

What Factors do Drive Small and Medium-sized Enterprises from the Czech Republic to Internationalization?

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Abstract

Increasingly, much attention has been paid to small and medium-sized enterprises (SMEs), which are important economic entities in each country. With regard to the specifics of these enterprises is often discussed their ability to take part in the internationalization process and are investigated the main reasons for engaging in foreign trade activities. However, there are not many studies that would clearly define the main motives which lead Czech SMEs to enter foreign markets. In addition to these areas, the paper also addresses the question of whether the Czech SMEs consider internationalization as one of the ways to increase their competitiveness.

The paper therefore focuses on the identification of factors that initiate the engagement of Czech SMEs in the internationalization process with an emphasis on micro-enterprises (less than 10 employees). Are the micro-enterprises due to their specific characteristics motivated to enter foreign markets by different factors than small or medium-sized enterprises? Or is the motivation to take part in the internationalization process affected by the field of business in which the company works? The paper also deals with so-called 'Born Global' enterprises, which operate in foreign markets right from their founding or very soon after that and therefore refute the basic assumptions of traditional phase models of internationalization. In this context, the paper examines whether the 'Born Global' enterprises are motivated to enter foreign markets by different factors than SMEs that engage in internationalization rather gradually and which internationalization process can be explained by phase models.

Key words: Internationalization, SMEs, motivation, Born-Global.

JEL Classification: M16

1 Introduction

Small and medium-sized enterprises (abbreviated to SMEs) are important economic entities in each country. Their importance for European economy is not only in terms of number of companies, job creation, or generation of added value, but according to European Commission (EC, 2013), SMEs play a crucial role also in the European economic recovery from the recent economic crises. In the European Union as well as in the Czech Republic prevails the sector of SMEs (it accounts for nearly 99.8% of all businesses). Not only due to these reasons a considerable attention should be paid to SMEs. There is a number of different support programs whose objective is to support the development of SMEs and which are aimed at promoting the development of innovation, maintaining competitiveness, and achieving growth.

According to literature sources, engagement in the internationalization process, i. e. entering foreign markets, is one of the ways how SMEs can increase their competitiveness and achieve growth. Which factors can motivate SMEs to take part in internationalization? The motivation to internationalization is important not only in decision making processes of the company's management but also in the field of creating export supporting programmes. If the motivation factors are known, the export programme can be targeted more effectively and SMEs may be better motivated for internationalization. So from this perspective it is also important to address the factors that initiate the involvement of SMEs in internationalization.

This paper therefore focuses on the identification of factors that initiate the engagement of Czech SMEs in the internationalization process. A particular attention is paid to micro-enterprises (less than 10 employees) because of their specific position and distinctive features. Are the micro-enterprises motivated to enter foreign markets by different factors than small- or medium-sized enterprises? Or is the motivation to take part in the internationalization process affected by the field in which the company operates?

The paper also deals with the so-called 'Born Global' enterprises (abbreviated to BGs), which operate in foreign markets right from their founding or very soon after that. It is scrutinized whether the BG enterprises are motivated to enter foreign markets by different factors than SMEs that engage in internationalization rather gradually.

The authors from all over the world have been dealing with the issue of factors motivating to internationalization for more than 35 years. There are some studies that focus on the motives for internationalization of enterprises from different countries. However, an insufficient attention has been paid to the factors that stimulate Czech SMEs to enter foreign markets. So the aim of this paper is to identify the factors that motivate Czech SMEs to involve in the internationalization process. The attention is especially paid to micro-enterprises and the so-called BG enterprises.

2 Literature Review

SMEs, as defined by European Commission (EC, 2003), are all enterprises with less than 250 employees and/or with annual turnover lower than EUR 250 million and/or with annual balance sheet lower than EUR 43 million.

