

INTERNATIONALIZATION OF SMEs – CASE IN REPUBLIC OF MACEDONIA

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Abstract

Small and medium enterprises (SMEs) are the backbone of the economy in the most of the countries around the world, their contribution can be seen in employment, export and added value. Internationalization used to be characteristic only of multinational corporations, but today it is a trend with both small and medium enterprises. The main aim of this paper is to get information about the situation with internationalization of SMEs in R. Macedonia. For this purpose we carried out a survey by means of questionnaire. Obtained results are presented within this paper in details. Considering the facts from the analysis in the end of the paper we will propose many recommendations for increasing the internationalization of SMEs in Republic of Macedonia.

Keywords: SMEs, internationalization

Clasificare JEL : F23, L20

Literature review

Small and medium enterprises (SMEs) are the backbone of the economy in the most of the countries around the world, and they can significantly contribute to restoring growth by entering into new market opportunities provided by developed and emerging economies. There is growing evidence that internationalization of SMEs has become a key requirement to gain competitive advantage [9]. There is no doubt that the continuous processes of internationalization and globalization mean both chances and threats for SMEs. Chances exist in the abilities to export, new market entities and foreign cooperation. In turn risk means that also SMEs regionally or nationally oriented may face an increasing number of potential foreign competitors in their home market [7]. The barriers to internationalization are in the context of a still wider set of constraints that SMEs face in general, which limit their operations and performance. Leonidou (2004) classified existing barriers as internal and external. A number of factors are particularly important, including (1) managerial mindset and organizational culture, (2) information, (3) financing, (4) role of clusters, (5) differences in level of development among region's economies, and (6) stages of internationalization and their implications [5].

More and more small and medium enterprises are involved in the processes of internationalization, and the motives are numerous e.e.: profit realization, access to new markets, access to new bidders and new technologies. As per D. Deakins [1], SME that are motivated only by their wish for profit realization, are usually not so successful in international economic flows. The basic preconditions for creating appropriate answers to the challenges of the modern global economy, are: self-realization, self - commitment, search for new horizons etc. According to M. Porter, the firms' successful participation in the international trade is influenced by: factorial conditions, the conditions of demand, similar and supporting industries and business strategies, organizational structure and rivalry. In fact, these factors make the Porter's diamond for competitive advantages of nations.

Information and knowledge are seen as key resources for facilitating SMEs international expansion, reducing risk and uncertainty and increasing creativity in decision making (Child, Hsieh, 2014). Eric Costa, Jorge Pinho de Sousa and Antonio Lucas Soares propose a model of collaborative networks for internationalization processes of SMEs, mediated by industrial enterprise association (IEAs) in order to improve decision-making process. Results showed that collaborative networks can represent an important

facilitator in the internationalization of SMEs and that IEAs can have a fundamental role for promoting collaboration in this domain between associated SMEs [3].

1. Introduction

Internationalization used to be characteristic only of multinational corporations, but today it is a trend with both small and medium enterprises. Internationalization is one of the basic elements of globalization, and besides extending economic activities out of the national economy borders, it also includes functional integration of internationally dislocated activities, and it has been reflected mainly into qualitative changes in the organization of economic activities.

During the last decades on the global scene there is increased competition among enterprises – export oriented enterprises and enterprises focused on domestic market. Main drivers of SME internationalization are within political, economical and technological changes. Technology development has significantly improved data access and communication, and the possibility to manage geographically dispersed production. Political changes and reduction of transport costs have led to more internationalized production structure and totally new situation in global competition.

