

## INTERNATIONALIZATION OF SMALL AND MEDIUM ENTERPRISES – EMPIRICAL RESEARCH REVIEW ON BARRIERS TO ENTRY INTO FOREIGN MARKETS

Pietrasieński P.,\*Ślusarczyk B.\*\*

**Abstract:** Almost in all countries sector of small and medium companies constitutes the important source of economic growth. Simultaneously, these entities are most sensitive to market factors, what results from relatively low trades and market shares and the scarce poignancy to the market in the individual perspective. This situation is peculiarly visible on the international arena, where small and medium-sized companies come across not light barriers in internationalization of their activity. The article presents multidimensional analysis of barriers, which SMEs come across in their expansion into foreign markets.

**Key words:** internationalization, enterprise, SMEs, barriers.

### Introduction

Due to the fact that small and medium enterprises (SMEs) (Definition based on: OECD, 2005) constitute the most important source of economic growth and employments almost worldwide their share in international markets remains disproportionately low towards the role these entities play in their parent national economies. The reason of it are numerous barriers of internal and external character, which limit or even preclude the SMEs expansion on foreign markets.

The above situation causes that states offer different kind of support programs, which aim is the help for native small and medium companies in overcoming entry barriers to foreign markets. The purpose of this article is a verification of usefulness of support programs offered by governments in the context of expectation of small and medium companies, which plan an expansion on international markets or are already in early phases of the internationalization.

In this article multidimensional analysis of barriers of internationalization of small and medium companies being this group of market subjects having the biggest problems with becoming known on international markets, was being made. Comparative analysis was based on examinations of regional and global reach, including examinations of the Organization for Economic Cooperation and Development (OECD) and of the European Commission.

---

\* **Pietrasieński Paweł, PhD**, Warsaw School of Economics, Department of Market, Marketing and Quality.

\*\* **Prof. PCz. Ślusarczyk Beata, PhD Eng**, Czestochowa University of Technology, Faculty of Management.

✉ corresponding author: jagoda@zim.pcz.pl

### Conditioning of the internationalization of small and medium companies

Internationalization is a phenomenon being in ongoing interest of economists, researchers or authors of publications which broadly define globalization. Most often it is seen in the way defined by P. Hirst and G. Thompson (1996) „*internationalization is (...) great and still growing mercantile flows and capital investments between the states (...)*”, not forgetting about tightening the cooperation of subjects being participants of these flows. It is possible above all thanks to the liberalization of the trade and the opening of the states towards the economic cooperation (Szymański, 2001). However the liberalization of international flows of goods, services and manufacturing factors promotes the competition. The most sensitive to market factors are small and medium companies. It results around relatively low trades and market shares and the scarce poignancy to the market in the individual concept. One of ways of struggling competitors or seeking new market places is the opening to foreign markets. When managers of SMEs notice restrictions resulting from locally formed demand they try to expand the activity of the company beyond state borders. In this concept it is possible to describe the process of the internationalization as the international activity, in which the company become involved gradually just as it obtains the knowledge and experience on foreign markets and the range and forms of the activity of an entity are conditioned with strategy adopted by it (Gorynia and Jankowska, 2007; Brzeziński and Pietrasieński, 2011; Pietrasieński, 2011).

Export and import activity is the most often applied form of the international expansion of the companies of the SMEs sector. This situation is confirmed by findings presented by K. Przybylska (2010), in which slightly over 89% of examined companies internationalizes its activity through export or import or both forms simultaneously. Barely 10,62% of polled companies declared their presence on foreign markets in more advanced forms that they are cooperating with foreign partners. However none of studied subjects took foreign direct investments.

Certainly it results both from restrictions associated with internal abilities of the company, as well as external barriers created by the market or legal regulations. However in the majority of states, due to the meaning of small and medium companies and the awareness that national economies constitute the part of global economics, efforts are undertaken to enable the SMEs sector an international expansion (Huttmanova and Kiselakova, 2010; Ślusarczyk and Kot, 2012).