There are many discussions regarding the specifics of SMEs and their ability to take part in the internationalization process. Compared to large enterprises, SMEs are more flexible, their reaction to changes in the economic environment can be quicker (Gunasekaran, Rai and Griffin, 2011; Stanculescu et al, 2010), their organizational hierarchy is simpler, and they can easily establish networks with suitable enterprises (Paunovic and Prebezac, 2010). Nevertheless, they face many barriers such as the lack of financial, human, and other resources and their internationalization process can be impeded by many others constraints (Paunovic and Prebezac, 2010; Kislíngerová and Nový, 2005).

SMEs from all over the world are exposed to pressure of globalization and market integration processes which represent a great challenge and also the need to be competitive and to find new

markets even beyond the geographical borders. Enterprises can succeed if they confront international markets through internationalization (Stanculescu et al, 2010; Kaffash, Haghikhah and Kordlouie, 2012). So internationalization has become one of the most important strategies for many firms, regardless their size, that try to look for opportunities to achieve further growth or to maintain their competitiveness (Sekliuckiene and Maciulskaitė, 2013). The relationship between internationalization and competitiveness of enterprises became the subject for many researchers (Wilson, 2006; Racolța-Pain and Burka-Voicu, 2013; Trapczynski and Wrona, 2013). Racolța-Pain and Burka-Voicu (2013) point out the positive impact of internationalization on maintaining or increasing competitiveness of an enterprise, as well as Trapczynski and Wrona (2013), who demonstrated on the basis of several case studies a positive relationship between the degree of internationalization and competitiveness of enterprises.

How can we define internationalization? There are different definitions of the concept of internationalization in the literature. According to Armario, Ruiz and Armario (2008), Moen and Servais (2002), Camison and Villar-Lopez (2010), there are two major perspectives on the process of internationalization. The first sees internationalization as a sequential process. The well-known and often used definition based on this perspective explains internationalization as ‘the process of increasing involvement in international operations’ Welch and Luostarinen (1988, p 36). Johanson and Vahlne (1977) gave a similar definition of internationalization. This definition is fully consistent with the theory of stage models of internationalization (for example the Uppsala model, Innovation-related model). These models explain internationalization as a learning-based, gradual process of increasing a firm’s commitment in foreign markets (Kaffash, Haghikhah and Kordlouie, 2012).

The second perspective says that enterprises can be international immediately after their creation, these enterprises are called BGs (Armario, Ruiz and Armario, 2008; Moen and Servais, 2002; Camison and Villar-Lopez, 2010). The concept of BGs should explain the behaviour of companies that are quickly and intensively involved in internationalization right after their creation and whose behaviour cannot be explained by traditional theories (the above mentioned first point of view) (Stanculescu et al, 2010). There are many definitions of BGs in the literature. Some of them try to define BG by using a qualitative approach (Stanculescu et al, 2010), most of them are based on a quantitative approach (Knight and Cavusgil, 1996). In this paper is used the quantitative definition of a BG enterprise presented by Knight and Cavusgil (1996), who defined a born global firm as a firm that has gained a 25% share of foreign sales to total sales and that has started export activities within 3 years after its inception.

Many researchers deal with the concept of BG, some of them focus on definition of this term, some on examining the BG’s model of internationalization, and some try to verify the relationships between BGs and their fields of business. For example Kubičková (2013), Armario, Ruiz and Armario (2008) point out that BGs appear especially in fast-growing, hi-tech or knowledge-intensive sectors. Other authors say that this assumption cannot be generalised (Zucchella, Palamara and Denicolai, 2007; Ocampo Figueroa, Alarcon Osuna and Fong Reynoso, 2014). These authors empirically verified that BG enterprises can also be found in mature and traditional sectors. There are also some studies which deal with the factors that motivate BG enterprises to internationalization (Zucchella, Palamara and Denicolai, 2007; Sekliuckiene and Maciulskaitė, 2013).