2. Concepts, barriers and benefits of SME internationalization

The internationalization of SME working is most frequently implemented through two concepts: gradual or simultaneous internationalization. The concept of gradual internationalization assumes that foreign markets differ from the domestic market, namely, the foreign markets are isolate, i.e. they are not connected and competition appearing in one market is independent from the other markets. Within this concept of internationalization, the Scandinavian model is characteristic, in which there are five steps, i.e.:

- In the first step, the business entity exports its products to foreign market through distributors ;
- In the second step, the export becomes even more important activity and business entity establishes its subsidiary in the foreign market;
- In the third step, the international business entity starts direct investments in the foreign market, which means that besides sale, it performs production, too;
- In the fourth step, direct foreign investments and establishment of business entities in the foreign market grow;
- In the fifth step, the foreign direct investments are very high, the activities are diversified and the business entity is present in all or in most of the foreign markets.

While, under the concept of simultaneous globalization we understand simultaneous penetration in all foreign markets. As per this concept, the foreign markets are similar to the domestic ones, while eventual differences are negligible [12].

As a key strategy for encouraging SME internationalization, is the strategy for market expanding. If some firm has decided to expand internationally, it can use two strategies, i.e.: strategy for concentration in the market and strategy for diversification [4]. According to Olusoga, [8] the strategy for concentration in the market is characterized by slow rate of growth in the target markets. The advantages of this strategy include specialization, economies of volume and high rate of control. This strategy is based on long-term growth of the possibilities, profit and sale on the market.

While according to Bradley, the main aim of the strategy for diversification is to achieve high rates of return at low allocation of resources in each market. The advantages of this strategy are flexibility and possibility for investments risk diversification.

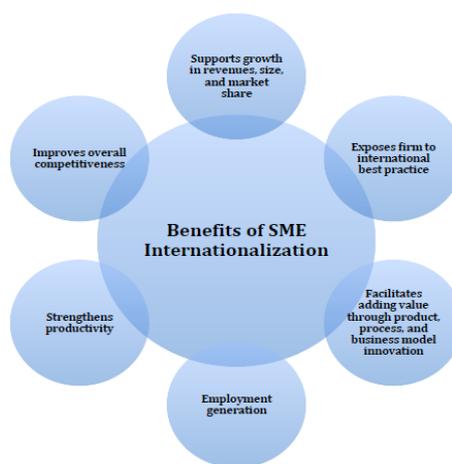
The process of internationalization is not easy, and so the small and medium enterprises are faced with a large number of barriers of internal and external nature. The external barriers, in fact, are those barriers which companies are faced with when they enter some foreign market, i.e.: existing laws and legislation, lack of capital and other forms of financing, lack of (institutional) support and assistance, cultural and language differences, absence of valid information.

To these external barriers, we should also add various technical-technological standards for regulating products safety, laws for consumers protection, cultural differences, national parameters etc.

The most frequent barriers in the process of internationalization of the small and medium enterprises are: the products quality and standardization, not sufficient knowledge of skills and education of managers and employees, high costs for the process of internationalization, low productivity, unsuitable policy for the products and services prices etc.

Internationalization is fundamentally an entrepreneurial activity that requires recognition of potential opportunities and a corresponding readiness to undertake new types of activities that require new skills and capabilities, and entail taking on more risk, e.g., entering new markets, and developing and marketing new products [5].

Figure 1: Benefits of SMEs internationalization



Source: Abonyi George, (2015), Best policy Practices for Internationalization of SMEs Trade and Investment for ASEAN and East Asia, Syracuse University.

As per the EU report in 2010, the two most frequent models for reviewing the internationalization degree, are import and export. Namely, 25% of SMEs within EU 27 do export, of which 50% export out of the borders of domestic market (13% of total number of exporting SMEs); 29% of the total SMEs number within EU 27 do import, and 50% of them import from countries out of the borders of their domestic market (14%). Here, it is important to note that: 7% of these firms within EU 27 are included in technological collaboration with a foreign partner; 7% of them are subcontractors of foreign partners; 7% of them have foreign producers and 2% of SMEs are active in foreign direct investments.