Various aspects of small and medium companies internationalization barriers were exploited by numerous authors. Korsakienė and Tvaronavičienė (2012) compared internationalization of Lithuanian and Norwegian SMEs by exploring the main motives and barriers restricting internationalization process. Hutchinson et al. (2009) researched the initial barriers to internationalization of small retailers based in the UK and the role of government. Arndt et al. (2009) investigated German firms situation in relation to internationalization. Spanish experiences on SMCs internationalization were studied by Arranz and De Arroyabe(2009). Some authors

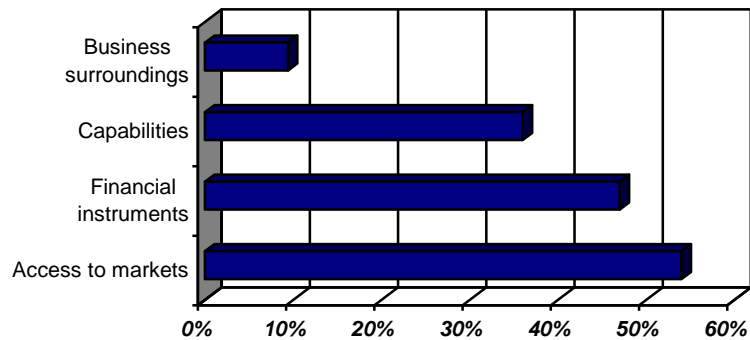
studies SMEs internationalization process within particular branch (Karagozoglu and Lindell, 1998; Tiwari and Buse, 2007; Moen et al., 2004; Castellacci, 2010), but there are lack of complex, large scale elaboration in this area.

The most wide and simultaneously the most geographically broad research including the barriers hampering access of small and medium to the foreign markets, is a join research project „*Removing barriers hampering access of small and medium companies to international markets*”, realized by OECD on SME and Entrepreneurship Work Group in cooperation with APEC (OECD, 2008).

In questionnaire examinations conducted as part of the project (OECD, 2009) four categories of the support granted small and medium companies by governments of the states, in which head offices of these subjects are located, were included:

- 1<sup>st</sup>Category: **financial instruments** – connected with the improvement of the efficiency and effectiveness of the company connected with fulfilling financial-security needs (i.a. guarantees and export warranties, risk insurance connected with the risk of the transaction on international markets, as well as negative changes in exchange rates);
- 2<sup>nd</sup>Category: **business surroundings** – above all programs being aimed on the improvement of the situation connected with wide-understand business surroundings of SME and simultaneously the improvement of their international competitive edge (i.a.: pro-innovative policy, as well as fiscal encouragements connected with research-and development activity, governments programs encouraging the cooperation between companies and academic centres, regulations encouraging SMEs to participate in clusters and network systems of a supranational character);
- 3<sup>rd</sup> Category: **abilities** – connected with government initiatives and programs expanding these internal abilities of companies, which decides about the course of internationalization processes, including i.a. these, which support critical resources essential for SMEs to surmount barriers hampering access to foreign markets. This category is connected with resources concept and is being concentrated above all on intangible resources (in contrast to financial instruments, which represent tangible resources);
- 4<sup>th</sup> Category: **access to markets**–support programs, which are being concentrated on simplifying companies the access to individual foreign markets. Within this category a given help can be connected with general information about target markets deepened analyzes connected with specific industries in other states, as well as the help given to companies in accepting states, most often through consular posts of sending state or its specialized agencies and their departments.

The result of conducted researches, pointing out the level of engagement of governments of states included in the analysis are presented on figure 1.



\* total percent of support categories used by governments exceeds 100 % because some of these programs is being concentrated on more than one category.