The motivational factors can change over time and they may vary in relation to the sector in which the enterprise operates, specific operations, or to the enterprise's strategic goals (Onkelinx and Sleuwaegen, 2008), but motivation plays a crucial role in internationalization process of SMEs as Wilson (2006) or Sommer and Haug (2011) stated. There are many approaches dealing with the issue of motivators to internationalization. Some authors speak about proactive and reactive motives (Baldauf, Cravens and Wagner, 2000; Czinkota and Ronkainen, 2012). Proactive motives arise from internal company decisions and stimulate enterprises to involve in internationalization. The reactive motives, on the other hand, represent the enterprise's response to environmental changes. Onkelinx and Sleuwaegen (2008) divide the motivational factors into the 'push' and 'pull' ones. 'Push' factors are defined as those which take into account the enterprise's conditions, i.e. which are based on its resources, competitiveness, and life cycle of its products. 'Pull' factors are those arising from conditions in foreign markets (e.g. consumer's demand) and which stimulate the enterprise to engagement in internationalization. An extensive research on the motivational factors to internationalization was performed by Leonidou (1998), who used the classification of export motives and divided the internationalization motives into the internal – proactive, internal – reactive, external – proactive, and external – reactive ones. The internal motives are related to endogenous, firm-related effects and external factors related to domestic or foreign environment. The definition of proactive and reactive factors is the same as the above mentioned definition.

3 Methodology

The research in this paper is based on the new definition of SMEs presented in the Recommendation No. 2003/361/EC (EC, 2003), i.e. SMEs are classified according to number of employees, annual turnover, and annual balance sheet. SMEs are divided to micro, small, and medium-sized enterprises (as shown in Table 1).

Tab. 1 Classification of SMEs

Category of enterprises	Number of employees	Annual turnover	Annual balance sheet total
Medium-sized	< 250	≤ 50 million euros	≤ 43 million euros
Small-sized	< 50	≤ 10 million euros	≤ 10 million euros
Micro-sized	< 10	≤ 2 million euros	≤ 2 million euros

Source: EC, 2003

In order to find the motives which lead Czech SMEs to take part in the internationalization process, the authors used the primary data gathered in questionnaire surveys conducted between 2013 and 2014 among SMEs operating in various sectors of the Czech economy. The questionnaires had an electronic form and were composed in the UMBRELA system (software for creation of questionnaires produced for researcher purposes at Mendel University in Brno) and distributed to Czech SMEs via e-mail. The contact details were obtained from the AMADEUS database which contains information about many European business entities.

This paper presents data obtained from 779 Czech SMEs. The respondents were 348 microenterprises (44.7%), 354 small-sized enterprises (45.4%), and 77 medium-sized enterprises

(9.9%). The processed data was gathered from companies that are already involved in the internationalization process, as these companies can provide an objective view on the issue.

Descriptive statistics, such as absolute and relative frequencies, contingency table analysis, and hypothesis testing, were used for data processing. The verification of independence between variables was performed on the basis of hypothesis testing and the Pearson's Chi-Square test for independence between qualitative variables was applied. A 5% level of significance ($\alpha = 0.05$) was used. The null hypothesis (H_0) on the independence of variables was rejected when the calculated p-value was lower than the significance level.

4 Results

Motivation is a very important part of the internationalization process - as stated for example Wilson (2006) and Leonidou (1998). The most important factors that drive Czech SMEs to engagement in the internationalization process are shown in Table 2 (their order is given by relative frequencies of perception of individual motives). The main motives are ordered from the most important to the least important ones. The key motives include the factors that were mentioned by at least one quarter of respondents. These motives for internationalization were identified on the basis of processing the data gathered from 779 Czech SMEs.

These mentioned motives were reactive (pull) as well as proactive (push) ones. The most important motive, the foreign buyer's interest in a firm's products (M1), belongs to reactive (pull) factors. However, among the key motives influencing the internationalization process of Czech SMEs prevail the proactive (push) motivational factors. This group of proactive (push) factors, which stimulate Czech SMEs to go abroad, include the Customer portfolio enlargement (M2), Increase in turnover (M3), Expanding the scope of enterprise's activity (M4), existence of new business opportunities (M5), and Business image improvement (M6). Therefore Czech SMEs are driven to expand to foreign markets rather by assessment of their internal capabilities. They try to be active in exploiting the opportunities rather than just waiting and reacting to external changes.