And here, there is a link between internationalization and business entity size. The bigger the company is, it tends to internationalization more, and it is a case with both most frequently used models. Namely, in the export, 24% micro, 38% small and 53% medium enterprises, are active, while in the import, the respective percentages are 28%, 39% and 55%. The smaller the country is, the larger number of its SMEs are internationalized.

On the other hand, however, the correlation between population number of domicile country of these business entities and their level of international activity, is negative. The states (like Estonia, Denmark, Sweden, Czech R. and Slovenia) have much higher percentage of exporters, compared to EU average, which is 25%. Germany, France and UK have a percentage under EU average. SMEs located near border belts show higher extent of activity with cross-border regions. The highest degree of internationalization of SMEs is in the wholesale, mining, processing industry and sale of vehicles. With the services, within the study, higher results have been noted, where the sectors with high share in export activities are: mining (58%), processing industry (56%), wholesale (54%), research (54), sale of vehicles (53%), renting (39%) and the sector for transport and communications (39%). Experiences show that export and import activities become higher by intensity of the business entity age. The percentage of exporting SMEs is gradually increased from 15% for business entities up to 4 years old, to 30% for business entities 25 or more years old. SMEs usually start the international activity through import, and if they do both export and import, then they most often start with twice higher share in import activities (39%), compared to their export activities (18%), so 42% of SMEs have started export and import activities in the same year.

The internationalization of small and medium enterprises is widely spread process in USA and Japan, as well, but anyway, the level of international activity of small and medium enterprises in EU is rather higher. This is mainly explained by intra-EU trade, which is the largest part of total international business activities of European small and medium enterprises.

Important effects of the internationalization of these entities' activities, are growth of the employment rate and innovations growth. In 2008, the employment rate in EU-27 with those that do export and import is 10%, while with those that neither do export, nor import, the rate is 3%. With SMEs with foreign direct investments, the employment growth is 16%, while with the rest, it is 4%. Furthermore, there is a close relation between the internationalization and the innovations. In 2008, 26% of internationally active SMEs introduced products or services not known in their sector up to that time, and with the rest, this rate is 8%. [11]

3. Internationalization and perspectives of small and medium enterprises in Republic of Macedonia

The small and medium business entities, with their toughness, intensiveness, adaptability to the demands of domestic and foreign markets, competitiveness and provision of new technologies and knowledge, contribute to creation of new jobs and production growth, and with that, to growth of the national economy, too. Because of this, in R. Macedonia, since its political and economic independence, the necessity for development of small and medium enterprises, has

been more and more initiated. In fact, the first beginnings of the small economy were observed in the macroeconomic policy of Republic of Macedonia in 1996.

Today, the largest part of the business entities in R. Macedonia belong to the category of small enterprises. They represent 99,8% of the total number of active firms, which is an important indicator for this category of enterprises participation in the country economy.

Table 1

	Number of enterprises			Number employees			Added value		
	Macedonia		EU-28	Macedonia		EU-28	Macedonia		EU-28
	number	%	% in EU	number	%	% in EU	billion euros	%	% in EU
Micro	48 580	91,1	92,4	111 288	33,4	29,1	0,79	24,9	21,6
Small	3 937	7,4	6,4	73 252	22,0	20,6	0,69	21,5	18,2
Medium	707	1,3	1,0	70 623	21,2	17,2	0,61	19,1	18,3
SMEs	53 224	99,8	99,8	255 163	76,6	66,9	2,09	65,6	58,1
Big	129	0,2	0,2	77 782	23,4	33,1	1,09	34,4	41,9
Total				332 945	100,0	100,0	3,18	100,0	100,0

Source:http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/fyrom_en.pdf

As it can be seen from the a.m. data, R. Macedonia does not differ in the number of SMEs compared to EU-28 average, but as for the internationalization degree of SMEs, it is significantly lower compared to SMEs in the countries of EU-28.

The most frequently used form of internationalization on the work of SMEs in R. Macedonia is the export, although the conditions, compared to EU, are less favorable. This conclusion comes out of the data mentioned in a table no. 2.