**Figure 1. The engagement of the states in SME support programs in the division on individual categories\*(OECD, 2008, p. 39)**

Examinations show that almost 54% of all government programs supporting processes of the internationalization of small and medium companies is being concentrated on over passing the barriers connected with the access to markets; 47% on barriers connected with the exploitation of financial instruments; 36% are programs supporting internal abilities of SMEs; but over passing barriers resulting from the business environment by SMEs is being already supported by fewer than 10% of states governments.

### **Barriers of the internationalization of SMEs – analysis of the findings of the questionnaire surveys**

Considering the role of the states in supporting processes of the internationalization of the companies, identifying barriers which hinder or even block these processes becomes crucial. Although in literature an issue of barriers is most often raised with reference to the export activity, in the present analysis a broad definition of barriers understood as all restrictions, which undermine the ability of the companies to initiate, develop and conduct business operations on international markets, is being accepted (Leonidou, 2004).

In many situations, however, entry barriers can be perceived by entities which want to defeat them (which are SMEs) and these ones, which shape programs of the support being supposed to facilitate defeating them (that is the governments of states) in different way. Table 1 shows main barriers in the access of small and medium companies to international markets, in which interviewees were representatives of the government administration of OECD member states being members in creating of national policies connected with SMEs.

Relevance of the barrier*	SupportCategory	Description of the barrier of the access of SMEs on foreign markets
1	Capabilities	Staff unprepared for the international operations and/or inappropriate number of it
2	Financial instruments	Lack of operational capital for the financing of export activity
3	Access to markets	Limited information connected with the analysis of foreign markets
4	Access to markets	Insufficient identification of business chances connected with the conduction of activity on international markets
5	Capabilities	Lack of time, which managers can give over the management of international operations
6	Capabilities	Lack of the ability of the contact with the potential clients abroad
7	Capabilities	Limited development of new products in connection of the needs of foreign purchasers
8	Business surroundings	Ignorance of business practices being applied in other states
9	Capabilities	Lack of fulfilling requirements connected with standards and the quality of exported products
10	Access to markets	Ignorance of export procedures and required documentation

\* main barriers were categorized from the most (1) to the least important (10).

**Table 1. Main barriers of the access of SME to international markets in OECD states**  
(OECD, 2008, p. 36)

Information presented in the table show that polled representatives of government administrations of OECD member states think that barriers hindering processes of the internationalization of small and medium companies have above all an internal character. The half of ten most often shown barriers is located in the category of "abilities" and only one was classified in the group of the barriers associated with the business surroundings. This trend is still more visible, when analysis will be widened to twenty main barriers. In such case as many as twelve barriers are connected with the category of the ability, and only one fourth with the business surroundings (OECD, 2008, p. 46).

The lack of knowledge and the shortage of internal resources, both financial, as well as human resources, are –according to representatives of OECD member states – the main barriers in the SME expansion into international markets. External barriers, in particular these ones implemented by governments of host countries, have relatively minor importance. The barrier "disadvantageous foreign regulations and provisions" was being placed oneself only on 22nd place, however "disadvantageous national regulations and regulations" were on 44th position. While analyzing these findings it is important to take into consideration the fact

that respondents in presented surveys were members of government administrations, what could have an influence on positive answers connected with these barriers, which depend on the policy of the states represented by them (table 2 the assessment of the significance of barriers from the point of view of the target groups of managers of small and medium companies).

However there is no doubt that restrictions resulting from internal conditioning of the operations of small and medium companies constitute more relevant problems for dissolving for these entities than regulations implemented by governments of host countries regulating the activity of foreign companies, or also policies of native governments being able to limit export activity in some industries in closely defined cases.

Relevance of the barrier	Average assessment*	Support category	Description of the barrier of access of SMEs on foreign markets
1	3.55	Access to markets	Obtaining dependable foreign representative
2	3.52	Access to markets	Identification of business chances beyond borders of the motherland
3	3.34	Access to markets	Limited information connected with the analysis of markets abroad
4	3.33	Access to markets	Having control of foreign agents
5	3.33	Access to markets	Lack of possibility of the contact with the potential clients abroad
6	3.28	Capabilities	Intensive competition on foreign markets
7	3.27	Business surroundings/finances	Lack of help/encourages from the motherland
8	3.24	Capabilities	Offering acceptable prices for foreign purchasers
9	3.19	Access to markets	Access to export distribution passages
10	3.17	Business surroundings	Difficulties in the realization of contracts and solving controversial issues

\* barriers evaluate according to the scoring from 5 (very significant barrier) to 1 (least significant barrier).