Tab. 2 Top motives for internationalization perceived by Czech SMEs

Motives	Proactive x Reactive motives	Push x Pull motives	% of SMEs
M1 The foreign buyer's interest in firm's products	Reactive	Pull	59%
M2 Customer portfolio enlargement	Proactive	Push	47%
M3 Increase in turnover	Proactive	Push	43%
M4 Expanding the scope of enterprise's activity	Proactive	Push	37%
M5 New business opportunities	Proactive	Push	30%
M6 Business image improvement	Proactive	Push	25%

Source: author's results

If we look in more detail on the key motives mentioned by Czech SMEs (divided according to their size - see Figure 1) we can sum up, that micro-enterprises perceive these motives in the same order as small-sized enterprises. Just a small difference in the order was identified in

motives mentioned by medium-sized enterprises. The difference is related to the motives - expanding the scope of enterprise's activity (M4) and new business opportunities (M5). These two motives are almost equally important for medium-sized enterprises. They both are more important for medium-sized enterprises than increase in turnover (M3), which is actually the third most important motive for micro-enterprises and small-sized enterprises (but for medium-sized enterprises, M3 is on the fifth position). The explanation may lie in the fact that medium-sized enterprises have reached such size and turnover that they have favoured other motives than increase in turnover. On the contrary, the increase in turnover is a quite important stimuli for international activities for micro-enterprises and small-sized. The biggest difference is in perception of the factor of new business opportunities in relation to the company size. This motive is more important for medium-sized enterprises than for enterprises of other sizes. This may be due to the fact that medium-sized enterprises are more confident and they keep trying to seek for new opportunities. Figure 1 also shows that medium-sized enterprises are more motivated to do their business abroad than small-sized enterprises or micro-enterprises.

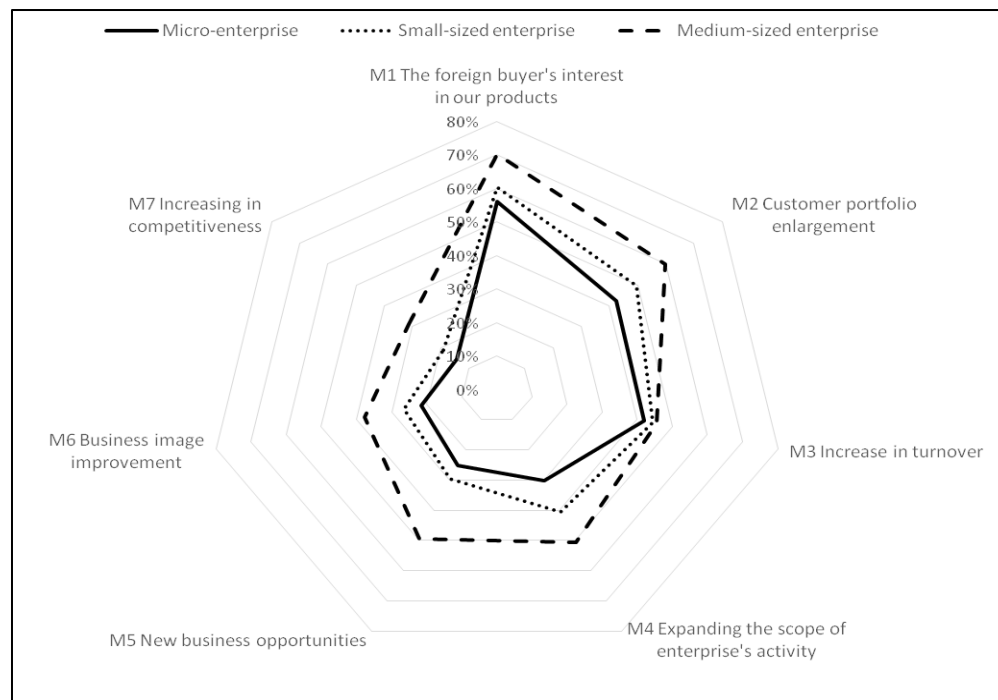


Fig. 1 Comparison of top motives mentioned by Czech SMEs divided by company size
Source: author's results

