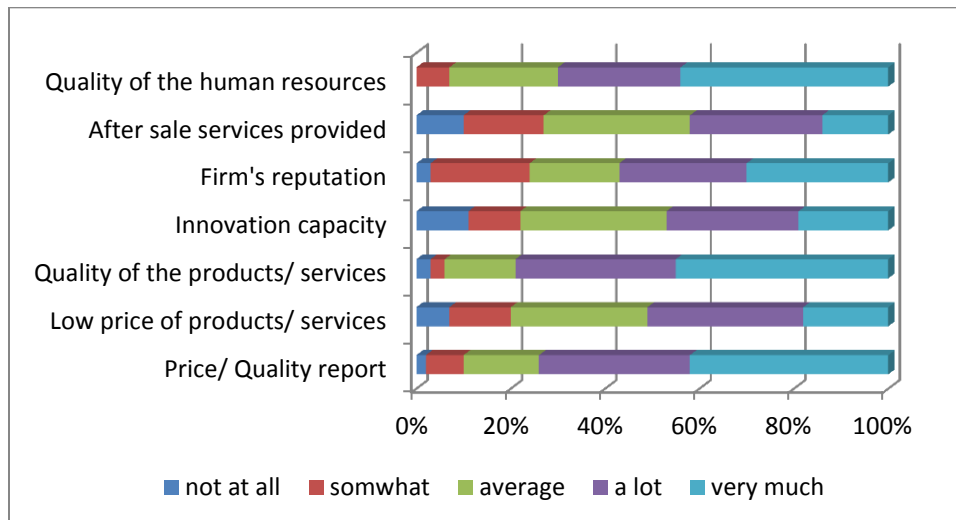
The most serious problems encountered during the rolling of the business with foreign firms are connected to the fiscal and financial legislation, followed by the pressure of the competition. The problems regarding copyrights or commercial protection instruments were insignificant. The same situation was seen regarding the free circulation of the workforce (all firms questioned declared that they only have international activities with firms in the EU).



A overwhelming proportion of the respondents (75%) consider their firms' competitiveness increased through the cooperation with foreign firms



The most important competitive advantages when entering a market are considered to be the quality of the products and services offered, the price/ quality report and the human resources.