**Table 2. Main barriers of the access of SME to international markets from the point of view of companies from OECD member states (OECD, 2008, pp. 46,159)**

From the point of view of SME target group included in separate examinations, companies notice the lack of the access to foreign markets as the most essential category of restrictions hindering the process of their internationalization. Insufficient abilities to use own resources, but also problems with recognizing the foreign business surroundings (also legal one), also constitute barriers difficult to be defeated. Managers of companies, in contrast of surveyed representatives of national administrations, pointed also the lack of help from governments of their states as a significant barrier of the internationalization of the SME.

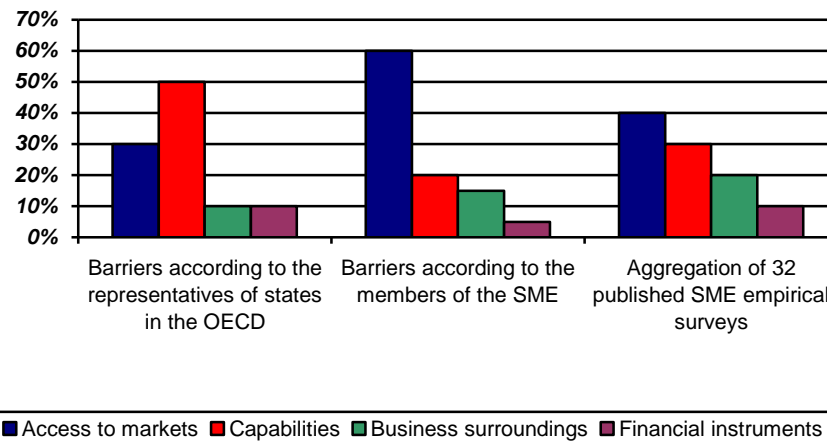
Taking into consideration the differences in the perception of barriers connected with the processes of internationalization by representatives of OECD member states and managers of companies from these states, the complement of the analysis is a connection of aggregated ranking of export barriers created on the basis of 32 empirical researches presented in scientific literature in the area of these issue (Leonidou, 2004, s. 279-302) with the categorization of barriers exploited in the elaboration (table 3).

Relevance of the barrier*	Support category	Description of export barrier for the SME
1	Access to markets	Limited information connected with the identification and the analysis of foreign markets
2	Capabilities	Problems in contacts with potential clients abroad
3	Access to markets	Identification of business chances connected with conducting activity on international markets
4	Capabilities	Difficulties in the adaptation to the level of prices of the competitors /offering prices acceptable for purchasers
5	Financial instruments	High costs connected with transport and insurance services
6	Capabilities	Diversified habits and ways of operation of foreign purchasers
7	Business surroundings	Bad/deteriorating economic conditions on international markets
8	Business surroundings	Political instability in states of target foreign expansion
9	Access to markets	Possibilities of the access of export distribution passages
10	Access to markets	Obtaining reliable foreign agent

\*ten main barriers from the group of 40 identified barriers categorized from the most (1) to the least significant.

**Table 3. Main barriers of the access of the SME to international markets on the basis of aggregated findings of 32 published empirical researches (Leonidou, 2004, p. 286)**

Accepting the same categories and measures categorizing ten the most significant barriers for the internationalization of the SMEs lets for making consolidated comparative analysis of all three surveys (figure No 2).



\* the higher percent is, the more often the barrier categorized in one of four categories is being pointed.