Table 2

	Costs for export (USD)	Time for export (days)	Number of needed documents for export	Costs for import (USD)	Time for import (days0)	Number of needed documents for import
Macedonia	1380	11	8	1376	12	6
EU-28	1069.89	10.71	4.68	1034.64	11.82	4.25

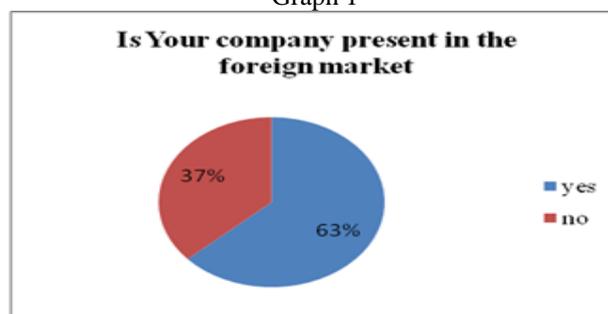
Source:http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/fyrom_en.pdf

Research methodology

In order to see the situation with internationalization of SMEs in R. Macedonia, a survey by means of questionnaire, was conducted. The questionnaire was conducted on 30 businesses in the region of Pelagonia. On the basis of analyzed data, the following results have been obtained:

- On the first question: “Is Your company present in the foreign market?”, the most of the polled companies, i. e. 19 companies (63%) have answered that they are not present in foreign markets, while 11 companies (37%) are actively present in the foreign market.

Graph 1

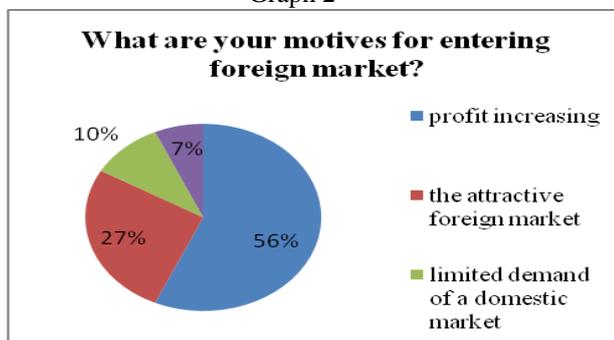


Source: processed survey data

As for the form of internationalization, most of the companies, i.e. 55% that are present in the foreign market, apply export, 14% joint ventures, 10% licence, 10% franchise, 3% the remaining forms.

Concerning the following question: “What are your motives for entering foreign market?”, the largest part of the respondents, i.e. 56%, have answered that the key motive for internationalization of their work , is a possibility for profit increasing. While for 27% of the companies, the attractive foreign market is the key motive, for 10% it is the limited demand of a domestic market and for 7% - seasonal production.

Graph 2

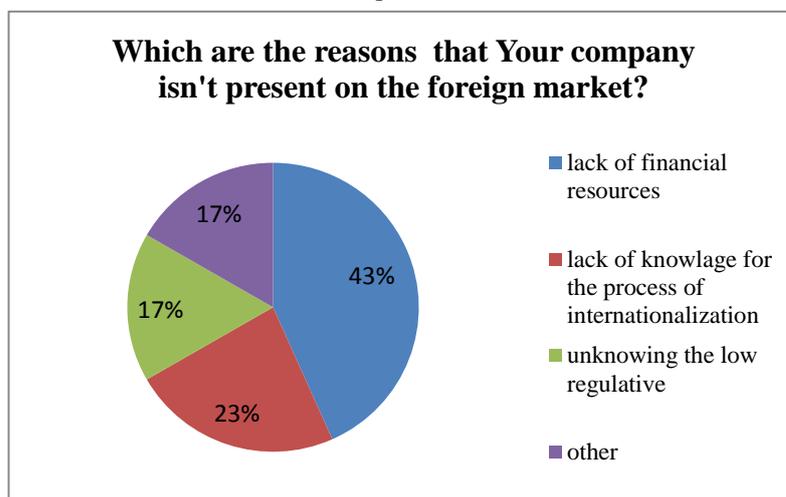


Source: processed survey data

Having in mind that these are SMEs, larger part of the respondents, i.e. 83%, haven't some determined sector which does activities associated with the foreign market.