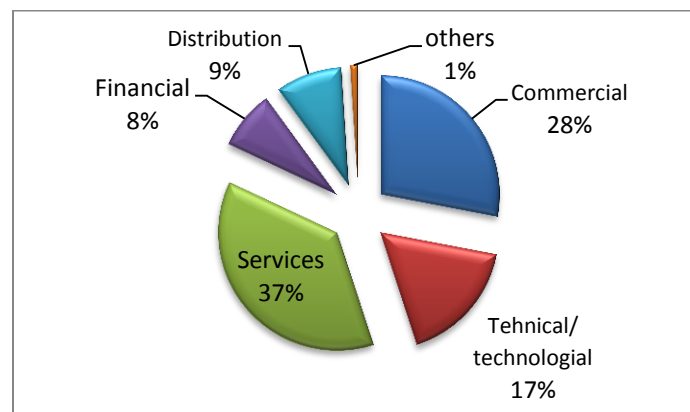


## Conclusions

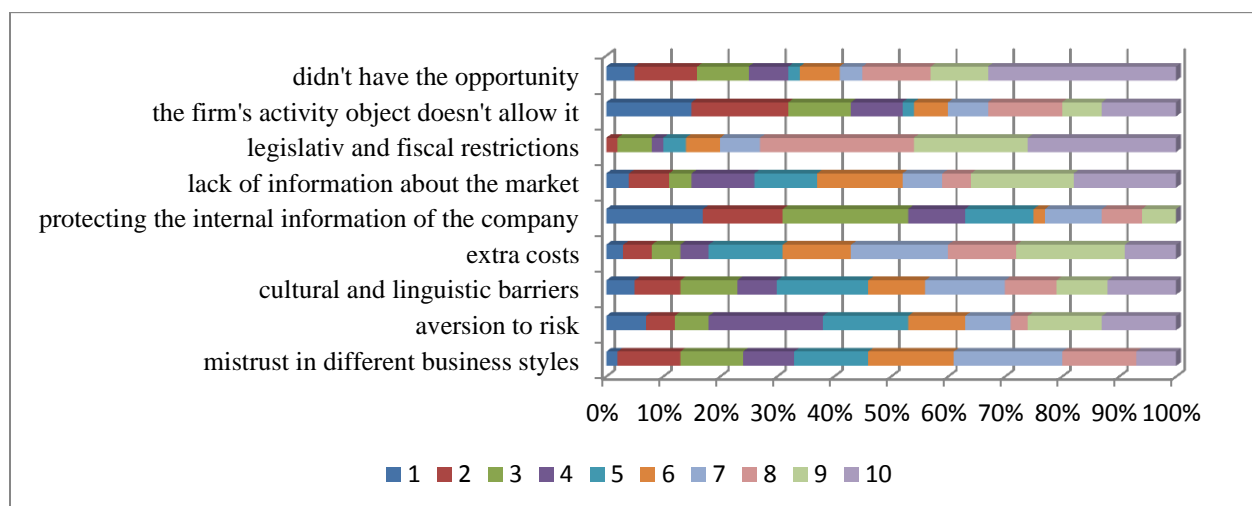
- Firms orient their businesses towards European markets, especially the ones in the EU
- Even though they encountered many barriers when entering foreign markets, firms consider beneficial the decision of the internationalization of business.
- Firms trust their own resources and intend to keep their position and to expand on new markets.

### 2. Firms who, at the moment of the inquiry, did not develop activities across the borders (57%)

73% of the Firms who, at the moment of the inquiry, did not develop activities across the borders declared their availability to initiate cooperation with foreign firms, preferably partnerships (70%), most of them preferring commercial and services activities.

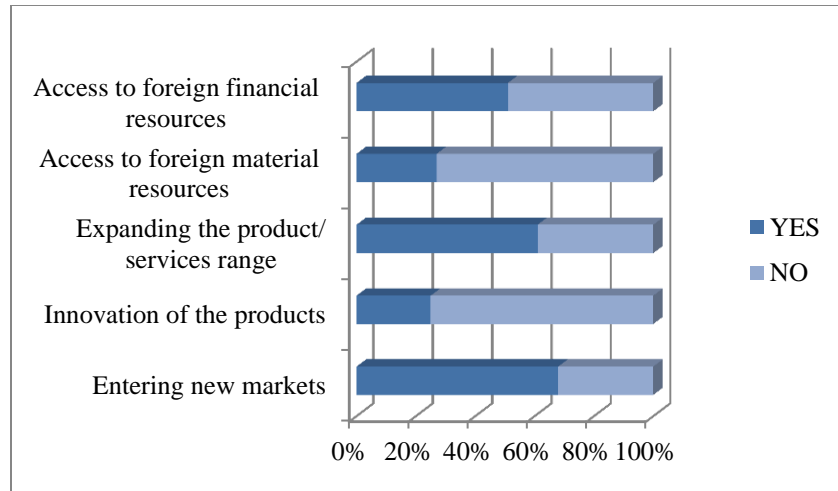


There are many reasons why these firms don't do international businesses, so we tried to rank them by grading them from 1 to 10, according to their intensity. We highlighted the fact that a big share of the firms (33%) didn't have the opportunity yet, others are reserved because of the legislative and financial constraints (26%) or can't handle the extra costs of such an activity (28%). An average intensity have the aversion to risk cultural and linguistic barriers or the mistrust in the business styles of the future partners.



In the situation when they succeed the expansion of the business, the main objective of the cooperation with foreign firms will be entering new markets, followed by the expansion of the product and services range offered.





### Conclusions:

- Most of the interviewed firms are interested to internationalize their businesses.
- Firms prefer the internationalization through partnerships in order to take advantage of the experience, technology and financial potential of their partners.

Finally, we can state the fact that the business environment in Sibiu offers a great interest regarding the development of businesses through expansion to foreign markets, being open for various ways of cooperation. Also, managers and entrepreneurs are informed regarding the opportunities offered by internationalization and willing to focus their efforts in this direction.

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