**Figure 2. Comparative analysis of surveys connected with the main barriers of the internationalization of the SME\***(OECD, 2008, pp. 36,46 and 159; Leonidou, 2004, p.286.)

Positioning of the category "access to markets" as the basic barrier of the internationalization of the SME, perceived in the surveys of the opinion of this target group, is compatible with the actual commitment of states in programs of the support of the SME analyzed earlier (fig. 1). However, on the second place, in the same group of respondents and on the first according to representatives of OECD member states barriers connected with abilities of companies, i.e. restrictions having their causes inside the subjects, were placed. Directing the support within states initiatives in order to improve the SMEs abilities takes only the third place after the category of financial instruments. The last ones, according to both MSP and representatives of states, have relatively the smallest significance however.

### Summary

Analyzing the involvement of states in support programs of processes of the internationalization of small and medium companies, a distribution of these programs considering character of barriers come across by the SMEs was taken on, pointing one by one: business surroundings, the access to foreign markets, abilities of companies and financial instruments.

Analysis taken in the article showed the dissonance in opinions of groups includes in examinations, peculiarly in areas: abilities and financial instruments. These last



because, although are applied in almost the half of support programs offered on national markets, are placed - in the opinion of the SME respondents, but also and of representatives of government administrations– only after barriers classified in categories: access to foreign markets, abilities of companies and business surroundings. That difference, pointing at significant divergence between the expectations being formulated by the SMEs and these programs actually offered by their native states lets for formulating overall recommendation. It is connected with the necessity of the change of current priorities in these programs on behalf of support of immaterial resources of companies and teaching abilities of their exploitation by small and medium companies in the internationalization processes. It is important to take into consideration the fact that basing on examinations, which purpose was the formulation of conclusions having universal character, is connected with specific restrictions. Using the example of analyses conducted by the OECD and the EU, one should attract its attention to the fact that they concentrate on the export activity, excepting other forms of the internationalization of companies. Moreover, these examinations concern above all behaviors of companies on high-developed markets, because as such member states of both the OECD and the European Union are being recognized. So, companies from developing countries are not being sufficiently represented in these examinations. However, the most doubts is being mentioned in relation to problems in making collective analyses of findings of the surveys conducted with different research methods (Karasiewicz and Wykrotowic, 2010, p. 381; Pietrasieński, 2014), what results in the need of verifying the general applications formulated on their base in the case of specific geographical and market conditions.

## References

- Arndt C., Buch C. M., Mattes A., 2009, *Barriers to internationalization: Firm-level evidence from Germany*, IAW-Diskussionspapiere No. 52.
- Arranz N., DeArroyabe J. C. F., 2009, *Internationalization process of Spanish small firms strategies, transactions and barriers*, International Small Business Journal, 27(4).
- Brzeziński S., Pietrasieński P., 2011, *Instruments for Supporting Foreign Investors in the Selected Central and Eastern European Countries*, [in:] Business in Central and Eastern Europe: Cross-Atlantic Perspectives, (Ed.) Bill Kondellas, Northeastern Illinois University; Publishing Section of the Faculty of Management, Czestochowa University of Technology.
- Castellacci F., 2010, *The internationalization of firms in the service industries: Channels, determinants and sectoral patterns*, Technological Forecasting and Social Change, 77(3).
- Gorynia M., Jankowska B., 2007, *Teorie internacjonalizacji*, Gospodarka Narodowa, 10.
- Hirst P., Thompson G., 1996, *Globalization in Question*, London, Polity Press.
- Hutchinson K., Fleck E., Lloyd-Reason L., 2009, *An investigation into the initial barriers to internationalization: Evidence from small UK retailers*, Journal of Small Business and Enterprise Development, 16(4).