On the basis of obtained answers to the following question, we can conclude that the largest part of the companies, i.e. 43%, are not present in the foreign markets as a result of lack of financial resources. Namely, in R. Macedonia, many firms are faced with problems in providing additional financial resources for financing their current and developing work. The companies finance themselves mainly through bank credits and do not use alternative sources of financing, such as, for example, issue of securities, leasing arrangements, risk capital etc. Furthermore, 23% of the companies have answered that they do not know the process of internationalization very well. In order one firm to enter the foreign market successfully and to make rational decisions, it is indispensable to know the complete process of internationalization, i.e. it has to research the market in which it plans to be present, to study the advantages and disadvantages of each strategy for entering foreign market, while 17% think that the reason why they are not present in the foreign market, is the fact that they do not know the law regulative.

Graph 3

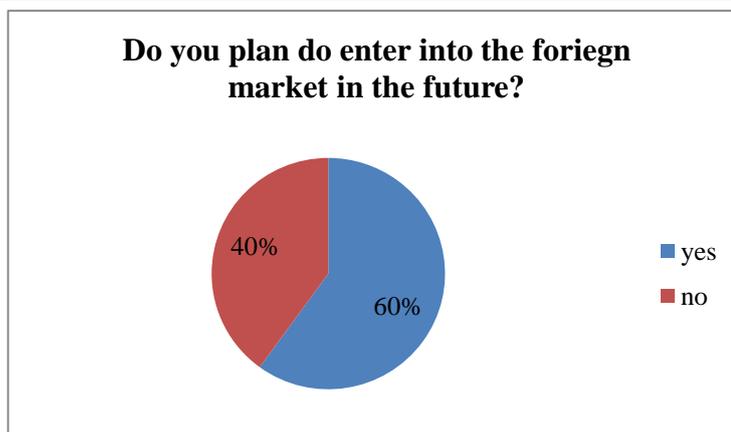


Source: processed survey data

As key factors that influence the process of internationalization, are: knowledge of the market and 40% of the companies think that this is a crucial factor, then follows similar consuming culture with 23%, managerial motivation also with 23%, 4% entrepreneurial and innovative activities.

The largest part of the polled companies, i.e. 60%, have answered that they plan to enter foreign market in the future.

Graph 4



Source: processed survey data

And, as it can be seen from the answers to the last question, large number of the respondents, i.e. 65%, need additional trainings or seminars, in order to get acquainted with the process of internationalization.

Graph 5



Source: processed survey data

5. Conclusions

The aim of businesses internationalization, is improvement of competitiveness of domestic companies in the international trade through efficient use of public and private financial resources and reduction of costs and risks when entering foreign market. In R. Macedonia, in that context, first it is necessary to identify and overcome the differences between domestic and international economic, political, cultural and salaries system; and then to choose one of the methods for establishing international business (direct or indirect export, licensing, foreign direct investing etc.); to choose adequate strategies for overcoming barriers for businesses internationalization. The efficient government policy has to be focused on increasing awareness for internationalization of businesses, through creation of policies and programs which will help businesses to overcome the barriers during internationalization, including individual support, too. In this respect, it is important: to make analysis of market possibilities, promotional activities (fairs, conferences, seminars, etc.); education for international business (existence of academy for internationalization, education for preparing export plan etc.); finances for internationalization. The sources that would help in internationalization of entrepreneurial businesses are the following ones: Global Trade Source Ltd, International Trade Administration, SBA's Export Assistance Centre and Small Business Exporters Association.

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