With regard to the literature sources, internationalization can be seen as one way of achieving greater competitiveness. Czech SMEs didn't perceive this motive as a very important one. Just 18% of respondents reported the increase in competitiveness as a factor that initiated their involvement in the internationalization process (the seventh mentioned motive). This motive was mentioned mostly by medium-sized enterprises. This motive is the least perceived by micro-enterprises which can be caused by their afraid of entering foreign markets, their limited resources, and also by their focus on regional competitiveness.

Table 3 summarizes the results of hypothesis testing based on Pearson's Chi-Square test for independence. We tested the independence between individual characteristics of enterprises

(factors) and particular motives. First, we formulated the null hypothesis and then we derived the corresponding alternative hypothesis. The alternative hypotheses were about the dependence of variables.

The hypotheses were set as follows:

- H_{01} : A particular motive for foreign market entry is not dependent on the size of the enterprise.
 H_{A1} : A particular motive for foreign market entry is dependent on the size of the enterprise.
- H_{02} : A particular motive for foreign market entry is not dependent on whether the enterprise is born global.
 H_{A2} : A particular motive for foreign market entry is dependent on whether the enterprise is born global.
- H_{03} : A particular motive for foreign market entry is not dependent on the sector of activity in which the enterprise operates.
 H_{A3} : A particular motive for foreign market entry is dependent on the sector of activity in which the enterprise operates.

We can sum up that the null hypothesis on independence between enterprise's characteristics and a particular motive can be rejected only for some internationalization motives and sizes of enterprises or business sectors. Whether the enterprise belongs or does not belong among BG does not affect the motives for taking part in the internationalization process.

Tab. 3 Results of hypothesis testing

Motives for foreign market entry vs. characteristic of enterprises	Size of enterprise		Born Global		Sector of activity	
	p-value	Can be H_0 rejected?	p-value	Can be H_0 rejected?	p-value	Can be H_0 rejected?
M1 The foreign buyer's interest in firm's products	0.06752	No	0.53949	No	0.08200	No
M2 Customer portfolio enlargement	0.01355	Yes	0.82042	No	0.26741	No
M3 Increase in turnover	0.75629	No	0.49517	No	0.65891	No
M4 Expanding the scope of enterprise's activity	0.00051	Yes	0.78812	No	0.05279	Yes
M5 New business opportunities	0.00016	Yes	0.15428	No	0.00909	Yes
M6 Business image improvement	0.01070	Yes	0.71928	No	0.68217	No
M7 Increasing in competitiveness	0.00213	Yes	0.22213	No	0.00694	Yes

Source: author's results

Based on the results of hypothesis testing, we present the following conclusions:

- Whether the enterprise is driven to go abroad by the customer portfolio enlargement (M2) depends on the size of enterprise.
- Whether the enterprise is driven to go abroad by the expansion of scope of activities (M4) is depends on the size of enterprise and on the sector in which the enterprise operates.

- Whether the enterprise is driven to go abroad by the existence of new business opportunities (M5) depends on the size of enterprise and on the sector in which the enterprise operates.
- Whether the enterprise is driven to go abroad by the prospect of improving their business image (M6) depends on the size of enterprise.
- Whether the enterprise is driven to go abroad by the prospect of increase in competitiveness (M7) depends on the size of enterprise and on the sector in which the enterprise operates.