- Huttmanova E., Kiselakova D., 2010, *Support of Entrepreneurship of Small and Medium Enterprises Through Financial Resources From EU Funds*, Polish Journal of Management Studies, 1.
- Ślusarczyk B., Kot S., 2012, *Polish Government Impact on Foreign Direct Investments*, Polish Journal of Management Studies, 6.
- Karagozoglu N., Lindell M., 1998, *Internationalization of small and medium-sized technology-based firms: An exploratory study*, Journal of Small Business Management No. 36.
- Karasiewicz G., Wykrotowic J., 2010, *Bariery internacjonalizacji przedsiębiorstw [in:] Marketing w realiach współczesnego rynku*, praca zbiorowa, Warszawa, PWE.
- Korsakienė R., Tvaronavičienė M., 2012, *The internationalization of SMEs: an integrative approach*, Journal of Business Economics and Management, 13(2).
- Leonidou, L.C., 2004, *An Analysis of the Barriers Hindering Small Business Export Development*, Journal of Small Business Management, 3.
- Moen Ø., Gavlen M., Endresen I., 2004, *Internationalization of small, computer software firms: Entry forms and market selection*, European Journal of Marketing, 38(9/10).
- OECD, 2005, *OECD SME and Entrepreneurship Outlook: 2005*, OECD Paris.
- OECD, 2008, *Removing Barriers to SME Access to International Markets*, OECD Paris.
- OECD, 2009, *Top Barriers and Drivers to SME Internationalisation*, Report by the OECD Working Party on SMEs and Entrepreneurship, OECD.
- Pietrasieński P., 2014, *Aktywizowanie internacjonalizacji przedsiębiorstw*, Warszawa, Polskie Wydawnictwo Ekonomiczne.
- Pietrasieński P., 2011, *The evolutionary character of supporting the internationalisation processes: recommended system solutions*, Polish Journal of Management Studies, 4.
- Przybylska K., 2010, *Formy internacjonalizacji małych i średnich przedsiębiorstw [in:] Z. Dach (ed.) Polska wobec procesów globalizacji; Aspekty społeczno-ekonomiczne*, Kraków, Wyd. PTE.
- Seringhaus, F.H.R., 1986, *The Impact of Government Export Marketing Assistance*, International Marketing Review, 2.
- Szymański W., 2001, *Globalizacja – wyzwania i zagrożenia*, Warszawa, Wyd. Difin.
- Tiwari R., Buse, S., 2007, *Barriers to innovation in SMEs: Can the internationalization of R&D mitigate their effects?*, [in:] Proceedings of the First European Conference on Knowledge for Growth: Role and Dynamics of Corporate R&D-CONCORD.

### INTERNACJONALIZACJA MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW – BARIERY WEJŚCIA NA RYNKI ZAGRANICZNE W ŚWIELE BADAŃ EMPIRYCZNYCH

**Streszczenie:** W większości krajów, sektor małych i średnich przedsiębiorstw stanowi ważne źródło wzrostu gospodarczego. Jednocześnie podmioty te są najbardziej wrażliwe na czynniki rynkowe, co wynika z relatywnie niskich wartości transakcji i udziałów w rynku oraz ograniczonej siły rynkowej w ujęciu indywidualnym. Sytuacja ta jest szczególnie widoczna na arenie międzynarodowej, gdzie małe i średnie firmy napotykają istotne bariery w internacjonalizacji ich działalności. W artykule przedstawiono wielowymiarową analizę barier, które MŚP napotykają w ich ekspansji na rynki zagraniczne.

**Słowa kluczowe:** internacjonalizacja, przedsiębiorstwo, MŚP, bariery.

### 國際化的中小型企業 – 實證研究綜述門檻進軍國外市場

**摘要：**幾乎在中小型公司的所有國家部門構成了經濟增長的重要來源。同時，這些實體是最敏感的市場因素，從相對較低的行業和市場份額的稀缺辛酸市場在各個角度會有什麼結果。這種情況在國際舞台上，其中小型和中型的企業遇到無法在他們的活動的國際化光柵特有可見。本文介紹了障礙，這中小企業遇到他們進軍國外市場的多維分析

**關鍵詞：**國際化，企業，中小企業，障礙