The paper also scrutinizes the motivational factors which influence the involvement of Czech BG SMEs in the internationalization process. The results of the survey show that Czech BGs perceive similar motives of internationalization as Czech non-BGs (i.e. the enterprises which engage in internationalization rather gradually). According to the definition of a BG, the data processing showed that there were 32% of BG enterprises among the respondents of the survey. These were mostly small-sized enterprises (48% of BGs), micro-sized enterprises (41% of BGs), and only 11% of medium-sized enterprises. The overwhelming majority of BG enterprises operate in the engineering industry (28% BGs), the number of BGs from other business areas was only marginal, they operate for example in services, textile industry, construction, wood-processing industry, etc. A quite interesting finding was brought by the hypothesis testing of the independency between the fact that an enterprise is BG and the sector of the enterprise's activity. P-value was 0.0004, so there is a dependence between the sector of an enterprise's activity and the fact that the enterprise is BG (see Table 3). But on the other hand, there can't be proved any dependence between the specific motives and the fact that the enterprise is BG. However the analysis of contingency tables shows, that BG enterprises are, in contrast to non-BG enterprises, more motivated to go abroad especially by the motives new business opportunities (M5), increase in competitiveness (M7), and also by increase in turnover (M3).

And what about the motivation to enter foreign markets and the specific sector of an enterprise's activity? The dependence between a particular motive and sector of the enterprise's activity has been proven for the motives expanding the scope of enterprise's activities, new business opportunities, and increasing in competitiveness. The efforts to enlarge the scope of an enterprise's activities (M4) are important mainly for the enterprises operating in engineering, construction, ICT, and services. The efforts to increase competitiveness (M7) are important mainly for enterprises operating in engineering and ICT, and new business opportunities (M5) motivate the most enterprises from engineering, construction, services, ICT, wood-processing, and food industry.

5 Conclusions

The main motives which encourage Czech SMEs to enter the foreign market are the foreign buyer's interest in firm's products, customer portfolio enlargement, increase in turnover, expanding the scope of the enterprise's activities, new business opportunities, and business image improvement. The increase in competitiveness is not so much important motive for Czech SMEs, just 18% of them reported this motive as a significant one. These main motives are the proactive as well as reactive ones, but to a great extent prevail the proactive motives. That means that

Czech SMEs are proactive and they use their own capabilities or seek for opportunities rather than being passive and just react to pressures from the external environment.

If we look at motivation to internationalization in accordance to the size of enterprise, we can conclude that Czech micro-enterprises are not so much motivated to engagement in the internationalization process and, on the other hand, medium-sized enterprises are the most motivated group to international expansion. This finding is consistent with the fact mentioned by Leonidou (1998), i.e. besides the existence of motivational factor there are also various, very important background forces, such as enterprise characteristics among which definitely belongs the enterprise's size. The motivation to take part in the internationalization process is quite similar for micro-enterprises and small-sized enterprises – both perceive the main reported motives in the same order. Some small differences occurred in the order of the main motives' significances reported by medium-sized enterprises. Medium-sized enterprises are not so motivated by the prospect of increase in turnover as micro-enterprises and small-sized enterprises. The explanation may lie in the fact that medium-sized enterprises have reached such size and turnover that they have favoured other motives than the increase in turnover.

The dependence between the size of enterprise or the sector in which the enterprise operates and the motivation to internationalization could be proved only for some motives. BG enterprises perceive similar motives as the non-BG enterprises, but on the other hand, the dependence between the fact that an enterprise is BG and its motives could not be proved. However, the analysis of contingency tables showed that BG enterprises are more motivated to go abroad than non-BG enterprises.

The awareness of motives to internationalization is important not only for management of enterprises (it plays a big role in decision making processes), but also for policy makers because the government has invested a considerable amount of money to support of exports. Therefore, if the motives for internationalization were known, the state support for export could be more effective and could better stimulate SMEs.

The presented research has some limits which should be taken into account when performing further investigations. The first limit is that the results in this article may be influenced by the used definition of BGs. This concept was chosen with regard to the quantitative definition of BG enterprises and to the resulting unambiguity of identification of BGs. A limiting factor may also be the fact that the time factor was not included because the motives to internationalization may change in time. Therefore, it would be interesting to monitor the change in motivational factors, for example compared with changes in the external environment (economic development of the country, development of specific industries, changes in the competitive environment, etc.) or in comparison with the increasing international experience, in further research. A better view on the particular motives can be obtained by performing a complementary qualitative research, for example discussions with managers.

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